NICE SYSTEMS LTD
Form 20-F
April 02, 2015

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, 2014

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)

22 Zarchin Street, P.O. Box 690, Ra’anana 4310602, Israel

(Address of principal executive offices)

Yechiam Cohen, +972-9-7753151, yechiam.cohen@nice.com,
22 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: 59,252,342 Ordinary Shares, par value NIS 1.00 per share (which excludes 10,499,268 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-Systems Ltd.'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 53 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.

TABLE OF CONTENTS

# 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, 2013 and 2014 and the selected consolidated statements of income data for the years ended December 31, 2012, 2013 and 2014 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, 2010 and 2011 and the selected consolidated balance sheet data for the years ended December 31, 2010, 2011 and 2012 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, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| | (U.S. dollars in thousands, except per share data) | | | | |
| OPERATING DATA: | | | | | |
| Revenues | | | | | |
| Products | $ 325,429 | $ 355,760 | $ 369,381 | $ 377,558 | $ 388,357 |
| Services | 364,022 | 438,071 | 509,631 | 571,726 | 623,282 |
| Total revenues | 689,451 | 793,831 | 879,012 | 949,284 | 1,011,639 |
| Cost of revenues | | | | | |
| Products | 107,190 | 116,256 | 122,917 | 117,833 | 116,741 |
| Services | 161,885 | 191,049 | 228,306 | 247,115 | 258,842 |
| Total cost of revenues | 269,075 | 307,305 | 351,223 | 364,948 | 375,583 |
| Gross profit | 420,376 | 486,526 | 527,789 | 584,336 | 636,056 |
| Operating expenses: | | | | | |
| Research and development, net | 97,083 | 109,127 | 121,387 | 136,563 | 148,560 |
| Selling and marketing | 178,407 | 199,044 | 230,162 | 248,618 | 264,207 |
| General and administrative | 76,345 | 95,650 | 96,134 | 88,304 | 85,602 |
| Amortization of acquired intangible assets | 19,489 | 23,677 | 32,590 | 30,571 | 20,310 |
| Restructuring expenses | - | - | 1,884 | 527 | 5,552 |
| | | | | | |
| Total operating expenses | 371,324 | 427,498 | 482,157 | 504,583 | 524,231 |
| Operating income | 49,052 | 59,028 | 45,632 | 79,753 | 111,825 |
| Financial income, net | 9,339 | 10,783 | 6,738 | 4,037 | 3,768 |
| Equity in losses of affiliated company | - | - | - | - | (565) |
| Other income (expenses), net | (154) | (162) | 1,530 | (110) | (3) |
| Income before taxes on income | 58,237 | 69,649 | 53,900 | 83,680 | 115,025 |
| Taxes on income | 9,530 | 12,386 | (13,994) | 28,405 | 11,950 |
| Net income | 48,707 | 57,263 | 67,894 | 55,275 | 103,075 |
| | | | | | |
| Basic earnings per share | $ 0.78 | $ 0.91 | $ 1.11 | $ 0.92 | $ 1.74 |
| Weighted average number of shares used in computing basic earnings per share (in thousands) | 62,652 | 62,924 | 60,905 | 60,388 | 59,362 |
| Diluted earnings per share | $ 0.76 | $ 0.89 | $ 1.09 | $ 0.89 | $ 1.69 |
| | | | | | |
| Weighted average number of shares used in computing diluted earnings per share (in thousands) | 64,132 | 64,241 | 62,261 | 61,830 | 60,895 |

| | At December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 |
| BALANCE SHEET DATA: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Working capital | $173,909 | $173,543 | $137,635 | $76,425 | $128,190 |
| Total assets | 1,534,418 | 1,581,836 | 1,660,945 | 1,657,058 | 1,642,091 |
| Shareholders’ equity | 1,160,760 | 1,158,644 | 1,191,088 | 1,204,796 | 1,213,456 |

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. Global financial conditions during recent years have been characterized by increased volatility and several financial institutions either went into bankruptcy or had to be rescued by governmental authorities. Among these uncertainties are the financial conditions of certain governments in Europe, which may have an impact on the entire Euro zone, and the economic unrest in Russia and Eastern Europe.

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.

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 2012, 2013 and 2014, 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;

- compliance with applicable laws and regulations in the various jurisdictions, including the Foreign Corrupt Practices Act and similar laws and regulations in other jurisdictions;

3

changes in tax laws or practices;

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, an increasing focus of our business may be in emerging markets, including South America and in Asia and the Pacific (“APAC”). In many of these 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 undeveloped legal systems, unstable governments and economies, and potential governmental actions affecting 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.

We depend on the stability of the North American market.

Over half of our sales are generated from North America. In the event that there is deterioration or a future crisis in the economic and financial stability in the United States, specifically but not limited to the financial services sector (which is our main industry vertical), it could result in reduced spending by our top tier customers or the delay or postponement of orders, all of which may have a negative impact on our sales to this region. This may materially adversely affect our results of operations and may increase the difficulty for us to accurately forecast and plan our future business.

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. 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.

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. To the extent that we cannot compete effectively, our market share and, therefore, results of operations, could be materially adversely affected. System integrators, as well as infrastructure vendors, that have decided and/or may decide in the future to enter our market space and compete with us by offering comprehensive solutions, could result in a substantial decline in our sales. 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), may decide to enter our market space and compete with us in this emerging opportunity, either by internal development of comprehensive solutions or through acquisition of any of our existing competitors. Such competition could have a material adverse effect on our business, financial condition or results of operations.

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.

Our competitors include a number of large, established manufacturers and distributors of similar products, as well as newly emerging competitors. 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. We cannot assure you that the prices will not continue to decrease or that our gross profit will not decrease as a result.  In addition, the success of some of our solutions depends on our ability to develop an effective network of distributors, while facing pricing pressures and low barriers to entry. We cannot assure you that our products and services or alliances will permit us to compete successfully.

Risks associated with direct competition from our global distribution or strategic partnership channels may materially adversely affect our financial results.

Our current distribution channel partners or our strategic partners may decide to enter into our markets in competition with us, which would likely result in the termination of our relationship and may lead to a significant reduction in sales through related channels.

A portion of our strategic partners are suppliers of telecommunication infrastructure equipment. If our strategic partners decide to end the relationship and offer competing products and services, this may result in a significant reduction of sales made by such strategic partners, as well as to customers who use such partners' infrastructure or work in their environment.

Some of our channels have made changes in their business models over the last couple of years, including the sale of branded products, which are currently based on their relationships with our competitors, as well as other sources. Such channels' offerings of telephony solutions, including by way of bundling the products of our largest competitor, is in direct competition with our offerings, and is directed at the market also served by them and NICE together. While these channels continue to also sell and support NICE products, their focus on selling their own branded suites may continue to change the scope and nature of our relationship with them or result in the termination of such relationship, and therefore result in the displacement of NICE's offerings. All of the above factors may have a substantial negative impact on our business and our relationship with these channels, and may result in a significant reduction of our sales.

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. Moreover, 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 cannot assure you that we will 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. There can be no assurance that we will 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. Our most significant market 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 and/or fail to timely address market needs or not be able to provide the products 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; and our ability to keep pace with market and technology changes and 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 certain vendors or operate in their environment. To the extent that certain infrastructure vendors, such as Avaya, do not allow or support the integration of our products with its infrastructure or products, or use other means to prevent us from selling our products to such customers (for example, some of our largest customers currently use Avaya for their contact center infrastructure), 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 may sustain loss of customers and market share, which may have a material adverse effect on our business, financial condition, or results of operation.

Unpredictable events, including natural disasters, may adversely affect our business.

The occurrence of catastrophic events, such as hurricanes, storms, earthquakes, tsunamis, floods and other catastrophes that adversely affect the business climate in any of our markets could have a material adverse effect on our business, financial condition and results of operations. Some of our operations are located in areas that have been in the past, and may be in the future, susceptible to such occurrences.

General Risks Relating to Our Business, Offerings and 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 large 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, switch manufacturers, such as Avaya Inc. ("Avaya") and Cisco Systems Inc. ("Cisco"), offer various types of recording solutions, which could result in a significant decline in sales of our recording solutions, which could also result in a decline in sales of related applications, or a significant decrease in the profit margin on such solutions, that could have a material adverse effect on our business, financial condition or results of operations.

In addition, the trend of enterprise customers moving from voice to other means of communication with the enterprise (such as e-mail, instant messaging, social media and chat), may result in a reduction in the demand for our voice recording platform and applications. Furthermore, if such trend continues, our customers may cease to record voice and switch to recording other means of communication. This may have a material adverse effect on our business, financial condition or results of operations.

Our failure to adequately adapt our offering to cloud computing and successfully compete in this market could negatively impact our future operating results.

Technological trends, such as the adoption of virtualization technologies, the need for IT efficiency and the increased demand for business agility are all contributing to the move of cloud computing into the mainstream.

As enterprise customers continue to embrace cloud computing, the way they source business solutions is changing, with growing demand for hosted and cloud-based Software-as-a-Service (or "SaaS"). Although we are adapting and evolving 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 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 could make it easier for new competitors to enter our markets due to the lower up-front technology costs. Such increased competition is likely to heighten the pressure to decrease pricing, and together with the above-mentioned change in business model, may negatively impact our revenues.

We are observing that there are infrastructure players and others that 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, and in the event that we are not able to create an integrated experience for our customers in the form of an integrated suite, there could be a material adverse effect on our business, financial condition or results of operations.

Also, the business model of SaaS differs from the business model for the sale of products and services, and could, as a result, impact our booking and revenues, as the period for recognizing the revenue from such orders may spread over a greater number of fiscal quarters, which 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 impact pricing in both our on-premise enterprise software business and our cloud business, as well as overall demand for our on-premise software product and service offerings, which could reduce our revenues and profitability.

If there is no demand for our advanced software applications, it could adversely affect our business.

Providing advanced software applications and a multi-product offering has required and will continue to require, 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 increasing proportion of advanced software applications in our overall sales mix leads to a longer period between the time we "book" an order and the time we recognize the revenue from such orders. All of the above 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, however, we cannot guarantee that the pace of adoption of advance software applications by customers will meet our expectation and planning. This could mean that certain applications may not reach a critical mass in sales and revenues, which would negatively impact our results of operation, due to the high cost of developing and maintaining such advanced applications.

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 2014, 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. In addition, in our Security business, there may be certain transactions that could account for at least five percent of our revenues in a particular year. Such transactions are subject to certain risks (as discussed in the immediately following risk factor "We face risks related to large projects."), which could have a material adverse effect on our revenues and operating results.

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 face risks relating to large projects.

In order to successfully compete in all sectors of our business, including security projects awarded through a competitive bid, we may be required to commit to provide certain technologies and solutions which are under development or which we may have to develop, license from a third party, or acquire, specifically for that customer. This may result in technological difficulties that may prevent us from complying with our contractual obligations, exposing us to possible penalties and legal claims, and may affect the profitability of a project, which may have a negative impact on our business, financial condition and results of operations.

Some of the customer projects for which we offer our Security Solutions and related products and services are growing in size. The larger and more complex such projects are, the greater the risks associated with such projects. These risks may include our exposure to penalties and liabilities resulting from a breach of contract, our ability to fully integrate our products with third party products, and a risk of failure due to a combination of various technologies and complex environments. In some of these projects we are highly dependent upon prime-contractors and subcontractors for various planning aspects, solution development, integration, delivery and the successful and timely completion of such projects. Also, we may be held liable for the failure of our subcontractors, from whom we may have no recourse.

We have experienced in the past, and may continue to experience in the future, fluctuations in being selected for such large projects, which correspondingly may result in substantial fluctuations in our income and results of operations. In addition, there may be more fluctuations in cash collection and revenue recognition with respect to such projects.

We face risks relating to government spending and contracts with governments and governmental entities.

We sell our products and solutions to, among other customers, governments and governmental entities. Due to financial conditions, governments may significantly reduce or terminate projects, even if already budgeted, or decide to change priorities and reallocate budgets. In addition, sales to governments and governmental entities are subject to special risks, such as delays in funding, termination of contracts or sub-contracts at the convenience of the government, reduction or modification of contracts or sub-contracts in the event of changes in the government’s policies or priorities, as a result of budgetary constraints or for other reasons, collection difficulties and increased or unexpected costs resulting in losses or reduced profits under fixed price contracts. Furthermore, some of these engagements require delivery in phases, and while each phase requires particular customer acceptance, a customer may require acceptance of the complete system with a right of return of the system, regardless of any previous partial acceptance. Failure to obtain customer acceptance for the complete system, the customer’s exercise of a right of return, or, generally, an early termination for convenience, would not entitle us to reimbursement for all of our incurred contract costs or profit for work performed. Such occurrences have happened in the past, and we cannot assure you that we will not experience problems in the future in our performance of such government contracts.

In addition, the market for our Security Solutions is highly dependent on the spending cycle and scope of federal, state, local and municipal governments, as well as those of security organizations in international markets. We cannot assure you that these spending cycles will materialize as we expect and that we will be positioned to benefit from these potential opportunities.

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 continuing to grow 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.

Our success depends on our ability to effectively and efficiently execute our growth strategy. If we are unable to successfully execute our growth strategy and properly manage our investments and expenditures, our results of operations and stock price may be materially adversely affected.

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 successfully implement our growth strategy 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 over the past few years, including a total of seven acquisitions during the years 2011 through 2013 (see Item 5, “Operating and Financial Review and Prospects—Recent Acquisitions” in this annual report for a description of certain of these acquisitions), and expect to continue to make acquisitions and investments in the future. We frequently evaluate the tactical or strategic opportunity available related to complementary businesses, products or technologies. The process of integrating an acquired company’s business into our operations and/or of investing in new technologies, (1) may result in unforeseen operating difficulties and large expenditures and (2) may 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 and/or personnel and expose us to unanticipated liabilities.

There can be no assurance that we will be successful in making additional acquisitions. 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 may also compete with others to acquire companies, and such competition may result in decreased availability of, or an increase in price for, suitable acquisition candidates. In addition, we 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 addition, 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 such necessary financing, it could have an impact on our ability consummate a substantial acquisition or investment and execute our growth strategy. Alternatively, we may issue a significant amount of ordinary shares as consideration for an acquisition, which would have a dilutive effect on our existing shareholders.

Other risks commonly encountered with acquisitions include the effect of the acquisition on our financial and strategic position, the inability to successfully integrate 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 timely attract new skilled employees and management to replace them.

Moreover, 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.

In addition, if we consummate one or more significant acquisitions in which the consideration consists, in whole or in part, of ordinary shares or American Depositary Shares (“ADSs”), representing our ordinary shares, shareholders would suffer dilution of their interests in us. 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 uneven sales patterns could significantly impact our revenues and earnings.

The sales cycle for our products and services is variable, typically 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, 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, transactional related platforms and applications, digital video, physical security information management and communications intelligence. Because a significant portion of our overhead consists of fixed costs, our quarterly results may be adversely impacted if sales fall below management's expectations. 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 certain backlog and we 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 impacted 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. In 2014, Zeevi Bregman, our former CEO, retired, and Mr. Barak Eilam assumed this role. In February 2015, we announced that Ms. Dafna Gruber, our CFO, will be retiring from her position, and be replaced by Ms. Sarit Sagiv following a transition period. 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, 2014, approximately 24% of our employees were devoted to research and product development and approximately 23% 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 often 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 employ.

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, inaccurate results may be produced. 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 against us.

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 products released by us 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 Finances

We face foreign exchange currency risks.

We are impacted by exchange rate fluctuations. 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 lesser extent, in GBP, EUR and other currencies. If the value of the dollar decreases against the NIS, our earnings may be negatively impacted. 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 increase in the costs of our operations, as expressed in dollars, which could adversely impact 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 provide protection against risk, but may entail a loss of opportunity for favorable gain. Therefore, we may be unable to benefit from a favorable gain that may result from such currency fluctuations. 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 timings of which are 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, in part stemming from public pressure to increase tax liabilities of corporations and to limit the ability to gain from strategic tax planning, with a focus 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. In Israel specifically, we have experienced in recent years an increase in corporate tax rate, as well as reduction in favorable tax treatment, which has resulted in an increase in our effective tax rate. Such trend, which is partly attributable to political and public pressure, may continue and may results in a higher effective tax rate, which will negatively impact our results of operation.

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 these investments defaults or undergoes reorganization in bankruptcy, we may lose a portion of such investment and our financial income may decrease. In addition, a downturn in the credit markets could adversely affect our financial income, the liquidity of our investments, or the downgrading of the credit rating of our investments could cause us to recognize some loss. 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 Regulatory Environment, 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 150 U.S. patents and 63 patents issued in additional countries covering substantially the same technology as the U.S. patents. We have over 89 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.

From time to time, we receive "cease and desist" letters alleging patent infringements. However, no formal claims or other actions have been filed with respect to such alleged infringement, except for past claims which have since been settled or dismissed. Defending infringement claims or other claims could involve 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 which 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.

Our business, results of operations and financial condition could be materially adversely affected by changes in the legal and regulatory environment.

Our business, results of operations and financial condition could be materially 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. Among these laws and regulations, we are seeing 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). 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 applicable laws and regulations 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 are seeing a global trend for adoption and enforcement of privacy and information security 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 us 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.

The occurrence of privacy or 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 or consumer could negatively impact our business. If, in handling this information, we fail to comply with privacy legislation or procedures, we could incur civil liability to government agencies, customers and individuals whose privacy was compromised.

In addition, our revenues would be harmed if we fail to adapt our products and services to changes in rules and regulations applicable to the business of certain of our clients, such as securities trading, broker sales compliance and anti-money laundering laws and regulations, 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 materially 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 prevent information security breaches, our operations, financial condition and reputation may be harmed.

We may hold or have access to sensitive and personal information as a result of the use of our solutions, including our SaaS and hosting services, which could be the target of hackers and other criminals who wish to gain access to such information. The occurrence of information security breaches (or the belief that any such breach has occurred) in the internal and external operation of our business or by third parties using our products and solutions could harm our business, financial condition and operating results. 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 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. If successful, 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.

If we fail to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, it could have a material adverse effect on our business, operating results and share price.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us. Our efforts to comply with the requirements of Section 404, which first applied to our financial statements for 2006, have resulted in increased general and administrative expenses and a devotion of management time and attention to compliance activities, and we expect these efforts to require the continued commitment of significant resources. 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. 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 and/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 Israel

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

Our headquarters and primary research and development facilities, as well as the facilities of Flextronics Israel Ltd., our key manufacturer, are located in the State of Israel, and we are directly affected by the political, economic and security conditions to which Israel is subject. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. In past years there was a high level of violence between Israel and the Palestinians, including continuous rocket and missile attacks on certain areas of the country over the last couple of years, and negotiations between Israel and representatives of the Palestinian Authority in an effort to resolve the state of conflict have been sporadic and have failed to result in peace. The establishment in 2006 of a government in the Gaza territory by representatives of the Hamas militant group has created additional unrest and uncertainty in the region. During the last several years, Israel has engaged in armed conflicts with Hamas, which involved additional missile strikes from the Gaza Strip into Israel and disrupted most day-to-day civilian activity in the proximity of the border with the Gaza Strip. There can be no assurance that such attacks will not hit our premises or major infrastructure and transport facilities in the country, which may have a material adverse effect on our ability to conduct business. Recent political events and continuous unrest in various countries in the Middle East, including Israel's neighboring countries (including the ongoing civil war in Syria), have shaken and continue to impact the stability of those countries. In addition, Iran has threatened to attack Israel, is known to have long range missiles, which could hit every location in Israel, and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon, which could result in rocket and missile shooting towards Israel. 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 severe 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. We cannot predict the effect on the region of any diplomatic initiatives or political developments involving Israel or the Palestinians or other countries in the Middle East or North Africa. 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.

Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

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 statutory conditions to entitle us to previously obtained Israeli tax benefits, there can be no assurance that the tax authorities in Israel will concur. Should it be determined that our Preferred Enterprise programs have not, or do not meet the statutory conditions, our provision for income taxes will increase materially.

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 (unless a special approval has been granted for performing manufacturing activities outside Israel) and, as of 2012, 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. Under Israeli law, products incorporating know-how developed with grants from the OCS are required to be manufactured in Israel, unless prior approval of a governmental committee is obtained. As a condition to obtaining this approval, we may be required to pay to the OCS up to 300% of the grants we received and to repay these grants on an accelerated basis, depending on the portion of manufacturing performed outside Israel. 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, the payment of a fee. See Item 4, "Information on the Company—Research and Development" in this annual report, for additional information about OCS programs.

From time to time, the Israeli Government has discussed reducing or eliminating the availability of these grants, programs and benefits and there can be no assurance that the Israeli Government's support of these grants, programs and benefits will continue. 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 including an increase in our provision for income taxes.

Moreover, we participate in the European Community Framework Programme for Research, Technological Development and Demonstration, which funds and promotes research. There are no royalty obligations associated with receiving such funding. From time to time we may apply for new grants under the Framework Programme. 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 the European Union, or any other applicable jurisdiction, discontinues or modifies these programs and potential tax benefits, our business, financial condition and results of operations could be adversely affected.

Provisions of Israeli law may delay, prevent or impede an acquisition of us, which could prevent a change of control.

Israeli corporate law regulates mergers and tender offers, requires tender offers for acquisitions of shares above specified thresholds 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 some of our shareholders. These provisions could delay, prevent or impede an acquisition of us. See Item 10, "Additional Information—Mergers and Acquisitions" in this annual report, for additional discussion about some anti-takeover effects of Israeli law.

Risks related to our Ordinary Shares and ADSs

Our share price is volatile and may decline.

Numerous factors, some of which are beyond our control, may cause the market price of our ordinary shares or our ADSs, each of which represents one ordinary share, to fluctuate significantly. These factors include, among other things, announcements of technological innovations, development of or disputes concerning our intellectual property rights, 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 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.

Future sales of our ADSs may impact the market price of our ADSs.

If we or our shareholders sell substantial amounts of our ADSs in the public market, the market price of our ADSs could decline. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Following an acquisition, our ADSs held by new holders may become freely tradable.

Item 4. Information on the Company.

About NICE

NICE Systems is a global leading software company enabling enterprises and security-sensitive organizations to address three main aspects of people's lives: preventing financial crimes and fraud, ensuring security and public safety and providing perfect customer experiences.

We allow organizations to work smarter by unleashing the power of data. We do this by capturing vast amounts of various types of data (e.g., structured and unstructured, interactions, and transactions) from multiple sources (e.g., communication channels, operational systems, and more), and acting upon it through analysis that provides insight and decisioning in real time.

Our solutions capture interactions and transactions from multiple sources, including telephones, CCTV video feed, emergency services radio communications, emails, chat, social media, and more. They provide valuable insight about the business or security situation by applying real-time, cross-channel analytics to predict customer behavior, criminals and terrorists intentions and potential fraudsters, to enable proactive response for real-time impact.

NICE's key assets are:

- Our advanced technologies and core competencies around data capture and advanced analytics that were developed organically and through multiple acquisitions.
- Our products, solutions and domain expertise in our areas of operation allow us to have strong partnerships with our customers worldwide.
- Our customer base. Today, more than 25,000 organizations in over 150 countries, including over 85 of the Fortune 100 companies are using NICE solutions. Such organizations span all major industries, including banking, telecommunications, insurance, retailers, travel and more.

We have established a leadership position in many of our areas of operation through comprehensive and innovative enterprise-grade solutions and technologies, continuous development of our product portfolio, deep domain expertise, global reach, and agile response to changes in our industry.

History and Development of the Company

Our company 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 still 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 22 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 have involved the acquisition of other businesses and the repurchase of our outstanding ordinary shares and ADRs. 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.

Business Overview

NICE is an industry leader in three main business areas: customer interactions, preventing financial crimes and fraud and security and public safety.

Customer Interactions

NICE is a global leader in Customer Interactions Solutions. Our portfolio of solutions serves thousands of organizations worldwide, transforming the way they engage with their customers across communication channels and touch points.

Our solutions are implemented by contact centers of all sizes, retail branches, and back office operations, and span multiple industries, including: communications, banking, insurance, health care, outsourcing, utilities, travel, and entertainment.

NICE helps organizations know their customers better, take the next-best-action in real time, and engage employees to continuously improve performance. By doing so, we enable businesses to deliver the effortless, consistent and personalized experience that customers expect, as well as improve operational efficiency, enhance regulatory compliance and increase revenues.

Financial Crime and Compliance

Fraud prevention, anti-money laundering (AML), and compliance officers need risk management solutions that help them keep pace with the changing threat landscape and adapt to evolving business and regulatory requirements. NICE Financial Crime and Compliance solutions provide 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 packaged solutions, financial institutions can tighten risk controls, lower operational and IT costs, enhance investigation efficiency, and improve customer satisfaction.

We serve hundreds of customers, including some of the world’s top financial institutions and regulatory authorities, who turn to our solutions for their mission-critical needs. Our Financial Crime and Compliance solutions monitor millions of financial transactions daily, enabling clients to mitigate the risk of financial crime, improve compliance and reduce operational costs.

Security

NICE Security solutions help organizations capture, analyze and leverage Big Data to anticipate, manage and mitigate security and safety risks, improve operations, and ensure the safety of the general public. The NICE security, intelligence and cyber offerings correlate structured and unstructured data from multiple sensors and channels, detect irregular patterns, and recognize trends. These capabilities provide the valuable insights that enable enterprises and government agencies to take the best action at the right time.

We are a leading provider of Public Safety and Physical Security solutions, which include: Physical Security Information Management ("PSIM") and Situation Management; video surveillance and analytics. With our combination of physical security, public safety and intelligence solutions, we are able to provide innovative modular solutions to meet specific customer needs.

NICE Security Solutions have been deployed to help secure a broad range of organizations and events. These have included banks, utility companies, airports, seaports, city centers, transportation systems, and major tourist attractions, as well as sporting events and diplomatic meetings.

Industry Trends

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

Increased Focus on Improving Customer Experience.

- Paradigm shift in consumer traits requires a consistent and coherent experience across all touch points. Consumer behavior is significantly changing in terms of expectations and interactions with service providers. Consumers demand perfect experiences that are memorable and meaningful. The definition of a perfect experience has evolved to become consistent, coherent, personalized and in context, and adhere to consumers' need for instant gratification and lack of lenience to service failures. At the same time, consumers are using multiple channels and traverse channels depending on their task, location, time-of-day or even progress in a certain process. They view all channels as one company and expect the company to view them as one person and a consistent, continuous in context experience.

- Organizations look at big data technologies to analyze wealth of information on their consumers, derive business insights, and act in real-time. Structured and unstructured data, from millions of multi-channel voice and text interactions, open up a world of insight into customers' preferences and needs. Utilizing innovative big data technologies allows service providers to break down the artificial barriers and see across multiple interaction touch points, channels and time to build a coherent view of every individual customer's intent. Service providers can then elevate from glimpses of interaction to a meaningful understanding of the behavior and identify a customer's underlying concerns in real time which is then translated into action - providing the best solution and accurate response.

- The use of cloud technologies and cloud-based services is becoming increasingly common. Alongside workforce and business applications that are being offered in SaaS models, infrastructure services such as computing power and storage space are now also being offered on demand, with cloud providers offering their customers a myriad of applications and infrastructure packages. Service providers are also utilizing cloud technologies to reduce hardware costs and improve IT staff productivity. Recent service provider acquisitions of cloud service companies and the growing number of cloud service propositions to small and medium businesses and enterprise segments indicate the strategic importance of cloud within our industry.

An Ever-Growing Need to Safeguard People and Assets.

- Proliferation of communication channels. Advancement in communication channels and technologies, the interception of communication for law enforcement agencies ("LEAs"), and intelligence organizations has also become complex. The new form of electronic communication, increasing data volumes, encryption of communications and proliferation of services offered are driving communication service providers and LEAs and intelligence organizations to look for advanced lawful interception ("LI") solutions. Another driving factor is that criminals and terrorist have also changed their means of communication and possess advanced technological expertise. To combat such activities, the advancement in LI solutions is much more needed.

- Exponential growth in physical security devices. Driven by increased urbanization in both developed and developing countries and increased need for ensuring safety and security, which is driving large-scale "safe city" projects. The number and variety of physical security sensors is growing substantially, with public and private organizations deploying surveillance cameras, access control systems, intrusion detection sensors, and more. Corporations, municipalities and government entities are seeking to eliminate the number of information silos created by redundant security systems so they can take the right actions, share information in real time, and successfully mitigate hostile events. These large-scale projects include installation and implementation of wide-scale security systems, which better synchronize and correlate multimedia data sources.

Financial Crime and Compliance.

- An Unpredictable Threat Landscape Environment. The growing number of data breaches and cybersecurity incidents puts growing 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, for terrorist financing, account fraud, market manipulation, social engineering, and more. 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 organizations.

- Stringent 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 our different markets: customer interactions, financial services, and security operations. In the contact center, the need to comply with regulations, such as in the area of consumer protection regulation and enforcement actions by the Consumer Financial Protection Bureau ("CFPB") in the United States, drives the adoption of recording and voice analytics solutions. 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. Lastly, security-sensitive organizations are subject to regulations regarding physical security and reliability, such as the North American Electric Reliability Corporation Critical Infrastructure Protection ("NERC-CIP") standards. These organizations adopt technological solutions in order to comply with relevant regulations.

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 information through myriad daily interactions and transactions as well as security sensors. Customers are faced with a 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; to provide perfect experiences that are personalized, in-context and provided in real-time. Organizations look for solutions to capture, manage and enrich structured and unstructured data and make it available for the organization to derive the relevant insights and act proactively and preemptively.

- Real-time analytics capabilities – deriving real-time insights from the generated data is essential to creating perfect experiences. Real-time and offline analytics capabilities are adopted to operationalize big data and realize the business value. These capabilities include:

  - Customer interaction analytics for mining insights from multiple channels (such as phone, in-store, email, chat, social media, etc.), transactional data (usage, action taken in the account, etc.), and personal information (demographics, segments).
  - Video analytics for improving an organization's surveillance system, such as with real-time alerts regarding intrusion, crowd management issues, and situational awareness.
  - Transactional analytics for preventing internal and external fraud, and to mitigate other forms of financial risk.

- Cloud technologies and SaaS business models – cloud technologies are becoming increasingly popular in delivering 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.

Strategy

Maintaining market leadership

We intend to maintain our market-leading position by continuing to offer a comprehensive portfolio of solutions, differentiated by its ability 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 our leading position.

We also intend to continue developing our direct contact 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.

Customer Interactions Business Strategy

Our strategy is to extend our market leadership position in the customer service space, while expanding 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 Marketing Department stakeholders; and
- Employee engagement and performance optimization, 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 leadership position by building an extensive risk and financial crime solutions enterprise-wide platform. We are focused on providing solutions to many branches of the global financial services industry and are constantly attempting to engage new customers. We continue 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. We also intend to continue to focus on tier-1 clients, providing them with solutions to meet their needs via both cloud and on-premises models. In addition, we are increasingly selling holistic solutions, combing Financial Crime and Compliance offerings with those of other divisions within NICE. We also sell some of our high-end solutions to tier-2 customers, which provide us an opportunity to expand our presence in this segment. Finally, we also offer our solutions to verticals outside of the traditional financial services, such as energy, insurance, healthcare, industry regulators, government agencies, and alternative payments providers.

Security Business Strategy

Our Security business strategy is to strengthen our market position and accelerate penetration into the critical facilities market. This includes serving organizations for which security issues have a direct impact on the entire business operation (e.g., airports, seaports, banks, safe cities, etc.). Part of our overall strategy is to further enhance our technology expertise, providing advanced correlation, real-time analytics and on-the-fly-adaptive workflows and trend analysis. For our existing and prospective customers, this promotes a high level of situational awareness and effective responses.

Our Public Safety strategy is to continue providing audio logging solutions for first responders, while increasingly focusing on digital evidence management and post-incident investigation. Our go-to-market strategy revolves around: strong partnerships with leading system integrators that help promote, sell and provide the necessary services for our solutions; partnerships with technology collaborators that customize and tailor our solutions to specific vertical or customer needs; and ongoing impact in the field through direct contact with end-users and by working closely with consultants.

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 on 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-premises 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.

A 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 revenues mix, is expected to provide increasingly predictable revenue streams.

As an alternative to on-premises 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 unstructured and structured 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.

Customer Interactions enables organizations to analyze the entire customer journey across the various transactions and events. This solution allows our customers to get a comprehensive view of the customer intents and actions across their journey with the organization. Customer Interactions leverages Big Data infrastructure and predictive analytics models to identify and sequence individual customer's 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, applied as an interaction is underway. 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 in real time through process automation.

Cross-Channel 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.

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 (“SEC 17a-4”), the Health Insurance Portability and Accountability Act (“HIPAA”), the Sarbanes–Oxley Act (“SOX”), the Payment Card Industry Data Security Standard (“PCI-DSS”), and the Financial Services Authority (FSA) and Medicare Improvements for Patients and Providers Act (“MIPPA”), 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 guiding agents to appropriately handle high-risk interactions, and effectively open and manage an investigation ticket. |
| Trading Floor Compliance Solutions | Enable 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 flexibly and securely manage and access archived material on demand. 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. |

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 - including VoIP, SIP, traditional Time Division Multiplexing ("TDM") and hybrid networks - enabling 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. With its comprehensive and scalable recording capabilities, NICE recording solutions provide an unrivalled TCO value. |
| 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. As a result, customer-facing operations substantially improve productivity, boost revenue and increase customer satisfaction. |
| Workforce Management | Forecasts customer interactions load, schedules agents 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 interaction 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 performance. It also provides tools to ensure regulatory compliance and accuracy. Ultimately, this back office solution elevates the level of service customers receive across the entire enterprise. |
| Real-time Authentication | Leverages voice biometrics for authenticating customers in real time. Our 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 prevent 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.

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 customers' issues. This enables companies to drive operations and deliver insights across departments by incorporating the customer's perspective. |
| Real-time Customer Feedback ("NICE Fizzback") | 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, Interactive Voice Response ("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 | Focused on helping 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. |

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 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. |

II. Financial Crime and Compliance

Our Solutions' Core Capabilities

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.

Multi-channel transaction management: The solutions are proven to capture and analyze thousands of financial transactions a second from a variety of sources and channels.

Domain-specific analytics: Comprehensive, domain-specific solutions detect anomalous customer or employee behavior in real-time, leveraging industry-proven analytics.

Real-time decisioning and enforcement: A real-time decisioning engine draws on analyzed data to trigger alerts that enable optimal enforcement and resolution. Built-in capabilities for comprehensive workflow and investigation allow effective alert management.

Addressing Business Needs

1. Enterprise Risk Management

| Solution | Description |
|---|---|
| Enterprise Risk Case Manager | Enables firms to better manage and mitigate organizational risk by providing a single view of risk across the business. It serves as a central platform for managing alerts, cases, investigations, link analysis, regulatory reporting, financial losses, oversight and more, across multiple lines of business, channels, products, and regions, turning them into actionable insights. |

2. Anti-Money Laundering - solutions available individually or as an integrated whole

| Solution | Description |
|---|---|
| Suspicious Activity Monitoring | Leverages transaction analytics to identify and report suspicious transactions related to money laundering and terrorist financing. |
| Watch List Filtering | Provides enterprise-wide customer and transaction screening against multiple watch lists. It identifies and manages sanctioned or high-risk individuals and entities, with real-time name recognition capabilities. |
| Customer Due Diligence | Provides integrated risk-based rating and continuous monitoring of accounts throughout the entire customer life-cycle, from initial applicant onboarding to periodic re-screening of existing customers. |
| CTR Processing and Automation | Provides seamless automated Currency Transaction Reporting ("CTR") processing to ensure compliance with U.S. Bank Secrecy Act standards, and to optimize CTR processes for efficiency and cost-effectiveness. |
| FATCA Compliance | Helps U.S. and non-U.S. companies establish a structured FATCA program – from identifying U.S. owners and customers, and managing their documentation, to generating reports to meet United States Internal Revenue Service requirements. |

3. Fraud Prevention - solutions available individually or as an integrated whole

| Solution | Description |
|---|---|
| Card Fraud | Enables card issuers, acquirers and processors to detect fraudulent transactions, whether ATM, PIN, signature point-of-sale, or without a physical card. |
| Remote Banking | Provides cross-channel analytical models for retail online and mobile banking, call centers, and IVR channels to enable real-time detection of fraudulent monetary and non-monetary transactions. |
| Commercial Banking | Enables multi-channel monitoring and analytics for commercial banking transactions (e.g., wires, ACH, payroll) and non-monetary transactions (e.g., template creation, transaction approval), with user, account and company-level profiling. |
| Employee Fraud | Provides proven rules and analytics, combined with proactive investigation tools, to detect theft of customer or bank assets, self-dealing, embezzlement, collusion, and identity shielding. |
| Deposit Account Fraud | Helps institutions minimize deposit fraud losses by providing comprehensive account activity monitoring. The solution also detects new and evolving forms of deposit fraud, innovatively using proven analytic techniques not traditionally deployed to address this problem. |

4. Financial Markets Compliance - comprised of solutions available individually or as an integrated whole

| Solution | Description |
|---|---|
| Institutional Trade Surveillance | Provides scenario management for identifying market manipulation and abuse, fair dealings with customers, and insider trading across asset classes (such as equities, fixed income, swaps and futures). It includes specific tools for desk supervision, control room surveillance, and trade reporting practices, to ensure comprehensive oversight and sales and trading compliance.<br><br>We also deliver a real-time, cloud-based, institutional trade surveillance solution. Furthermore, by leveraging communication surveillance capabilities from our Customer Interactions business, we provide holistic and integrated surveillance solutions that include trade, voice, email, chat and more. |
| Retail Trade Surveillance | Addresses organization-wide compliance across a broad range of retail sales practices relating to Know Your Customer (“KYC”) and Suitability requirements. It enables local and regional branch management to effectively delegate supervision across products and provides automated desk supervision, with electronic access and sign-off on individual trades. |
| Employee Trade Surveillance | Detects Conflicts of Interest and Rogue Trading. It completely automates the submission, review and approval process for employees’ personal trades, including post-trade reconciliation. It analyzes transactions against rules mapped to the organization’s employee trading policies and procedures. |
| Enterprise Conflicts Management | Offers a unified approach to maintain controls and detect conflicts of interest before they occur on a global, enterprise-wide scale. |
| Sales Practices and Suitability | Provides coverage for a broad range of sales practices, and enables firms to meet current and future global regulatory requirements. It also includes a comprehensive toolset to automate sales practices compliance processes. |

III. NICE Security Solutions

Our Solutions' Core Capabilities

Our unique integrated product portfolio consists of capturing and recording systems, analytics engines and advanced management tools, enabling organizations to minimize risk, improve investigations and optimize their security operations. We help organizations transform Big Data into operational intelligence.

Multi-sensor event management: An open architecture that integrates data from third-party devices, systems and web sources, delivering real-time alerts, and information from and about these systems, for complete situational awareness and management.

Real-time analytics and correlation: Proprietary, field-proven algorithms on security data, such as CCTV video feed and audio communications, analyzed in real time and correlated from multiple sensors to identify security situations or threats.

Real-time decisioning and resolution: Post-analysis technology that highlights decision data and trends, initiates alerts, and provides adaptive workflows to decision-makers, enabling the next-best-action for effectively resolving real-time situations.

Multimedia reconstruction: The integration of text, video, voice recordings, and other sources into holistic incident timelines for complete investigation and debriefing capabilities.

Trend analysis and reporting: Data analytics, reporting, and trend analysis that transforms Big Data into operational intelligence, defining and improving best practices, and predicting and preventing future events.

Addressing Business and Operational Needs

1. Public Safety

1a. 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 ("CAD") systems, Geographic Information Systems ("GIS"), and others. |

1b. Public Safety Emergency Response Optimization

| Solution | Description |
|---|---|
| NICE Audio Recording | Includes a wide range of recording platforms that address the needs of command-and-control centers and air traffic control operations. These solutions automatically record, analyze, store, quickly retrieve, and instantly replay TDM 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 all available data, providing all the facts as they unfold and increasing the likelihood that all vital evidence is available for review. |

2. Physical Security

2a. Video Surveillance and Analytics

| Solution | Description |
|---|---|
| NiceVision Net | A complete, end-to-end IP video surveillance management solution. It includes Smart Video Recorders, high-performance encoders and decoders, an advanced video analytics suite, and feature-rich event management and control room visualization. Each component of the solution is managed from the central NiceVision Control Center. |
| NiceVision Video Analytics | Fully integrated into the video recording infrastructure, includes field-proven applications for intrusion management, crowd management, and situation indication. The solution also issues alerts, highlights decision data, and facilitates complex surveillance operations. |

2b. Situation Management/PSIM

| Solution | Description |
|---|---|
| NICE Situator | Enables automatic real-time situation planning, response and analysis, improving situational awareness and incident handling. It integrates, analyzes and correlates information from a wide array of sensors and systems into a common operating picture. It then applies standard operating procedures and automated response plans, informing everyone in the operational chain of what is happening and what needs to be done. |

3. Cyber and Intelligence

The NICE Cyber and Intelligence solutions portfolio provides end-to-end solutions for communication interception, analysis and investigation. The solutions support the entire intelligence production cycle, both in real time and offline, and help law enforcement and intelligence agencies, national and internal security agencies, Signals Intelligence organizations and corrections authorities to fight organized crime, drug trafficking, terrorist activities and other threats to national security. The solutions are designed to provide full, 360° target monitoring by addressing the dynamic and complex nature of communications and the Internet arena.

Strategic Alliances

We sell our solutions and products worldwide, both directly to customers and indirectly through selected partners to better serve our global customers. We partner with companies in a variety of sales channels, including service providers, system integrators, distributors, value-added resellers and complimentary technology vendors. These partners form a vital network for selling and supporting our solutions and products. For our business partners, we have established the NICE Business Partner Program, which provides full support and a broad portfolio of sales tools to help them promote the NICE offerings, helping to drive mutual revenue growth and success.

Through a well-defined collaborative framework, the NICE Business Partner Program aligns and supports the business goals of both NICE and our business partners. Its multi-tiered structure recognizes both commercial achievement and certification in selling and supporting specific NICE offerings.

We also have strategic technology partnerships in place to ensure full integration with NICE's offerings, delivering value added capabilities that address a variety of technology environments.

We have global distribution agreements, as well as alliance and partnership programs, with leading vendors, service providers, and consulting firms. The following is a partial list of our main partners, some of which we cooperate with across all of our businesses, while others are only involved in a portion of our initiatives: Amdocs, Avaya, BT, Cassidian Communications, Cisco, Dell, Deloitte, Etrali, FIS, Headstrong, Honeywell, IBM, IPC, Motorola, PWC, Raytheon Company, SAIC, Siemens, Tata Consulting Services, Thales, Verizon, and Wipro.

Professional Service and Support

The NICE Professional Services and Support organization enables our customers to derive sustainable business value from our solutions. NICE solutions, coupled with the experience, expertise and global presence of our Professional Services and Support teams, continue to assist our customers in meeting regulatory requirements, as well as the increasing demands of their customers.

The Professional Service and Support offerings focus on enabling and sustaining business value for our customers. We address all stages of the technology lifecycle, including defining requirements, planning, design, implementation, customization, optimization, proactive maintenance and ongoing support.

Enabling Value

Solution Delivery optimizes solution delivery and enables our customers to achieve their specific business and organizational goals, on time and on budget. NICE solutions are delivered by certified project managers, technical experts, and application specialists. We follow a proven methodology that includes business discovery to map solutions to business processes.

Business Consulting promotes customer success through value-added services targeted to improve business operations, by leveraging and integrating NICE solutions into the customer's daily practices. This global consulting team consists of industry experts who have accumulated a broad portfolio of best practices and honed domain expertise, with extensive experience in implementing vertical market solutions for many industries. This helps our customers accelerate return on investment, increase revenue and minimize business costs.

Customer Education Services provide users with the necessary knowledge and skills to operate NICE solutions and to leverage their capabilities to meet customer needs. These services are offered both before and after the deployment of NICE solutions.

Sustaining Value

Value Realization means working hand-in-hand with our customers to identify areas that can maximize business value and minimize complications, ensuring continued delivery of business benefits.

Cloud Services ensure that solutions hosted in the NICE cloud run optimally, maximizing availability, performance and quality while ensuring the security of customer information. This includes: Hosting Operations, running our Hosting Centers; Development Operations, ensuring that our product development teams optimize our solutions for the cloud environment; and the Hosted Application Support team that operates the solutions, ensuring up-time, scalability and security.

Customer Support and Maintenance responds to customer requests for support on a 24/7 basis, using advanced tools and methodologies. NICE offers flexible service level agreements ("SLAs") to meet our customers' needs. Our solutions are generally sold with a warranty for repairs of hardware and software defects or malfunctions. Software maintenance includes an enhancement program with ongoing delivery of "like-for-like" upgrade releases, service packs and hot fixes.

Proactive Maintenance addresses issues before they can significantly impact our customers' businesses. These offerings include:

- Proactive Health Checks – Technical experts perform system-level audits to ensure ongoing compliance with operational specifications.

- Network Operations Center – A 24/7 function that proactively monitors NICE-hosted and customer-premises environments with triage, resolution and escalation of system alarms.

Manufacturing and Source of Supplies

Our products are built in accordance with industry standard infrastructure and are PC compatible. The hardware elements in our products are based primarily on standard commercial off-the-shelf components and utilize proprietary in-house developed circuit cards and algorithms and digital processing techniques and software. We also have "software only" solutions for use on standard commercial servers.

We manufacture our products through subcontractors, with the exception of our CSS product line (formerly CyberTech) which is partially manufactured by us. Our manufacturers provide us with turnkey manufacturing solutions including order receipt, purchasing, manufacturing, testing, configuration, inventory management and delivery to customers for all of our product lines. NICE is entitled to, and exercises, various control mechanisms and supervision over the entire production process. In addition, the manufacturer of a significant portion of our products, which is a subsidiary of a global electronics manufacturing service provider, is obligated to ensure the readiness of a back-up site in the event that the main production site is unable to operate as required. We believe these outsourcing agreements provide us with a number of cost advantages due to such manufacturer's large-scale purchasing power, and greater supply chain flexibility.

Some of the components we use have a single approved manufacturer while others have two or more options for purchasing. In addition, we maintain an inventory for some of the components and subassemblies in order to limit the potential for interruption. We also maintain relationships directly with some of the more significant manufacturers of our components. Although certain components and subassemblies we use in our existing products are purchased from a limited number of suppliers, we believe that we can obtain alternative sources of supply in the event that such suppliers are unable to meet our requirements in a timely manner.

We have qualified for and received the ISO-9001:2000 quality standard for all of our products, as well as the ISO 27001 and ISO 14001:2004 certifications.

Research and Development

We believe that the development of new products and the enhancement of existing products are essential to our future success. Therefore, we intend to continue to devote substantial resources to research and new product development, and to continuously improve our systems and design processes in order to reduce the cost of our products. Our research and development efforts have been financed through our internal funds and programs sponsored through the Government of Israel and the European community. We believe our research and development effort has been an important factor in establishing and maintaining our competitive position. Gross expenditures on research and development in 2012, 2013 and 2014 were approximately $126.6 million, $140.9 million, and $153.0 million, respectively, of which approxi–mately $4.1 million, $3.3 million, and $3.5 million, respectively, were derived from third-party funding, and $1.1 million, $1.0 million, and $0.9 million, respectively, were capitalized software development costs.

In 2014, we were qualified to participate in 14 programs funded by the Office of the Chief Scientist of the Israeli Ministry of Economy ("OCS") to develop generic technology relevant to the development of our products. Such programs are approved pursuant to the Law for the Encouragement of Industrial Research and Development, 1984, or the Research and Development Law, and the regulations promulgated thereunder. We were eligible to receive grants constituting between 40% and 66% of certain research and development expenses relating to these programs. Some of these programs are members of programs approved for companies with large research and development activities and some of these programs are members of certain Magnet consortiums. Accordingly, the grants under these programs are not required to be repaid by way of royalties. However, the restrictions of the Research and Development Law described below apply to these programs. In 2012, 2013, and 2014 we received a total of $2.5 million, $3.3 million, and $3.0 million from the OCS programs, respectively, and we anticipate receiving approximately $0.6 million in 2015 from 2013 and 2014 approved programs.

The Research and Development Law generally requires that the product incorporating know-how developed under an OCS-funded program be manufactured in Israel. However, upon the approval of the OCS (or notification in the event set forth below, as the case may be), some of the manufacturing volume may be performed outside of Israel, provided that the grant recipient pays royalties at an increased rate, which may be substantial, and the aggregate repayment amount is increased, which increase might be up to 300% of the grant (depending on the portion of the total manufacturing volume that is performed outside of Israel). Following notification (rather than approval) to the OCS (and provided the OCS did not object), up to 10% of the grant recipient’s approved Israeli manufacturing volume, measured on an aggregate basis, may be transferred out of Israel, subject to payment of the increased royalties referenced above.

The Research and Development Law also provides that know-how developed under an approved research and development program may not be transferred to third parties without the approval of the OCS. Such approval is not required for the sale or export of any products resulting from such research or development. The OCS, under special circumstances, may approve the transfer of OCS-funded know-how outside Israel, including, in the event of a sale of the know how or sale of the grant recipient, provided that the grant recipient pays to the OCS a portion of the sale price paid in consideration for such OCS-funded know-how or in consideration for the sale of the grant recipient itself, as the case may be, which portion will not exceed six times the amount of the grants received plus interest (or three times the amount of the grant received plus interest, in the event that the recipient of the know-how has committed to retain the R&D activities of the grant recipient in Israel after the transfer).

The Research and Development Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and non-Israeli interested parties to notify the OCS of any change in control of the recipient, or a change in the holdings of the means of control of the recipient that results in becoming an interested party directly in the recipient, and if the interested party is non-Israeli, requires the party to undertake to the OCS to comply with the Research and Development Law. In addition, the rules of the OCS may require prior approval of the OCS or additional information or representations in respect of certain of such events. Furthermore, the Research and Development Law imposes reporting requirements in the event that proceedings commence against the grant recipient, including under certain applicable liquidation, receivership or debtor's relief law or in the event that special officers, such as a receiver or liquidator, are appointed to the grant recipient.

Failure to satisfy the Research and Development Law's requirements may subject us to mandatory repayment of grants received by us (together with interest and penalties), as well as expose us to criminal proceedings. In addition, the Government of Israel may from time to time audit sales of products which it claims incorporates technology funded through OCS programs which may lead to additional royalties being payable on additional products.

The funds available for OCS grants out of the annual budget of the State of Israel were reduced in recent years, and the Israeli authorities have indicated in the past that the government may further reduce or abolish OCS grants in the future. Even if these grants are maintained, we cannot presently predict what would be the amounts of future grants, if any, that we might receive.

We participate in the European Community Framework Programme for Research, Technological Development and Demonstration, which funds and promotes research. There are no royalty obligations associated with receiving such funding. From time to time we may apply for new grants under the Framework Programme. During 2010 and 2011 we were selected to participate in four FP-7 programs. The programs are for three and a half years, with a total expected grant of approximately EUR 1.6 million. In addition, we were selected to coordinate one of these programs.

Intellectual Property

We currently rely on a combination of trade secret, patent, copyright and trademark law, together with non-disclosure and non-compete agreements, to establish and/or protect the technology used in our systems.

We currently hold 150 U.S. patents and 63 patents issued in additional countries covering substantially the same technology as the U.S. patents. We have over 89 patent applications pending in the United States and other countries. We believe that the improvement of existing products and the development of new products are important in establishing and maintaining a competitive advantage. We believe that the value of our products is dependent upon our proprietary software and hardware continuing to be "trade secrets" or subject to copyright or patent protection. We generally enter into non-disclosure and non-compete agreements with our employees and subcontractors. However, there can be no assurance that such measures will protect our technology, or that others will not develop a similar technology or use technology in products competitive with those offered by us. 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 do not infringe upon the proprietary rights of third parties, there can be no assurance that one or more third parties will not make a contrary claim or that we will be successful in defending such claim.

From time to time, we receive “cease and desist” letters claiming patent infringements. However, no formal claims or other actions have been filed with respect to such alleged infringement, except for past claims which have since been settled or dismissed. Defending infringement claims or other claims could involve 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.

We own the following trademarks and/or registered trademarks in different countries: ACTIMIZE, Actimize logo, Alpha, Customer Engagement Analytics, Decisive Moment, eGlue Interact, FAST, FAST alpha Silver, Fortent, Fortent Logo, IEX, Insight from Interactions, Intent. Insight. Impact., Know More Risk Less, Last Message Replay, Mass Detection Center, Mirra, NICE, NICE Analyzer, NICE Inform, NICE Inform Lite, NICE Inform Media Player, NICE Inform Verify, NICE Logo, NICE Perform, NICE Proactive Compliance, NICE Seamless, NICE Security Recording, NICE Situator, NICE SmartCenter, NICE Systems, NiceLog, NiceTrack, NiceTrack IP Probe, NiceTrack Location Tracking, NiceTrack Mass Detection Center, NiceTrack Monitoring Center, NiceTrack Pattern Analyzer, NiceTrack Traffic Analysis, NiceVision, NiceVision Alto, NiceVision Analytics, NiceVision Control Center, NiceVision Digital, NiceVision Net, NiceVision NVSAT, NiceVision Pro, Open Situation Management, Own the Decisive Moment, Scenario Replay, Searchspace, Syfact, Syfact Investigator, and TotalView.

Seasonality

The larger portion of our business operates as an enterprise software model, which is characterized, in part, by uneven business cycles throughout the year and under which a significant number of our licenses are entered into in the fourth quarter of each calendar year. We believe that seasonality in our business may become more prominent as the proportion of advanced software applications out of our overall sales mix continues to increase. We believe that these seasonal factors primarily reflect customer spending patterns and budget cycles. While seasonal factors such as these are common in the software and technology industry, this pattern should not be considered a reliable indicator of our future revenue or financial performance. Many other factors, including general economic conditions, also have an impact on our business and financial results. See “Risk Factors” under Item 3, "Key Information" of this annual report for a more detailed discussion of factors which may affect our business and financial results.

Regulation

Export Restrictions

The export of certain defense products from Israel, such as our NiceTrack line of products, requires a permit from the Israeli Ministry of Defense (MOD). In addition, the sale of products to certain customers, mostly armed forces, also requires a permit from the Israeli Ministry of Defense. In 2014, the vast majority of our sales were not subject to such permit requirements. To date, we have encountered no difficulties in obtaining such permits. However, the MOD notifies us from time to time not to conduct business with specific countries that are undergoing political unrest, violating human rights or exhibiting hostility towards Israel, or imposes certain requirements as a condition to NICE being permitted to export products which are under the control of the MOD. We may be unable to obtain permits for our cyber and intelligence products we could otherwise sell in particular countries in the future.

We also may be subject to applicable export control regulations in other countries from which we export goods and services, including the United States. Such regulations may apply with respect to product components that are developed or manufactured in, or shipped from, the United States, or with respect to certain content contained in our products. There are restrictions that apply to software products that contain encryption functionality, especially in the United States and Israel. In the event that our products and services are subject to such controls and restrictions, we may be required to obtain an export license or authorization and comply with other applicable requirements pursuant to such regulations.

European Environmental Regulations

Our European activities require us to comply with Directive 2002/95/EC of the European Parliament on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment ("RoHS 1"), and Directive 2011/65/EU of the European Parliament on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (together with RoHS 1, "RoHS"). RoHS provides, among other things, that producers of electrical and electronic equipment may not place new equipment containing certain materials, in amounts exceeding certain maximum concentration values, on the market in the European Union. We are also required to comply with the European Community Regulation on chemicals and their safe use (EC 1907/2006) that deals with the Registration, Evaluation, Authorization and Restriction of Chemical substances ("REACH"), which requires producers to manage the risks from chemicals used in their products and to provide safety information on the substances found in their products.

Our products meet the requirements of the RoHS and REACH directives and we are making every effort in order to maintain compliance, without adversely affecting the quality and functionalities of our products. If we fail to maintain compliance, including by reason of failure of our suppliers to comply, we may be restricted from conducting certain business in the European Union, which could adversely affect our results of operations.

Our European activities also require us to comply with Directive 2002/96/EC of the European Parliament on Waste Electrical and Electronic Equipment ("WEEE"). The WEEE directive covers the labeling, recovery and recycling of IT/Telecommunications equipment, electrical and electronic tools, monitoring and control instruments and other types of equipment, devices and items, and we have set up the operational and financial infrastructure required for collection and recycling of WEEE, as stipulated in the WEEE directive, including product labeling, registration and the joining of compliance schemes. We are taking and will continue to take all requisite steps to ensure compliance with this directive. If we fail to maintain compliance, we may be restricted from conducting certain business in the European Union, which could adversely affect our results of operations.

Similar regulations are being formulated in other parts of the world. We may be required to comply with other similar programs that might be enacted outside Europe in the future.

Competition

We believe that our solutions have several competitive advantages: their ability to serve large, multi-site, multi-channel, multi-touch-point organizations; their holistic integration and capture of various structured and unstructured data sources; their ability to analyze and extract insight in real-time within a multi-dimensional approach; and their ability to drive cross-departmental action to impact business results.

In the WFO suite domain, we are facing competition from vendors such as Aspect, Avaya, Software Inc., Callabrio, Genesys, InContact, Interactive Intelligence Inc., and Verint Systems.

In the real-time cross-channel analytics arena, we are facing competition from vendors such as Hewlett-Packard (through its acquisition of Autonomy Corp.), CallMiner, ClickFox, Infor, Mattersight (formerly eLoyalty), Nexidia, Pegasystems, and Genesys (through its acquisition of Utopy). Some of these vendors provide solutions which are not real-time in nature and some provide solutions focused on single channel analytics (e.g., speech analytics).

In the real-time decisioning and guidance market, we are facing competition from vendors such as Oracle ATG, Jacada, and OpenSpan.

In the customer experience management market, we are facing competition from vendors such as Medallia and ResponseTek.

In the fraud prevention and authentication market, we are facing competition from vendors that offer voice biometrics, such as Nuance and Victrio (acquired by Verint).

As we are expanding our SaaS offerings, we are facing competition from some of our traditional competitors mentioned above, which are also offering their solutions in a SaaS model. Additional competition comes from specific WFO providers offering their solutions in a SaaS model only.

The Customer Service market is highly competitive and includes numerous companies offering a broad range of features and capabilities. As the market is still developing, we anticipate the introduction of new and enhanced products by various companies in this sector.

A competitive advantage in the Customer Service market can be achieved through differentiation in product offerings or business model. With respect to products, we consider breadth of offerings, application functionality, system performance and reliability, the ability to integrate with a variety of external systems, and ease of use as key factors. With respect to the business model, we consider marketing and distribution capacity, price, and global service and support capacity as key factors. We believe that NICE established a competitive advantage in this market based on: our ability to service large, multi-site, multi-channel, multi-touch-point customer service organizations, and their holistic integration; our solutions' capabilities to capture various structured and unstructured data sources; the ability to extract insight with a multi-dimensional approach; and the ability to drive cross-departmental action to impact business results. Furthermore, we believe the strength of our large installed customer base, alongside the size and capabilities of our global distribution network, and our business partners, as well as our global service and support capacity, provide us significant differentiation factors in the Customer Service market.

The driving forces of the Financial Crime and Compliance software solutions market are the introduction of new regulations and financial crime patterns that impact the entire financial services industry. The competitive landscape is highly fragmented. We face no single competitor that competes with us across all our solution areas. That being said, we face significant competition for each solution that we offer. We believe that our focus on the financial services market (and related markets) provides us deep domain expertise, which combines with our fast time to market, ability to provide service across the enterprise using one core platform, and our ability to serve specific “point” solutions to serve as levers to establish dominance in the market. Our software solutions face competition from custom solutions developed internally by financial services institutions, as well as software and other solutions offered by commercial competitors such as ACI Worldwide, BAE Systems, FICO, Oracle Corporation, Progress Software, SAS Institute Inc., and Sungard Data Systems.

In the public safety emergency voice recording market, our ability to deliver an integrated recording system that can capture voice, video, data and meta-data information from trunk radio systems, as well as from computer-aided dispatch systems, provide us a superior market position in respect to our competitors, mainly in the large, high-end emergency response centers. Another differentiating factor can be found in our applications for scenario reconstruction, connecting together multiple multimedia sources, including voice, video, data, GIS and meta-data. Some of our competitors in the public safety market include ASC Telecom, Redbox Recorders, Ultra Electronics AudioSoft, and Verint Systems.

In the video platform, applications and analytics market, we compete against, amongst others, Bosch Security Systems, Genetec Inc., IndigoVision Group, Milestone Systems A/S, On-Net Surveillance Systems, Schneider Electric (formerly Pelco), and Verint Systems. In this fragmented market, we offer a comprehensive solution based on our self-developed recording, management software, networking devices and real-time content analysis. This solution provides open interfaces to third-party devices and applications, and creates a competitive advantage for us in this market.

There are a few competitors with products in the PSIM market that compete with our Situator platform. These include, amongst others, ADT Security Services (formerly Proximex), CNL Software, Verint Systems, and VidsSys. We offer a comprehensive and open solution that integrates with dozens of systems and sensors. This has resulted in a significant advantage for us in the market. Furthermore, the domain expertise we have gained across each of our verticals means that we can tailor business logic (such as workflows and rules) specifically to customer requirements.

There are a number of competitors in the telecommunications monitoring market that have products competing with our NICE Cyber and Intelligence family of solutions. The primary competitors are Atis, BAE Systems, JSI Telecom, Pen-link Ltd., SS8 Networks, Inc., Trovicor, and Verint Systems. We believe that our solutions offer innovations that provide law enforcement agencies and intelligence organizations the tools and capabilities they require to meet the challenges posed by today’s advanced telecommunications.

Moreover, major enterprise software vendors - such as those from the traditional enterprise business intelligence and business analytics sector, CRM, or infrastructure players (mostly telephony or switch vendors) - may decide to enter our market space and compete with us for this emerging opportunity. This competition may take the form of either internal development of comprehensive solutions or acquisition of any of our existing competitors.

Organizational Structure

The following is a list of our significant subsidiaries, including the name and country of incorporation or residence. Each of our significant subsidiaries is wholly-owned by us.

| Name of Subsidiary | Country of Incorporation or Residence |
|---|---|
| Nice Systems Australia PTY Ltd. | Australia |
| NICE Systems Technologies Brasil LTDA | Brazil |
| NICE Systems Canada Ltd. | Canada |
| Nice Systems China Ltd. | China |
| Nice Systems S.A.R.L. | France |
| NICE Systems GmbH | Germany |
| NICE APAC Ltd. | Hong Kong |
| NICE Systems Kft | Hungary |
| Nice Interactive Solutions India Private Ltd. | India |
| Nice Technologies Ltd. | Ireland |
| Actimize Ltd. | Israel |
| Nice Japan Ltd. | Japan |
| NICE Technologies Mexico S.R.L. | Mexico |
| NICE Systems B.V. | Netherlands |
| Nice Systems (Singapore) Pte. Ltd. | Singapore |
| Nice Switzerland AG | Switzerland |
| Actimize UK Limited | United Kingdom |
| NICE Systems Technologies UK Limited | United Kingdom |
| NICE Systems UK Ltd. | United Kingdom |
| Actimize Inc. | United States |
| Nice Systems Inc. | United States |
| Nice Systems Latin America, Inc. | United States |
| Nice Systems Technologies Inc. | United States |

Property, Plants and Equipment

Our executive offices and engineering, research and development operations are located in North Ra'anana, Israel. The offices include three buildings, which occupy approximately 351,682 square feet, with an annual rent and maintenance fee of approximately $12.0 million, paid in NIS and linked to the Israeli consumer price index. The lease for these three buildings in our Northern Ra'anana facilities will expire in October 2022.

We have leased various other offices and facilities in several other countries. Our headquarters in each region consist of the following facilities:

- Our North American headquarters in Paramus, New Jersey occupies approximately 34,416 square feet and includes training and lab facilities. We also have an additional office in New York, which occupies an aggregate of approximately 39,647 square feet. Both locations are used as office space.
- Our office in Southampton, U.K. occupies approximately 23,433 square feet and is used as office space and includes a training facility and lab; and
- Our office in Singapore occupies approximately 7,788 square feet and is used as office space.

We also have additional material leased facilities, consisting of the following:

- Our office in Denver, Colorado occupies approximately 27,063 square feet and is used as office space and includes a training facility and lab;
- Our office in Richardson, Texas occupies approximately 37,564 square feet and is used as office space;
- Our offices in London, U.K. occupies approximately 22,504 square feet and is used as office space and includes a lab;
- Our office in Redwood Shores, California occupies approximately 27,776 square feet and is used as office space and includes a lab; and
- Our office in the Netherlands occupies approximately 20,365 square feet and is used as office space and includes a training facility, lab, and a production area.

We believe that our existing facilities are adequate to meet our current and foreseeable future needs.

Item 4A. Unresolved Staff Comments.

None.

Item 5. Operating and Financial Review and Prospects.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related notes and other financial information included elsewhere in this annual report. This discussion contains certain forward-looking statements that involve risks, uncertainties and assumptions. As a result of many factors, including those set forth under Item 3, “Key Information - Risk Factors” and elsewhere in this annual report, our actual results may differ materially from those anticipated in these forward-looking statements. For more information about forward-looking statements, see the Preliminary Note that precedes the Table of Contents of this annual report.

Overview

NICE Systems is a global leading software company enabling enterprises and security-sensitive organizations to address three main aspects of people’s lives: preventing financial crimes and fraud, ensuring security and public safety and providing perfect customer experiences.

We operate in three business areas: Customer Interactions, Financial Crime and Compliance and Security. We allow organizations to work smarter by unleashing the power of data. We do this by capturing vast amounts of various types of data (e.g., structured and unstructured, interactions, and transactions) from multiple sources (e.g., communication channels, operational systems, and more), and acting upon it through analysis that provides insight and decisioning in real time.

Our solutions capture interactions and transactions from multiple sources, including telephones, CCTV video feed, emergency services radio communications, emails, chat, social media, and more. They provide valuable insight about the business or security situation by applying real-time, cross-channel analytics to predict customer behavior, criminals and terrorists intentions and potential fraudsters, to enable proactive response for real-time impact.

Recent Acquisitions

The following acquisitions were accounted for by the acquisition method of accounting, and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values. The results of operations related to each acquisition are included in our consolidated statement of income from the date of acquisition.

On August 12, 2013, we completed the acquisition of Causata Inc. (“Causata”), a provider of real-time Big Data analytics. We acquired Causata for total consideration of approximately $22.7 million comprised of $21.4 million in cash and $1.3 million representing the fair value of earn-out based on performance milestones, amounting to an additional maximum payment of $2 million. The acquisition will allow NICE to offer solutions which provide greater visibility into a customer’s activities on the Web and apply the insights from that data in real time, across other touch points such as the contact center. Organizations will be better positioned to enhance the customer experience, increase revenues, and achieve greater operational efficiency. These solutions are further augmented by Causata’s Web-based predictive analytics and machine learning technologies, which, when applied to terabytes of information, allow organizations to improve real-time decisioning and guidance. NICE benefits from Causata’s real-time Hadoop-based interaction repository, real-time decisioning, dynamic customer profiles, and Web personalization.

On October 22, 2012, we completed the acquisition of RedKite Financial Markets Limited ("RedKite"), an emerging provider of real-time, cloud-based institutional trade surveillance solutions. We acquired RedKite for total consideration of approximately $11.6 million comprised of $9.0 million in cash and $2.6 million representing the fair value of potential earn-out based on performance milestones, amounting to an additional maximum payment of $5.8 million. During 2014, we concluded that since none of the performance milestones were achieved or were expected to be achieved, and therefore, the earn-out liability's fair value was equal to $0. As a result, an adjustment of $2.6 million was recorded in the statement of income. NICE Actimize benefited from the RedKite acquisition, with the addition of RedKite's innovative, front-office based approach to real-time trade surveillance to the NICE Actimize trading compliance solutions suite.

On February 7, 2012, we completed the acquisition of Merced Systems, Inc. ("Merced"), the leading provider of performance management solutions that drive business execution in sales and service functions. We acquired Merced for total consideration of approximately $185.9 million. Merced's performance management solutions help drive sales effectiveness, superior customer experience and operating efficiency across a range of vertical industries. Merced's products serve Global 2000 customers, and include advanced analytics and reporting, incentive compensation management, coaching, and other performance execution applications.

From time to time we also complete acquisitions and investments that are not considered material to our business and operations.

Off-Balance Sheet Transactions

We have not engaged in nor been a party to any off-balance sheet transactions, as defined in Item 5 of Form 20-F.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that the significant accounting policies which affect its more significant judgments and estimates used in the preparation of the Consolidated Financial Statements and those that are the most critical to aid in fully understanding and evaluating our reported results include the following:

- Revenue recognition;

- Allowance for doubtful accounts;
- Impairment of long-lived assets;
- Taxes on income;
- Contingencies;
- Business combination;
- Stock-based compensation; and
- Valuation of investment in marketable securities.

Revenue Recognition. We generate revenues from sales of software products, services, which include support and maintenance, installation, project management, customization, consulting, training, hosting and SaaS, as well as hardware sales. We sell our products directly through our sales force and indirectly through a global network of distributors, system integrators and strategic partners, all of whom are considered end-users.

The basis for our software revenue recognition is substantially governed by the accounting guidance contained in ASC 985-605, “Software-Revenue Recognition.” Revenues from sales of our software products are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectability is probable. In transactions where a customer's contractual terms include a provision for customer acceptance, revenues are recognized either when such acceptance has been obtained or as the acceptance provision has lapsed.

For multiple element arrangements within the scope of software revenue recognition guidance, revenues are allocated to the different elements in the arrangement under the "residual method" when Vendor Specific Objective Evidence ("VSOE") of fair value exists for all undelivered elements and no VSOE exists for the delivered elements. Under the residual method, we defer revenue for the fair value of its undelivered elements and recognize revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement when the basic criteria in ASC 985-605 have been met. Any discount in the arrangement is allocated to the delivered element. Revenues from maintenance and professional services are recognized ratably over the contractual period and as services are performed, respectively.

For arrangements that contain both software and non-software components that function together to deliver the products' essential functionality, we allocate revenue to each element based on its relative selling price. In such circumstances, the accounting principles establish a hierarchy to determine the selling price to be used for allocating revenue to deliverables. The selling price for a deliverable is based on its VSOE, if available, third party evidence (“TPE”) if VSOE is not available, or best estimated selling price (“BESP”) if neither VSOE nor TPE are available. We establish VSOE of fair value using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. When VSOE cannot be established, we attempt to establish fair value of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, our go-to-market strategy differs from that of our peers and our offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine what similar competitor products’ selling prices are on a standalone basis. Therefore, we are typically not able to determine TPE. The BESP price is established considering several external and internal factors including, but not limited to, historical sales, pricing practices and geographies in which we offer our products. The determination of the BESP is subject to discretion.

Our policy for establishing VSOE of fair value of maintenance services is based on the price charged when the maintenance is renewed separately. Establishment of VSOE of fair value of professional services is based on the price charged when these services are sold separately.

Revenues from fixed price contracts that require significant customization, integration and installation are recognized based on ASC 605-35, "Construction-Type and Production-Type Contracts," using the percentage-of-completion method of accounting based on the ratio of costs related to contract performance incurred to date to the total estimated amount of such costs. The amount of revenue recognized is based on the total fees under the arrangement and the percentage of completion achieved. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined, in the amount of the estimated loss on the entire contact.

We also generate sales from SaaS offerings which provide our customers access to certain of our software within a cloud-based IT environment that we manage and offer to customers on a subscription basis. Revenues for our SaaS offerings are recognized ratably over the contract term commencing with the date its service is made available to customers and all other revenue recognition criteria have been satisfied.

To assess the probability of collection for revenue recognition, we have established a credit policy that determines the credit limit that reflects an amount that is deemed probably collectible for each customer. To secure these limits, we use credit insurance. These credit limits are reviewed and revised periodically on the basis of new customer financial statements information and payment performance.

We maintain a provision for product returns which is estimated based on our past experience and is deducted from revenues. Actual returns could be different from our estimates.

Deferred revenues include advances and payments received from customers, for which revenue has not yet been recognized.

Allowance for Doubtful Accounts. We regularly review our allowance for doubtful accounts by considering factors such as historical experience, age of the account receivable and current economic conditions that may affect a customer's ability to pay. We allocate a certain percentage for the provision based on the length of time the receivables are past due.

Impairment of Long-Lived Assets. Our long-lived assets include goodwill, property and equipment and identifiable other intangible assets that are subject to amortization. In assessing the recoverability of our goodwill, property and equipment and other identifiable intangible assets that are held and used, we make judgments regarding whether impairment indicators exist based on legal factors, market conditions and operating performances of our reporting units or asset groups. Future events could cause us to conclude that impairment indicators exist and that the carrying values of these long-lived assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations.

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350 "Intangible – Goodwill and Other," goodwill is not amortized, but rather is subject to an annual impairment test. ASC 350 requires that goodwill be tested for impairment at the reporting unit level on an annual basis or between annual tests in certain circumstances, and written down when impaired. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and determination of the fair value of each reporting unit. The goodwill impairment test is performed according to the following principles:

- An initial qualitative assessment of the likelihood of impairment may be performed. If this indicates that the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required. If it does result in a more likely than not indication of impairment, the two-step impairment test is performed. Alternatively, ASC 350 permits an entity to bypass the qualitative assessment for any reporting unit and proceed directly to performing the first step of the goodwill impairment test.

- Under the first step of the impairment test, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit exceeds the carrying value of the net assets allocated to that unit, goodwill is not impaired, and no further testing is required. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform the second step of the two-step impairment test to measure the amount of the impairment.

- Under the second step, the reporting unit's fair value is allocated to all the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that simulates the business combination principles to derive an implied goodwill value. If the implied fair value of the reporting unit's goodwill is less than its carrying value, the difference is recorded as impairment.

Fair value is determined using discounted cash flows. Significant estimates used in the fair value methodologies include estimates of future cash flows, future growth rates and the weighted average cost of capital of the reporting units.

We operate in three operation-based segments, which also comprise our reporting units: Customer Interactions Solutions, Security Solutions and Financial Crime and Compliance Solutions. We performed a qualitative assessment for each of our reporting units during the fourth quarter of 2014 and concluded that the qualitative assessment did not result in a more likely than not indication of impairment in any of our reporting units, and therefore no further impairment testing is required.

Our long-lived assets and identifiable intangibles that are subject to amortization are reviewed for impairment in accordance with ASC 360, "Property, Plant, and Equipment," whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment indicators include any significant changes in the manner of our use of the assets and significant negative industry or economic trends.

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flows to the carrying amount of the asset, an impairment charge is recorded for the excess of the carrying amount over fair value. No impairment of long-lived asset has been recorded in 2014.

Taxes on Income. We record income taxes using the asset and liability method. Management judgment is required in determining our provision for income taxes in each of the jurisdictions in which we operate. The provision for income tax is calculated based on our assumptions as to our entitlement to various benefits under the applicable tax laws in the jurisdictions in which we operate. The entitlement to such benefits depends upon our compliance with the terms and conditions set out in these laws. We have considered future reversal of existing temporary differences, future taxable income, prudent and feasible tax planning strategies and other available evidence in determining the need for a valuation allowance. Although we believe that our estimates are reasonable and that we have considered future taxable income and ongoing prudent and feasible tax strategies in estimating our tax outcome, there is no assurance that the final tax outcome will not be different than those which are reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision, net income and cash balances in the period in which such determination is made.

We implement a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (on a cumulative basis) likely to be realized upon ultimate settlement.

We classify interest and penalties on income taxes (which includes uncertain tax positions) as Taxes on Income.

Contingencies. From time to time, we are a defendant or plaintiff in various legal actions, which arise in the normal course of business. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the accrual required for these contingencies, if any, which would be charged to earnings, is made after careful and considered analysis of each individual action together with our legal advisors. The required reserves may change in the future due to new developments in each matter or changes in circumstances, such as a change in settlement strategy. A change in the required reserves would affect our earnings in the period the change is made.

Business Combination. We apply the provisions of ASC 805, "Business Combination," accordingly we are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed, as well as in-process research and development based on their estimated fair values. In allocating the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, we developed the required assumptions underlying the valuation work. Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows from customer contracts, customer lists, distribution agreements and acquired developed technologies; expected costs to develop the in-process research and development into commercially viable products and estimating cash flows from the projects when completed; the acquired company's brand awareness and market position, as well as assumptions about the period of time the brand will continue to be used in the combined company's product portfolio; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, utilizing a market participant approach, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur. We were assisted by a third party appraiser in applying the required economic models (such as income approach and cost approach), in order to estimate the fair value of assets acquired and liabilities assumed in the business combination.

Stock-based Compensation. We account for stock-based compensation in accordance with the provisions of ASC 718, "Compensation - Stock Compensation." Under the fair value recognition provisions of ASC 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period of the award. We estimate the fair value of stock options granted using the Black-Scholes-Merton option-pricing model and values restricted stock based on the market value of the underlying shares at the date of grant. We recognize compensation costs using the graded vesting attribution method that results in an accelerated recognition of compensation costs.

The fair value of an award is affected by our stock price on the date of grant and other assumptions, including the estimated volatility of our stock price over the term of the awards and the estimated period of time that we expect employees to hold their stock options. Share-based compensation expense recognized in our consolidated statements of income was reduced for estimated forfeitures.

Valuation of Investments in Marketable Securities. We review the valuation of our securities for impairment in accordance with ASC 320-10-65. If such assets are considered to be impaired, the impairment charge is recognized in earnings when a decline in the fair value of investments below the cost basis is judged to be other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and our intent to sell, including whether it is more likely than not that we will be required to sell the investment before recovery of cost basis. For securities with an unrealized loss that we intend to sell, or it is more likely than not that we will be required to sell before recovery of their amortized cost basis, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet these criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while declines in fair value related to other factors are recognized in other comprehensive income (loss).

We apply the provisions of ASC 820, "Fair Value Measurements and Disclosures." ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, as set forth below, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

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

- Level 3 – Valuations based on unobservable inputs which are supported by little or no market activity and significant to the overall fair value measurement.

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

Our marketable securities trade in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency and accordingly are categorized as Level 2.

We classified foreign currency derivative contracts within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The actual value at which such securities could actually be sold or settled with a willing buyer or seller may differ from such estimated fair values depending on a number of factors, including, but not limited to, current and future economic conditions, the quantity sold or settled, the presence of an active market and the availability of a willing buyer or seller.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") which amended the existing FASB Accounting Standards Codification. This standard establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The standard also provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016, with no early adoption permitted. We are currently evaluating the adoption method to apply and the impact that the update will have on our consolidated financial statements and related disclosures.

Results of Operations

The following table sets forth our selected consolidated statements of income for the years ended December 31, 2012, 2013, and 2014, expressed as a percentage of total revenues. Totals may not add up due to rounding.

| | 2012 | | 2013 | | 2014 | |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| Products | 42.0 | % | 39.8 | % | 38.4 | % |
| Services | 58.0 | | 60.2 | | 61.6 | |
| | 100.0 | | 100.0 | | 100.0 | |
| Cost of revenues | | | | | | |
| Products* | 33.3 | | 31.2 | | 30.1 | |
| Services* | 44.8 | | 43.2 | | 41.5 | |
| | 40.0 | | 38.4 | | 37.1 | |
| | | | | | | |
| Gross profit | 60.0 | | 61.6 | | 62.9 | |
| | | | | | | |
| Operating expenses | | | | | | |
| Research and development, net | 13.8 | | 14.4 | | 14.7 | |
| Selling and marketing | 26.2 | | 26.2 | | 26.1 | |
| General and administrative | 10.9 | | 9.3 | | 8.5 | |
| Amortization of acquired intangibles | 3.7 | | 3.2 | | 2.0 | |
| Restructuring expenses | 0.2 | | 0.1 | | 0.5 | |
| Total operating expenses | 54.8 | | 53.2 | | 51.8 | |
| | | | | | | |
| Operating income | 5.2 | | 8.4 | | 11.1 | |
| Financial income, net | 0.7 | | 0.4 | | 0.4 | |
| Equity in losses of affiliated company | - | | - | | (0.1 | ) |
| Other income (expenses), net | 0.2 | | (0.0 | ) | (0.0 | ) |
| | | | | | | |
| Income before taxes | 6.1 | | 8.8 | | 11.4 | |
| Taxes on income (Tax benefit) | (1.6 | ) | 3.0 | | 1.2 | |
| | | | | | | |
| Net income | 7.7 | | 5.8 | | 10.2 | |

(*) Respective revenues

Comparison of Years Ended December 31, 2013 and 2014

Revenues

Our total revenues increased by approximately 6.6% to $1.01 billion in 2014, from $949.3 million in 2013. Revenues from sales of Customer Interactions Solutions, Security Solutions and Financial Crime and Compliance Solutions in 2014 were $612.1 million, $202.3 million and $197.2 million, respectively, an increase of 3.4%, 4.3% and 20.9% from 2013, respectively. The growth in revenues from Customer Interactions Solutions is attributed primarily to increased revenues from analytics solutions. This growth is driven by increasing demand for these solutions as they enable organizations to improve operational efficiency and customer experience, enhance compliance and improve sales optimization. The increase in revenues from Security Solutions is attributable primarily to an increase in revenues from our intelligence solutions. The increase in revenues from Financial Crime and Compliance Solutions is primarily driven by the increased scrutiny by regulatory authorities to ensure that financial institutions across the globe have adequate controls in place to secure financial transactions and prevent fraud attempts and complex financial crimes, amplified by the continued evolution of advancements in technology.

| | Years Ended December 31, (U.S. dollars in millions) | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | Dollar Change | Percentage Change | |
| Product Revenues | $377.6 | $388.3 | $10.7 | 2.8 | % |
| Service Revenues | 571.7 | 623.3 | 51.6 | 9.0 | |
| Total Revenues | $949.3 | $1,011.6 | $62.3 | 6.6 | % |

The increase in product revenues is primarily due to growth in our revenues from Financial Crime and Compliance Solutions and Customer Interactions Solutions, partially offset by a decrease in revenues from Security Solutions.

Approximately 63% of the increase in service revenues is attributed to an increase in maintenance revenue resulting primarily from an increase in the install base from previous years' sales. Approximately 37% of the increase in service revenues is attributed to an increase in professional services resulting primarily from an increase in installations and integrations, and increase in SaaS and hosting revenues.

Revenue by Region

| | Years Ended December 31, (U.S. dollars in millions) | | | |
|---|---|---|---|---|
| | 2013 | 2014 | Dollar Change | Percentage Change |
| United States, Canada and Central and South America ("Americas") | $596.7 | $665.4 | $68.7 | 11.5 % |
| Europe, the Middle East and Africa ("EMEA") | 223.9 | 239.4 | 15.5 | 6.9 |
| Asia-Pacific ("APAC") | 128.7 | 106.8 | (21.9) | (17.0) |
| Total Revenues | $949.3 | $1,011.6 | $62.3 | 6.6 % |

The Americas revenue increased by 11.5%, of which approximately 39% is attributed to growth in the Financial Crime and Compliance Solutions, 37% is attributable to growth in the Customer Interactions Solutions and 24% is attributed to growth in the Security Solutions.

The EMEA revenue increased by 6.9%. The increase is primarily attributable to growth in the Security Solutions and in the Financial Crime and Compliance Solutions, partially offset by a decrease in the Customer Interactions Solutions.

The APAC revenue decreased by 17%. The decrease is attributable primarily to a decrease in the Security Solutions.

Cost of Revenues

| | Years Ended December 31, (U.S. dollars in millions) | | | |
|---|---|---|---|---|
| | 2013 | 2014 | Dollar Change | Percentage Change |
| Cost of product revenues | $117.8 | $116.7 | $(1.1) | (0.9)% |
| Cost of service revenues | 247.1 | 258.9 | 11.8 | 4.8 |
| Total cost of revenues | $364.9 | $375.6 | $10.7 | 2.9 % |

Cost of product revenues decreased on a dollar basis and as a percentage of product revenues. The decrease on a dollar basis and as a percentage of product revenues is mostly a result of lower amortization of intangible assets, which is primarily due to the completion of amortization of intangible assets related to previous year's acquisitions, partially offset by an increase in cost of wages and sub-contractors. Cost of service revenues increased on a dollar basis while decreasing as a percentage of service revenues. The increase on a dollar basis is primarily due to an increase of cost of wages and sub-contractors, partially offset by a decrease in travel expenses and lower amortization of intangible assets, which is primarily due to the completion of amortization of intangible assets related to previous year's acquisitions. The decrease in the percentage of cost of service from service revenues is mainly attributed to increasing efficiency and better utilization of headcount.

Gross Profit

| | Years Ended December 31, (U.S. dollars in millions) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | Dollar Change | Percentage Change | |
| Gross profit on product revenues | $259.7 | | $271.7 | | $12.0 | 4.6 | % |
| as a percentage of product revenues | 68.8 | % | 69.9 | % | | | |
| Gross profit on service revenues | 324.6 | | 364.4 | | 39.8 | 12.3 | % |
| as a percentage of service revenues | 56.8 | % | 58.5 | % | | | |
| Total gross profit | $584.3 | | $636.1 | | $51.8 | 8.9 | % |
| as a percentage of total revenues | 61.6 | % | 62.9 | % | | | |

The increase in gross profit margin on product revenues is primarily a result of an increase in product revenues, continued increase in software based analytics solutions and a lower amortization of intangible assets.

The increase in gross profit margin on service revenues is primarily attributed to an increase in service revenues and improved efficiency.

Operating Expenses

| | Years Ended December 31, (U.S. dollars in millions) | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | 2014 | Dollar. Change | | Percentage Change | |
| Research and development, net | $136.6 | $148.6 | $12.0 | | 8.8 | % |
| Selling and marketing | 248.6 | 264.2 | 15.6 | | 6.3 | |
| General and administrative | 88.3 | 85.6 | (2.7 | ) | (3.1 | ) |
| Amortization of acquired intangible assets | 30.6 | 20.3 | (10.3 | ) | (33.7 | ) |
| Restructuring expenses | 0.5 | 5.6 | 5.1 | | 1,020 | |

Research and Development, Net. Research and development expenses, before capitalization of software development costs and government grants, increased to $153.0 million in 2014, as compared to $140.9 million in 2013, and represented 15.1% and 14.8% of revenues in 2014 and 2013, respectively. The increase in research and development, net is attributed primarily to an increase in cost of wages and subcontractors, partially resulting from increased headcount.

Capitalized software development costs were $0.9 million in 2014, as compared to $1.0 million in 2013. Amortization of capitalized software development costs included in cost of product revenues were $1.3 million and $1.1 million in 2014 and 2013, respectively.

Selling and Marketing Expenses. Selling and marketing expenses increased to $264.2 million in 2014, as compared to $248.6 million in 2013 and represented 26.1% and 26.2% of total revenues in 2014 and in 2013, respectively. The increase in selling and marketing expense is attributed primarily to an increase in cost of wages and sales incentives resulting from high performance in our business, partially offset by a decrease in travel and other marketing expenses.

General and Administrative Expenses. General and administrative expenses decreased to $85.6 million in 2014, as compared to $88.3 million in 2013, and represented 8.5% of total revenues in 2014, as compared to 9.3% of total revenues in 2013. The decrease in general and administrative expense is due primarily to remeasurement of earn-out liabilities that resulted from prior years acquisitions, partially offset by an increase in cost of wages.

Amortization of acquired intangible assets. Amortization of acquired intangibles included in the operating expenses represent 2.0% and 3.2% of our 2014 and 2013 revenues, respectively. The decrease in amortization of acquired intangible assets is primarily attributable to the completion of amortization of intangible assets related to previous year's acquisitions.

Restructuring expenses. Restructuring expenses were $5.6 million in 2014, as compared to $0.5 million in 2013. The 2014 restructuring expenses were attributed mainly to restructuring of our workforce in certain geographies in order to improve efficiency.

Financial and Other Income

| | Years Ended December 31, (U.S. dollars in millions) | | | |
|---|---|---|---|---|
| | 2013 | 2014 | Dollar Change | Percentage Change |
| Financial income, net | $4.0 | $3.8 | $(0.2) | (5.0)% |
| Equity in losses of affiliated company | - | (0.6) | (0.6) | - |
| Other income (expenses), net | (0.1) | (0.0) | 0.1 | (100)% |

Financial Income, Net. The decrease in financial income, net is attributable primarily to a decline in interest rates in the global markets during 2014.

Other expenses, Net. Other expenses, net in a total amount of $0.6 million in 2014, as compared to $0.1 million in 2013, was comprised primarily of amortization of intangible assets related to investment in affiliated company, net of equity gains.

Taxes on Income. In 2014, taxes on income amounted to $12.0 million, as compared to $28.4 million in 2013. Our provision for taxes during 2013 was abnormally high due to the inclusion of an expense of $19.2 million as a result of a settlement with the Israeli Tax Authorities during 2013 of a specific multi-year tax audit and our election to take advantage of a special limited time program initiated by the Israeli government that allowed us to release our previously tax-exempted profits at a discounted tax rate that would otherwise have been due upon actual distribution of these profits.

Our effective tax rate for 2014 was 10.4% and was lower than expected due to being favorably affected by releases of tax provisions made in prior years upon a settlement during 2014 of a further multi-year tax audit.

The statutory rate in Israel was 26.5% for 2014 and onwards unless modified by the proper authority. The majority of our income in Israel continues to benefit from lower tax rates pursuant to our Preferred Enterprise programs, the details of which can be found in Note 13 of our Consolidated Financial Statements under the caption “Taxes on Income.”

Subject to unpredictable effects of any future settlements with tax authorities, unadjusted expiration of the statute of limitations, future changes in law or accepted practice and effects of potential mergers and acquisitions, we expect our effective tax rate (which includes effects of FIN No. 48 which has been incorporated into ASC 740) to be approximately 17-19% for 2015 and future years.

Net Income. Net income was $103.1 million in 2014, as compared to $55.3 million in 2013. The increase in 2014 resulted primarily from increase in revenues, increase in operating margin and decrease in taxes on income in 2014.

Comparison of Years Ended December 31, 2012 and 2013

Revenues

Our total revenues increased by approximately 8.0% to $949.3 million in 2013, from $879.0 million in 2012. Revenues from sales of Customer Interactions Solutions were $592.3 million in 2013, an increase of 4.6% from 2012, revenues from sales of Security Solutions were $193.9 million in 2013, an increase of 4.3% from 2012, and revenues from sales of Financial Crime and Compliance Solutions were $163.1 million in 2013, an increase of 28.3% from 2012. The growth in revenues from Customer Interactions Solutions is attributed primarily to increased revenues from Workforce Management solutions, real-time impact solutions and performance management solutions. This growth is driven by customers seeking to improve operational efficiency and customer experience and enhance compliance. The increase in revenues from Security Solutions is attributable primarily to an increase in revenues from cyber and intelligence solutions, which increased because our customers in Law Enforcement and Intelligence agencies are confronted with a growing challenge of IP communications that requires new types of solutions that drive technology refresh cycles as well as adjusting regulation to allow for their implementation. The increase in revenues from Financial Crime and Compliance Solutions is attributed to an increase in fraud attempts and complex financial crimes, resulting in a need for increased regulation and the obligation to achieve compliance and to monitor risks using a more centralized approach.

| | Years Ended December 31, (U.S. dollars in millions) 2012 | 2013 | Dollar Change | Percentage Change | |
|---|---|---|---|---|---|
| Product Revenues | $369.4 | $377.6 | $8.2 | 2.2 | % |
| Service Revenues | 509.6 | 571.7 | 62.1 | 12.2 | |
| Total Revenues | $879.0 | $949.3 | $70.3 | 8.0 | % |

The increase in product revenues is primarily due to growth in our revenues from Financial Crime and Compliance Solutions and Security Solutions, partially offset by a decrease in revenues from Customer Interactions Solutions.

Approximately 66% of the increase in service revenues is attributed to an increase in maintenance revenue resulting primarily from an increase in the install base from previous years' sales. Approximately 34% of the increase in service revenues is attributed to an increase in professional services, SaaS and hosting revenues resulting primarily from an increase in installations and integrations.

Revenue by Region

| | Years Ended December 31, (U.S. dollars in millions) 2012 | 2013 | Dollar Change | Percentage Change | |
|---|---|---|---|---|---|
| United States, Canada andCentral and South America ("Americas") | $549.6 | $596.7 | $47.1 | 8.6 | % |
| Europe, the Middle East and Africa ("EMEA") | 210.4 | 223.9 | 13.5 | 6.4 | |
| Asia-Pacific ("APAC") | 119.0 | 128.7 | 9.7 | 8.2 | |
| Total Revenues | $879.0 | $949.3 | $70.3 | 8.0 | % |

The Americas revenue increased by 8.6%, of which approximately 58% is attributable to organic growth in the Customer Interactions Solutions and 42% is attributed to organic growth in the Financial Crime and Compliance Solutions.

The EMEA revenue increased by 6.4%. The increase is primarily attributable to organic growth in the Financial Crime and Compliance Solutions and in the Customer Interactions Solutions, partially offset by a decrease in the Security Solutions.

The APAC revenue increased by 8.2%. The increase is attributable to organic growth in the Security Solutions, partially offset by a decrease in the Customer Interactions Solutions.

Cost of Revenues

| | Years Ended December 31, (U.S. dollars in millions) | | | |
|---|---|---|---|---|
| | 2012 | 2013 | Dollar Change | Percentage Change |
| Cost of product revenues | $122.9 | $117.8 | $(5.1) | (4.1)% |
| Cost of service revenues | 228.3 | 247.1 | 18.8 | 8.2 |
| Total cost of revenues | $351.2 | $364.9 | $13.7 | 3.9% |

Cost of product revenues decreased on a dollar basis and as a percentage of product revenues. The decrease on a dollar basis and as a percentage of product revenues is mostly a result of lower amortization of intangible assets, which is primarily due to the completion of amortization of intangible assets related to the Actimize acquisition as well as a decrease in royalties paid to third parties. Cost of service revenues increased on a dollar basis while decreasing as a percentage of service revenues. The increase on a dollar basis is primarily due to an increase of cost of wages and sub-contractors as a result of additional headcount to support the growth in the business. The decrease in the percentage of cost of service from service revenues is attributed to better utilization of headcount.

Gross Profit

| | Years Ended December 31, (U.S. dollars in millions) | | | |
|---|---|---|---|---|
| | 2012 | 2013 | Dollar Change | Percentage Change |
| Gross profit on product revenues | $246.5 | $259.7 | $13.2 | 5.4% |
| as a percentage of product revenues | 66.7% | 68.8% | | |
| Gross profit on service revenues | 281.3 | 324.6 | 43.3 | 15.4% |
| as a percentage of service revenues | 55.2% | 56.8% | | |
| Total gross profit | $527.8 | $584.3 | $56.5 | 10.7% |
| as a percentage of total revenues | 60.0% | 61.6% | | |

The increase in gross profit margin on product revenues is primarily a result of an increase in product revenues, a lower amortization of intangible assets and a decrease in royalties paid to third parties.

The increase in gross profit margin on service revenues is primarily attributed to an increase in service revenues and an improvement in headcount utilization.

Operating Expenses

| | Years Ended December 31, (U.S. dollars in millions) | | | |
|---|---|---|---|---|
| | 2012 | 2013 | Dollar Change | Percentage Change |

| | | | | |
|---|---|---|---|---|
| Research and development, net | $121.4 | $136.6 | $15.2 | 12.5 % |
| Selling and marketing | 230.2 | 248.6 | 18.4 | 8.0 |
| General and administrative | 96.1 | 88.3 | (7.8 ) | (8.0 ) |
| Amortization of acquired intangible assets | 32.6 | 30.6 | (2.0 ) | (6.1 ) |
| Restructuring expenses | 1.9 | 0.5 | (1.4 ) | (73.7 ) |

Research and Development, Net. Research and development expenses, before capitalization of software development costs and government grants, increased to $140.9 million in 2013, as compared to $126.6 million in 2012, and represented 14.8% and 14.4% of revenues in 2013 and 2012, respectively. The increase in research and development, net is attributed primarily to an increase in cost of wages and subcontractors, partially resulting from increased headcount.

Capitalized software development costs were $1.0 million in 2013, as compared to $1.1 million in 2012. Amortization of capitalized software development costs included in cost of product revenues were $1.1 million and $1.2 million in 2013 and 2012, respectively.

Selling and Marketing Expenses. Selling and marketing expenses increased to $248.6 million in 2013, as compared to $230.2 million in 2012 and represented 26.2% of total revenues in 2013 and in 2012. Approximately 65% of the increase in selling and marketing expense is attributed to an increase in cost of wages primarily as a result of increased headcount. The remainder of the increase is primarily due to an increase in travel, exhibitions and client events-related expenses.

General and Administrative Expenses. General and administrative expenses decreased to $88.3 million in 2013, as compared to $96.1 million in 2012, and represented 9.3% of total revenues in 2013, as compared to 10.9% of total revenues in 2012. The decrease in general and administrative expense is due primarily to a decrease in acquisition-related costs.

Amortization of acquired intangible assets. Amortization of acquired intangibles included in the operating expenses represent 3.2% and 3.7% of our 2013 and 2012 revenues, respectively. The decrease in amortization of acquired intangible assets is primarily attributable to the completion of amortization of intangible assets related to the Actimize acquisition.

Restructuring expenses. Restructuring expenses in a total amount of $0.5 million in 2013, as compared to $1.9 million in 2012, was comprised of retirement of leasehold improvements and property evacuation costs.

Financial and Other Income

| | Years Ended December 31, (U.S. dollars in millions) | | | |
|---|---|---|---|---|
| | 2012 | 2013 | Dollar Change | Percentage Change |
| Financial income, net | $6.7 | $4.0 | $(2.7) | (40.3)% |
| Other income (expenses), net | 1.5 | (0.1) | (1.6) | (106.7)% |

71

Financial Income, Net. The decrease in financial income, net is attributable primarily to a reduction in gains from sales of marketable securities due to a decrease of such sales during 2013.

Taxes on Income. In 2013, taxes on income amounted to $28.4 million, as compared to a tax benefit of $14.0 million in 2012. Our provision for taxes during 2013 increased as compared with 2012, as our taxes on income for 2012 were favorably affected by certain releases of tax provisions made in prior years together with the effect of a proportionally significant realization of deferred tax liabilities recorded against the amortization of the newly acquired intangible assets related to Merced as well as to those for the first full year of Fizzback.

Our effective tax rate for 2013 was 33.9%, which included an expense of $19.2 million as a result of a settlement with the Israeli Tax Authorities of a multi-year tax audit and our election made to take advantage of a special limited time program initiated by the Israeli government that allowed us to release our previously tax-exempted profits at a discounted tax rate that would otherwise have been due upon actual distribution of these profits. Further information with regards this special program and our election thereunder can be found in Note 13(a)(2) of our Consolidated Financial Statements.

The statutory rate in Israel was 25% for 2013 and was increased to 26.5% for 2014 and thereafter. The impact of this increase will be limited for us as we continue to benefit from our Preferred Enterprise programs, the details of which can be found in Note 13 of our Consolidated Financial Statements under the caption “Taxes on Income.”

Net Income. Net income was $55.3 million in 2013, as compared to $67.9 million in 2012. The decrease in 2013 resulted primarily from taxes on income in 2013 as compared to the benefit from taxes on income in 2012.

Liquidity and Capital Resources

In recent years, the cash generated from our operating activities has financed our operations as well as the repurchase of our ordinary shares and payment of dividends. Generally, we invest our excess cash in highly liquid investment grade securities. As of December 31, 2014, we had $500.0 million of cash and cash equivalents and short-term and long-term investments, as compared to $443.2 million at December 31, 2013 and $444.7 million at December 31, 2012.

Cash provided by operating activities was $182.3 million, $124.3 million, and $135.6 million in 2014, 2013, and 2012, respectively. Net cash from operations in 2014 consisted primarily of net income of $103.1 million and adjustments for non-cash activities including depreciation and amortization of $73.3 million, stock-based compensation of $29.8 million and increase in accrued expenses and other liabilities of $9.3 million, which were partially offset by deferred tax of $27.8 million and a decrease in trade payables of $13.8 million. Net cash from operations in 2013 consisted primarily of net income of $55.3 million and adjustments for non-cash activities including depreciation and amortization of $91.4 million, stock-based compensation of $26.3 million and an increase in trade payables of $5.1 million which were partially offset by an increase in trade receivables of $34.6 million, and deferred tax of $17.3 million. Net cash from operations in 2012 consisted primarily of net income of $67.9 million and adjustments for non-cash activities including depreciation and amortization of $95.5 million, stock-based compensation of $23.6 million, increase in accrued expenses and other liabilities of $9.2 million and a decrease in other receivables and prepaid expenses of $3.8 million which were partially offset by a decrease in deferred revenues, net of $27.1 million, deferred tax of $24.2 and an increase in trade receivables of $11.9 million.

Net cash used in investing activities was $9.1 million, $33.4 million and $164.3 million in 2014, 2013 and 2012, respectively. In 2014, net cash used in investing activities consisted primarily of net investment in marketable securities of $28.4 million and purchase of property and equipment of $16.8 million, which were partially offset by net proceeds from short-term deposits of $37.8 million. In 2013, net cash used in investing activities consisted primarily of payment for the acquisition of Causata and other acquisitions in an aggregate of $24.2 million, net purchase of property and equipment of $20.2 million and net investment in short-term deposits of $ 6.1 million, which were partially offset by net proceed of marketable securities of $17.4 million. In 2012, net cash used in investing activities consisted primarily of payment for the acquisition of Merced, RedKite and other acquisitions in an aggregate of $164.5 million and net purchase of property and equipment of $27.7 million, offset by net proceed of marketable securities and short-term deposits of $27.9 million.

Net cash used in financing activities was $101.7 million, $68.9 million and $76.6 million in 2014, 2013 and 2012, respectively. In 2014, net cash used in financing activities was attributed primarily to the repurchase of our ordinary shares of $94.3 million, and payment of dividends of $38.1 million, which were offset by proceeds from the issuance of shares upon exercise of options and purchase of shares under employee share purchase plans of $29.5 million. In 2013, net cash used in financing activities was attributed primarily to the purchase of our ordinary shares of $79.4 million and payment of dividends of $29.0 million, which were partially offset by proceeds from issuance of shares upon exercise of options and purchase of shares under employee share purchase plans of $38.4 million. In 2012, net cash used in financing activities was attributed primarily to the purchase of our ordinary shares of $107.0 million, which were offset by proceeds from issuance of shares upon exercise of options and purchase of shares under employee share purchase plans of $30.4 million.

We believe that based on our current operating forecast, the combination of existing working capital and expected cash flows from operations will be sufficient to finance our ongoing operations for the next twelve months.

Research and Development and Intellectual Property

For information on our research and development policies and intellectual property, please see Item 4, “Information on the Company” in this annual report.

Trend Information

Our development efforts are aimed at addressing several industry trends, including: increasingly demanding compliance requirements, organizations turning to advanced software to help improve revenues and efficiency, increased focus on improving customer experience, and a growing need to safeguard people and assets. The technology trends addressed: growing masses of structured and unstructured data that are being captured by organizations, broader adoption of advanced analytics technologies in real time, increased penetration of cloud technology and XaaS models (business models offering technology as a service such as SaaS, Infrastructure as a Service, Platform as a Service, Contact Center as a Service, etc.), growing challenges for financial institutions as well as governments as a result of the proliferation of IP-based communications including VoIP, as well as mobile devices and the use of social networks.

In connection with our Customer Interactions Solutions, the need to record and analyze customer interactions is constantly growing as compliance and regulatory pressures are increasing.

In connection with our Financial Crime and Compliance Solutions, such trends include the need to monitor transactions in order to ensure compliance due in part to the significant increase in enforcement by regulators, particularly across Europe and the United States, as is evidenced by substantial fines that have recently been levied against financial institutions.

In the Security sector we believe that security-conscious organizations are expected to continue to adopt solutions in order to meet regulations regarding increased physical security and reliability, such as the North American Electric Reliability Corporation Critical Infrastructure Protection (NERC-CIP).

For more information on trends in our industry, please see Item 4, “Information on the Company—Business Overview—Industry Background and Trends” in this annual report.

For more information on trends, uncertainties, demands, commitments or events that may have a material effect on revenue, please see Item 3, “Key Information—Risk Factors” in this annual report.

Contractual Obligations

Set forth below are our contractual obligations and other commercial commitments over the medium term as of December 31, 2014 (in thousands of U.S. dollars).

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year | 1- 3 years | 3-5 years | More than 5 years |
| Operating Leases | 89,027 | 17,169 | 26,122 | 21,662 | 24,074 |
| Unconditional Purchase Obligations | 18,590 | 12,779 | 4,955 | 856 | - |
| Severance Pay* | 24,134 | | | | |
| Total Contractual Cash Obligations | 131,751 | 29,948 | 31,077 | 22,518 | 24,074 |
| Uncertain Income Tax Positions ** | 18,561 | | | | |

* Severance pay relates to accrued obligations to employees as required under applicable labor laws. These obligations are payable only upon termination, retirement or death of the respective employees.

** Uncertain income tax positions under ASC 740 are due upon settlement and we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 13(h) of our Consolidated Financial Statements for further information regarding our liability under ASC 740.

| | | Amount of Commitment Expiration Per Period | | | |
|---|---|---|---|---|---|
| Other Commercial Commitments | Total Amounts Committed | Less than 1 year | 1- 3 years | 3-5 years | More than 5 years |
| Guarantees – continuing operations | 38,008 | 14,283 | 8,646 | 14,147 | 932 |

Qualitative and Quantitative Disclosure About Market Risk

For information on the market risks relating to our operations, please see Item 11, “Quantitative and Qualitative Disclosures about Market Risk” in this annual report.

Item 6. Directors, Senior Management and Employees.

6.A. Directors and Senior Management

The following table sets forth, as of March 18, 2015, the name, age and position of each of our directors and executive officers:

| Name | Age | Position |
|---|---|---|
| David Kostman(1)(4)(5) | 50 | Chairman of the Board of Directors |
| Joseph Atsmon(1)(3) (5) | 66 | Vice-Chairman of the Board of Directors |
| Rimon Ben-Shaoul(2)(4) | 70 | Director |
| Dan Falk(1)(2)(3)(4)(5)(6) | 70 | Director |
| Yocheved Dvir(1)(2)(3)(6) | 62 | Director |
| Yehoshua Ehrlich(4) | 65 | Director |
| Leo Apotheker(4) | 61 | Director |
| Joe Cowan(2) | 66 | Director |
| Barak Eilam | 39 | Chief Executive Officer |
| Miki Migdal | 54 | President, Enterprise Product Group |
| Christopher Wooten | 49 | Executive Vice President, Surveillance |
| Yossi Ofek | 43 | Executive Vice President, Cyber and Intelligence Solutions |
| Joseph Friscia | 60 | President, NICE-Actimize |
| Dafna Gruber | 50 | Chief Financial Officer |
| Sarit Sagiv | 46 | Chief Financial Officer - appointee |
| Yechiam Cohen | 58 | Corporate Vice President, General Counsel and Corporate Secretary |
| Eran Porat | 52 | Corporate Vice President, Finance |
| Eran Liron | 47 | Executive Vice President, Marketing and Corporate Development |
| Tom Dziersk | 51 | President, NICE Americas |
| Benny Einhorn | 59 | President, NICE EMEA |
| Raghav Sahgal | 52 | President, NICE APAC |
| Sigal Gillmore | 45 | Executive Vice President, Human Resources |
| Barry Cooper | 44 | Executive Vice President, Global Services and Cloud |

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.
(3) Member of the Internal Audit Committee.
(4) Member of the Mergers and Acquisitions Committee.
(5) Member of the Nominations Committee.
(6) Outside Director. See Item 6, "Directors, Senior Management and Employees—Board Practices— Outside Directors."

Ms. Gruber will be retiring from her position as Chief Financial Officer of our company, and Ms. Sarit Sagiv will assume the position following a transition period.

In April 2014, Tom Dziersk assumed the position of President, NICE Americas.

In April 2014, Joseph Friscia assumed the position of President, Nice Actimize.

In June 2014, Christopher Wooten assumed the position of Executive Vice President, Surveillance.

In July 2014, Miki Migdal assumed the position of President, Enterprise Product Group.

In July 2014, Yossi Ofek assumed the position of Executive Vice President, Cyber and Intelligence.

Set forth below is a biographical summary of each of the above-named directors and executive officers of NICE. Each of our directors qualifies as an independent director under applicable NASDAQ rules.

David Kostman has served as one of our directors since 2001, with the exception of the period between June 2007 and July 2008, and as our Chairman of the Board since February 2013. Mr. Kostman is currently Executive Chairman of Nanoosh LLC. He recently served on the board of directors of publicly traded Retalix Ltd., which was acquired by NCR Corporation, and serves on the board of directors of Outbrain, Inc. and ironSource Ltd. From 2006 until 2008, Mr. Kostman was a Managing Director in the investment banking division of Lehman Brothers, heading the Global Internet Group. From April 2003 until July 2006, Mr. Kostman was Chief Operating Officer and then Chief Executive Officer of Delta Galil USA, a subsidiary of publicly traded Delta Galil Industries Ltd. From 2000 until 2002, Mr. Kostman was President of the International Division and Chief Operating Officer of publicly traded VerticalNet Inc. Prior to that Mr. Kostman worked in the investment banking divisions of Lehman Brothers (1994-2000) focusing on the technology and Internet sectors and NM Rothschild & Sons (1992-1993), focusing on M&A and privatizations. Mr. Kostman holds a Bachelor’s degree in Law from Tel Aviv University and a Master’s degree in Business Administration from INSEAD.

Joseph Atsmon has served as one of our directors since September 2001 and Vice-Chairman of the Board since May 2002. Since 2001, Mr. Atsmon has been a director of Ceragon Networks Ltd. From 1995 until 2000, Mr. Atsmon served as Chief Executive Officer of Teledata Communications Ltd., a public company acquired by ADC Telecommunications Inc. in 1998. Mr. Atsmon had a twenty-year career with Tadiran Ltd. In his last role at Tadiran Ltd., Mr. Atsmon served as Corporate VP for business development. Prior to that, he served as President of various military communications divisions. Mr. Atsmon holds a Bachelor’s degree in Electrical Engineering from the Technion – Israel Institute of Technology.

Rimon Ben-Shaoul has served as one of our directors since September 2001. Since 2001, Mr. Ben-Shaoul has served as Co-Chairman, President, and Chief Executive Officer of Koonras Technologies Ltd., a technology investment company controlled by LEADER Ltd., an Israeli holding company. Mr. Ben-Shaoul also serves as a director of MIND C.T.I. Ltd. and several private companies, and served as a director of BVR Systems Ltd. In addition, he served as the President and Chief Executive Officer of Polar Communications Ltd., which manages media and communications investments. Mr. Ben-Shaoul also served as the Chairman of T.A.T Technologies Ltd., a public company listed on NASDAQ and TASE. Between 1997 and 2001, Mr. Ben-Shaoul was the President and Chief Executive Officer of Clal Industries and Investments Ltd., one of the largest holding companies in Israel with substantial holdings in the high tech industry. During that time, Mr. Ben-Shaoul also served as Chairman of the Board of Directors of Clal Electronics Industries Ltd., Scitex Corporation Ltd., and various other companies within the Clal Group. Mr. Ben-Shaoul also served as a director of ECI Telecom Ltd., Fundtech Ltd., Creo Products, Inc. and Nova Measuring Instruments Ltd. From 1985 to 1997, Mr. Ben-Shaoul was President and Chief Executive Officer of Clal Insurance Company Ltd. and a director of the company and its various subsidiaries. Mr. Ben-Shaoul holds a Bachelor’s degree in Economics and Statistics and a Master’s degree in Business Administration, both from Tel-Aviv University.

Dan Falk has served as one of our statutory outside directors since 2001. From 1999 to 2000, Mr. Falk was President and Chief Operating Officer of Sapiens International Corporation N.V. From 1985 to 1999, Mr. Falk served in various positions in Orbotech Ltd., the last of which were Chief Financial Officer and Executive Vice President. From 1973 to 1985, he served in several executive positions in the Israel Discount Bank. Mr. Falk also serves as the Chairman of AVT-Advanced Vision Technology Ltd., and serves on the board of directors of Orbotech Ltd., Ormat Technologies Inc. and Attunity Ltd. Mr. Falk holds a Bachelor’s degree in Economics and Political Science and a Master’s degree in Business Administration, both from the Hebrew University, Jerusalem.

Yocheved Dvir has served as one of our statutory outside directors since January 2008. Since 2000, Ms. Dvir has served as a strategic advisor in business development affairs to multiple companies and initiatives that were being founded. Ms. Dvir also serves on the board of directors of Alrov Real Estate, Visa Cal, Endey Med and Psagot Bituach. She recently served on the boards of Trendline Business Information & Communications Ltd., Menorah Insurance Company Ltd., Israel Corporation Ltd., ECI Telecom Ltd., Strauss Industries Ltd., Phoenix Holding and Phoenix Insurance Co. Between 1990 and 2000, Ms. Dvir served as a Senior Vice President of the Migdal Group. Ms. Dvir joined the Migdal Group in 1981 and, until late 2000, held a number of senior financial and managerial positions, including Head of the Group’s Economics Department (1986-1988), Head of the Group’s Corporate Office (1989-1992), Head of the Group’s General Insurance Division and Corporate Office (1993-1997), Group CFO (1997-1999), Head of the Group’s Strategic Development Division and Marketing Array and Risk Manager (2000). Ms. Dvir holds a Bachelor’s degree in Economics and Statistics from the University of Haifa and completed studies towards a second degree in Statistics from the Hebrew University of Jerusalem.

Yehoshua (Shuki) Ehrlich has served as one of our directors since September 2012. Mr. Ehrlich is an active social investor, serving as Chairman of "Committed to Give", a group formed by Israeli social investors for promoting philanthropy in Israel and several other social organizations. Mr. Ehrlich also serves as a member of the executive board of Israel Venture Network and a board member of AfterDox, an angels' investment group. Between the years 2000 and 2010, Mr. Ehrlich served as Managing Director at Giza Venture Capital, where he focused on the communications, enterprise software and information technology sectors. Formerly, Mr. Ehrlich had a fifteen-year career with Amdocs, a public software company specializing in billing, CRM, order management systems for telecommunications and Internet service providers. In his last role at Amdocs, Mr. Ehrlich served as Senior Vice President of Business Development. Mr. Ehrlich holds a Bachelor of Science in Mathematics and Computer Science from the Tel Aviv University.

Leo Apotheker has served as one of our directors since August 2013. Mr. Apotheker was the Managing Partner and co-founder of efficiency capital SAS, a growth capital advisory firm, from 2012 to 2014. From 2010 to 2011, Mr. Apotheker served as Chief Executive Officer of Hewlett Packard Company. From 2008 to 2010, he served as Chief Executive Officer of SAP AG. In addition, he is currently chairman of the board of KMD, one of Denmark’s leading IT and software companies, as well as a member of the boards of several international companies including Schneider Electric SA and Steria. Mr. Apotheker holds a Bachelor’s degree in Economics and International Relations from the Hebrew University of Jerusalem.

Joe Cowan has served as one of our directors since August 2013. Mr. Cowan has been the CEO and director of Epicor since October 2013. During 2013 Mr. Cowan served as President of DataDirect Networks, Inc., and from 2010 until 2013, Mr. Cowan served as the Chief Executive Officer and President of Online Resources Corp. Since 2009, he has served as an Operating Executive and Consultant at Vector Capital. From 2007 to 2009, Mr. Cowan served as the Chief Executive Officer of Interwoven Inc. From 2004 to 2006, Mr. Cowan served as the President and Chief Executive Officer of Manugistics Inc. and Manugistics Group Inc. Prior to that, Mr. Cowan served in various senior executive positions, including as the Chief Executive Officer of Baan Co. NV and Avantis GOB NV. He has been a Director of DataDirect Networks, Inc. between 2011 and February 2014. Mr. Cowan has also served on the boards of various publicly traded companies, including Interwoven Inc., Online Resources Corporation, Manugistics Group Inc. and Blackboard Inc., as well as several private companies. Mr. Cowan holds a M.S. degree in Electrical Engineering from Arizona State University and holds a B.S. degree in Electrical Engineering from Auburn University.

Barak Eilam has served as Chief Executive Officer since April 2014. In his previous position with NICE, Mr. Eilam was President of our American division from July 2012 to March 2014. Prior to that, Mr. Eilam was the head of sales and the general manager of the Enterprise Group in the Americas. From 2007 to 2009, Mr. Eilam founded and served as the general manager of the NICE Interaction Analytics Global Business Unit. Mr. Eilam has also served in a variety of executive positions within NICE, managing different aspects of the business in product development, sales and product management. Before joining NICE in 1999, Mr. Eilam was an officer for an elite intelligence unit in the Israeli defense forces. Mr. Eilam holds a Bachelor's degree in Electrical and Electronics Engineering from Tel Aviv University.

Miki Migdal has served as President of the NICE Enterprise Product Group since July 2014. Prior to joining NICE, Mr. Migdal was the CEO of SAP Israel and held additional leadership roles at SAP including Senior Vice President of Development at SAP Global and President of SAP Labs Israel. He also served in executive positions at B.V.R Systems, Amdocs and Mercury Interactive (HP Software). Mr. Migdal holds a B.Sc. in Math and Computer Science from Tel Aviv University.

Chris Wooten has served as Executive Vice President of the Surveillance Group since June 2014. During his tenure with NICE, Mr. Wooten has held various executive positions, including Vice President and General Manager of the Public Safety Division, President of the Public Safety Global Business Unit and President of the Americas Security Division. Mr. Wooten has previously held executive positions with Motorola, JTECH Communications and Thales Contact Solutions. Thales Contact Solutions was subsequently acquired by NICE in 2002. Mr. Wooten holds a BSBA Degree in Marketing and Business Administration from the University of Central Florida.

Yossi Ofek has served as Executive Vice President of the Cyber and Intelligence business since July 2014. In his previous role from 2013 to 2014, Mr. Ofek served as Executive Vice President and Head of Plasan's Security Solutions Division, a provider of mission-specific vehicular solutions for homeland security. Prior to that, he spent 15 years at NICE holding various executive positions where he took part in establishing and developing, and later heading, the NICE Cyber and Intelligence Division. Mr. Ofek holds an MBA and a B.Sc. in Computer Science from Tel Aviv University.

Joseph Friscia has served as President of NICE Actimize since April 2014. Prior to joining NICE, Mr. Friscia served as President of BAE Systems' Applied Intelligence Americas business. He joined BAE when BAE Systems acquired Norkom Technologies, where he had served as General Manager and Executive Vice President of the Americas. Prior to Norkom, Mr. Friscia was a co-founder of Pegasystems, Inc., the leading Business Process Management software company, from its origin and through taking it public in 1996. Mr. Friscia holds an MBA degree from Adelphi University and a B.A. from Long Island University.

Dafna Gruber has served as our Chief Financial Officer since June 2007. From 2001 until May 2007, she served as the Chief Financial Officer of Alvarion Ltd., a NASDAQ-listed company that provides innovative wireless network solutions. From 1997 to 2001, Ms. Gruber was the Chief Financial Officer of BreezeCOM Ltd., which was merged with Floware Wireless Systems Ltd. to create Alvarion, prior to which she was the controller of BreezeCOM from 1996 to 1997. From 1993 to 1996, Ms. Gruber was a controller at Lannet Data Communications Ltd., subsequently acquired by Lucent Technologies Inc. Ms. Gruber is a certified public accountant and holds a Bachelor's degree in Accounting and Economics from Tel Aviv University.

Sarit Sagiv has been appointed Chief Financial Officer of our company and will assume such position following a transition period. From April 2012 until September 2013, she served as the Chief Financial Officer of Retalix Ltd., a publicly traded leading global provider of software and services to retailers (acquired by NCR Corporation in 2013). From September 2007 to October 2010 Ms. Sagiv served as Vice President Finance for Amdocs Limited, a publicly traded market leader in software and services for service providers in the communications, media and entertainment industry, and prior to that, as Finance Director of the Emerging Markets Division at Amdocs. In addition, she has held various senior financial positions including the role of management member at Quantum Pacific Group, an international private group of businesses. She also served as the Chief Financial Officer at publicly traded Orad Hi-Tec Systems Ltd. and Cimatron Ltd (later acquired by 3D Systems). Ms. Sagiv is a certified public accountant and holds BA in Accounting and Economics and an MBA, both from Tel Aviv University alongside an MA in law from Bar Ilan University.

Yechiam Cohen has served as our Corporate Vice President, General Counsel and Corporate Secretary since 2005. From 1996 to 2004, he served as General Counsel of Amdocs, a publicly traded company and a leading provider of billing and CRM software solutions to the telecommunications industry. Before joining Amdocs, Mr. Cohen was a partner in the Tel Aviv law firm of Dan Cohen, Spigelman & Company. From 1987 to 1990, he was an associate with the New York law firm of Dornbush, Mensch, Mandelstam and Schaeffer. Mr. Cohen served as a law clerk to Justice Beijski of the Supreme Court of Israel in Jerusalem. He holds a Bachelor’s degree from the Hebrew University School of Law and is admitted to practice law in Israel and New York.

Eran Porat has served as our Corporate Vice President, Finance since 2004. From March 2000 to 2004, he served as our Corporate Controller. From 1997 to February 2000, Mr. Porat served as Corporate Controller of Tecnomatix Technologies Ltd. From 1996 to 1997, he served as Corporate Controller of Nechushtan Elevators Ltd. Mr. Porat is a certified public accountant and holds a Bachelor’s degree in economics and accounting from Tel Aviv University.

Eran Liron has served as our Executive Vice President, Marketing and Corporate Development since October 2013, and as Executive Vice President, Corporate Development since February 2006. From 2004 to 2006, he served as Director of Corporate Development at Mercury Interactive Corporation, a software company, and prior thereto he held several business development positions at Mercury Interactive. Before joining Mercury, Mr. Liron served in several marketing roles at software startups and at Tower Semiconductor. Mr. Liron holds a Bachelor of Science degree from the Technion – Israel Institute of Technology and a Doctorate in Business from the Stanford Graduate School of Business in California.

Tom Dziersk has served as the President of NICE Americas since April 2014. Prior to NICE, Mr. Dziersk was Executive Vice President, Worldwide Sales and Marketing and Senior Vice President, Americas at JDA Software Group, Inc. He has held other senior executive leadership roles as President and Chief Executive Officer at SAMSys, President and Chief Executive Officer at Clear Orbit, and Senior Vice President of Sales and Marketing at Essentus International. He also held various management and sales positions with JBA International and Loadstar Computer Systems. Mr. Dziersk holds a B.A. in Economics from the University of Michigan.

Benny Einhorn has served as our President of NICE EMEA since July 2012. Mr. Einhorn also acted as Chief Marketing Officer between April 2012 and October 2013, and was responsible for NICE's global marketing, business partner and channel activities. From 2008 to 2009, Mr. Einhorn served as the Vice President of Sales and Marketing in Modu, an innovative manufacturer of the world's lightest modular mobile phones. From 2001 to 2008, he was the Chief Marketing Officer and President of EMEA at Comverse Inc. Mr. Einhorn holds an MBA degree and a Bachelor's degree in Industrial Engineering from Tel Aviv University.

Raghav Sahgal has served as President of NICE APAC since October 2010. From 2008 to 2010, Mr. Sahgal served as Vice President, Communications, Global Business Unit – APAC of Oracle. Prior to that, Mr. Sahgal held various senior positions in the management, strategic planning, global field operations, sales and marketing groups at Intense Technologies Inc., Suntec Inc., Comverse Technology, CSG Systems and Lucent Technologies. Mr. Sahgal is a graduate of the Harvard Business School Executive General Management Program, has a Master's degree in Computer System Management from the University of Maryland and a Bachelor's degree in Computer Engineering from Tulane University.

Sigal Gillmore has served as Executive Vice President, Human Resources since September 2009. From 1996 until 2009, Ms. Gillmore held several field, regional and corporate roles at Microsoft. In her most recent role at Microsoft, Ms. Gillmore led the staffing function across all international regions (EMEA, Asia, Latin America) overseeing both Sales and R&D sites. Ms. Gillmore holds a Master's degree in organizational behavior from Tel Aviv University.

Barry Cooper has served as Executive Vice President, Global Services since July 2013, and Executive Vice President, Cloud since March 2014. During his tenure at NICE, Mr. Cooper previously served as Vice President of Business Operations in APAC. Prior to joining NICE, Mr. Cooper was a Management Consultant at Accenture; the Head of Customer Service, IT and Billing at Time Telekom, Malaysia; and VP Professional Services, APAC for CSG Systems (later Comverse). Mr. Cooper holds a First Class Bachelor of Science with Honors in Computing Science from the University of Salford in the UK.

There are no family relationships between any of the directors or executive officers named above.

6.B. Compensation

(a) Aggregate Executive Compensation

The aggregate compensation paid to or accrued on behalf of all our directors and executive officers as a group of 26 persons during 2014 consisted of approximately $10.7 million in salary, fees, bonus, commissions and directors' fees and approximately $0.4 million in amounts set aside or accrued to provide pension, retirement or similar benefits, but excluding amounts we expended for automobiles made available to our officers, expenses (including business travel, professional and business association dues and expenses) reimbursed to our officers and other fringe benefits commonly reimbursed or paid by companies in Israel.

We have a performance-based bonus plan for our executive management team. The plan is based on our overall performance, the particular unit performance, individual performance and the results of the customer satisfaction survey conducted annually. The measurements can change year over year, and are a combination of financial parameters, including revenues, booking, operating income and collection. The plan is reviewed and approved by our Board of Directors annually, as is any bonus payment under the plan.

During 2014, our officers and directors received, in the aggregate, (i) options to purchase 720,033 ordinary shares, that include 198,633 options with an exercise price equal to the par value of the ordinary shares (the “par value options”), and (ii) 53,333 restricted share units, under our equity based compensation plans. The options (other than the par value options) have a weighted average price of $40.03 and all options will expire six years after the date of grant. The restricted shares units are granted at par value of the ordinary shares. For information regarding our option exchange program, see "Share Ownership–Option Exchanges and Price Adjustment" below.

Pursuant to the requirements of the Israeli Companies Law, 5759–1999, or the Israeli Companies Law, remuneration of our directors requires shareholder approval. Compensation and reimbursement for outside directors (as described below) is statuto–rily determined pursuant to the Israeli Companies Law. Effective as of October 1, 2013, our shareholders approved the payment to each of our non-executive directors, including outside directors, of an annual fee of NIS 120,000 (equivalent to approximately $30,856) and a meeting attendance fee of NIS 3,250 (equivalent to approximately $836), including for meetings of committees of the Board of Directors. The cash amounts set forth above are subject to adjustment for changes in the Israeli consumer price index.

On August 27, 2013, at our 2013 annual general meeting of shareholders, following the recommendation of our compensation committee and approval by our Board of Directors, our shareholders approved a new compensation policy for directors and officers. In addition, our shareholders approved a supplemental annual cash fee for the Chairman of the Board in the amount of NIS 450,000 (equivalent to approximately $115,711), effective retroactively from the date of his appointment as Chairman of the Board on February 13, 2013. The supplemental annual fee is subject to adjustment for changes in the Israeli consumer price index after September 2012.

(b) Individual Compensation of Covered Executives

The following describes the compensation of our five most highly compensated executive officers in 2014, based on the total of salary costs, bonus cost and equity granted in 2014 ("Covered Executives").

The Compensation specified below is broken down into the following components (all amounts specified below are in terms of cost to the Company, as recorded in our financial statements). U.S. dollar amounts indicated for Salary, Bonus and Equity Costs are in thousands of dollars and for Covered Executives in Israel are based on the Shekel exchange rate of 3.54, which represents the average rate for the year, and for the Covered Executive in Singapore are based on the Singapore dollar exchange rate of 1.27, which represents the average rate for that year.

(1) Salary Costs. Salary Costs include gross salary, benefits and perquisites, including those mandated by applicable law which may include, to the extent applicable to each Covered Executive, payments, contributions and/or allocations for pension, severance, vacation, travel and accommodation, car or car allowance, medical insurances and risk insurances (e.g., life, disability, accidents), phone, convalescence pay, relocation, payments for social security, and other benefits consistent with the Company's guidelines.

(2) Bonus Costs. Bonus Costs represent bonuses granted to the Covered Executive with respect to the year ended December 31, 2014, paid in accordance with the Company's performance-based bonus plan or as detailed in footnotes below.

(3) Equity Costs. Represents the expense recorded in our financial statements for the year ended December 31, 2014, with respect to equity granted in 2014 and in previous years (if applicable). For assumptions and key variables used in the calculation of such amounts see note 14b of our audited consolidated financial statements.

i. Barak Eilam – CEO. Salary Costs - $559; Bonus Costs[1] - $678; Equity Costs - $1,616 expense recorded in 2014 for equity granted in 2014 and $682 expense recorded in 2014 for equity granted in previous years.

ii. Dafna Gruber – CFO. Salary Costs - $458; Bonus Costs - $297; Equity Costs - $627 expense recorded in 2014 for equity granted in 2014 and $573 expense recorded in 2014 for equity granted in previous years.

iii. Thomas Dziersk – President, NICE Americas. Salary Costs - $484; Bonus Costs[2] - $421; Equity Costs - $354 expense recorded in 2014 for equity granted in 2014.

iv. Raghav Sahgal – President, NICE APAC. Salary Costs - $495; Bonus Costs - $300; Equity Costs - $308 expense recorded in 2014 for equity granted in 2014 and $424 expense recorded in 2014 for equity granted in previous years.

v. Joseph Friscia – President, NICE Actimize. Salary Costs - $341; Bonus Costs - $371; Equity Costs - $238 expense recorded in 2014 for equity granted in 2014.

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1 Including a $100 additional bonus in relation to 2014, which is still subject to shareholders' approval at our upcoming general meeting.

2 Including a $50 additional bonus in relation to 2014, which was granted in 2015.

## Board Practices

### Corporate Governance Practices

We are incorporated in Israel and therefore are subject to various corporate governance practices under the Israeli Companies Law, relating to such matters as outside directors, the internal audit committee, the internal auditor and approvals of interested party transactions. These matters are in addition to the ongoing listing conditions of the NASDAQ and other relevant provisions of U.S. securities laws. Under applicable NASDAQ rules, a foreign private issuer may generally follow its home country rules of corporate governance in lieu of comparable NASDAQ requirements, except for certain matters such as composition and responsibilities of the audit committee and the independence of its members. For further information see Item 16G, “Corporate Governance” of this annual report.

### General Board Practices

Our articles of association provide that the number of directors serving on the Board shall be not less than three but shall not exceed thirteen. Our directors, other than outside directors, are elected at the annual shareholders meeting to serve until the next annual meeting or until their earlier death, resignation, bankruptcy, incapacity or removal by an extraordinary resolution of the general shareholders meeting. Directors may be re-elected at each annual shareholders meeting. The Board may appoint additional directors (whether to fill a vacancy or create new directorships) to serve until the next annual shareholders meeting, provided, however, that the Board shall have no obligation to fill any vacancy unless the number of directors is less than three.

The Board may, subject to the provisions of the Israeli Companies Law, appoint a committee of the Board and delegate to such committee all or any of the powers of the Board, as it deems appropriate. Notwithstanding the foregoing and subject to the provisions of the Israeli Companies law, the Board may, at any time, amend, restate or cancel the delegation of any of its powers to any of its committees. The Board has appointed an internal audit committee under the Israeli Companies Law that has three members, an audit committee that has four members, a compensation committee that has four members, a nominations committee that has three members and a mergers and acquisitions committee that has five members. We do not have, nor do our subsidiaries have, any directors’ service contracts granting to the directors any benefits upon termination of their employment. In addition, from time to time the Board may appoint an ad hoc committee for certain purposes, such as the review, negotiation and recommendation of approval of M&A transactions.

### Outside Directors

Under the Israeli Companies Law, companies incorporated under the laws of Israel whose shares have been offered to the public in or outside of Israel are required to appoint at least two “outside” directors.

Outside directors are required to possess professional qualifications as set out in regulations promulgated under the Israeli Companies Law. The Israeli Companies Law provides that a person may not be appointed as an outside director if (i) such person or person's relative or affiliate has, at the date of appointment, or had at any time during the two years preceding such date, any affiliation with the company, a controlling shareholder thereof or their respective affiliates; or (ii) in a company that does not have a 25% shareholder, such person has an affiliation with any person who, at the time of appointment, is the chairman, the chief executive officer, the chief financial officer or a 5% shareholder of the company. In general, the term "affiliation" includes:

an employment relationship;

a business or professional relationship maintained on a regular basis;

control; and

service as an office holder.

No person may serve as an outside director if the person's position or other activities create, or may create a conflict of interest with the person's responsibilities as an outside director or may otherwise interfere with the person's ability to serve as an outside director. Until the lapse of two years from termination of office, a company or its controlling shareholder may not give any direct or indirect benefit to the former outside director.

Outside directors are to be elected by a majority vote at a shareholders' meeting, provided that either:

- the majority of shares voted at the meeting shall include at least a majority of the shares of non-controlling shareholders present at the meeting and voting on the matter (without taking into account the votes of the abstaining shareholders); or

- the total number of shares of non-controlling shareholders voted against the election of the outside directors does not exceed two percent of the aggregate voting rights in the company.

The initial term of an outside director is three years and may be extended for up to two additional three-year terms. Thereafter, he or she may be reelected by our shareholders for additional periods of up to three years each only if the internal audit committee and the Board of Directors confirm that, in light of the outside director's expertise and special contribution to the work of the Board of Directors and its committees, the reelection for such additional period is beneficial to the company. Reelection of an outside director may be effected through one of the following mechanisms: (1) the Board of Directors proposed the reelection of the nominee and the election was approved by the shareholders by the majority required to appoint outside directors for their initial term; or (2) a shareholder holding one percent or more of a company's voting rights or the outside director proposed the reelection of the nominee, and the reelection is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders, provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than two percent of the voting rights in the company. An outside director may be removed only in a general meeting, by the same percentage of shareholders as is required for electing an outside director, or by a court, and in both cases only if the outside director ceases to meet the statutory qualifications for appointment or if he or she has violated the duty of loyalty to us. Each committee of a company's Board of Directors which is empowered to exercise any of the Board's powers is required to include at least one outside director, provided that each of the internal audit committee and compensation committee must include all of the outside directors.

An outside director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, from the company. In accordance with such regulations, our shareholders approved that our outside directors are to receive compensation equal to that paid to the other members of the Board of Directors. For further information, please see Item 6, "Directors, Senior Management and Employees—Compensation" in this annual report.

Financial and Accounting Expertise

Pursuant to the Israeli Companies Law, our Board of Directors has determined that at least one member of our Board of Directors must be an "accounting and financial expert." The Israeli Companies Law requires that all outside directors must be "professionally qualified." Under applicable NASDAQ rules, each member of our audit committee must be financially literate and at least one of the members must have experience or background that results in such member's financial sophistication. Our Board of Directors has determined that each of Dan Falk and Yocheved Dvir is an "accounting and financial expert" for purposes of the Israeli Companies Law and is financially sophisticated for purposes of applicable NASDAQ rules. See also Item 16A, "Audit Committee Financial Expert" in this annual report.

Independent Directors

Under the rules of the NASDAQ, a majority of our directors are required to be "independent" as defined in applicable NASDAQ rules. All of our directors satisfy the respective independence requirements of NASDAQ.

In addition, our Articles of Association provide that, if we do not have a shareholder that holds 25% or more of our issued and outstanding share capital, then a majority of the directors shall be "independent" as defined in the Israeli Companies Law and the regulations promulgated thereunder. If we have a shareholder that holds 25% or more of our issued and outstanding share capital, then at least one third of the directors shall be "independent." All of our directors satisfy the respective independence requirements of the Israeli Companies Law. The qualifications for independent directors under the Israeli Companies Law are similar to those for outside directors, as described above under "—Outside Directors", including the nine-year term limit and the ability to extend such term beyond nine years upon the approval of our internal audit committee and Board of Directors.

Internal Audit Committee

The Israeli Companies Law requires public companies to appoint an internal audit committee. The role of the internal audit committee under the Israeli Companies Law is to examine flaws in the management of the company's business in consultation with the internal auditors and the independent accountants, and to propose remedial measures to the board. The internal audit committee also reviews interested party transactions for approval as required by law, including approval of the remuneration of a director in any capacity, which also requires Board, Compensation Committee and shareholder approval. The internal audit committee also assesses our internal audit system and the performance of our internal auditor, and oversees the implementation and enforcement of our compliance program. Under the Israeli Companies Law, an internal audit committee must consist of at least three directors, including all of the outside directors. The members of the internal audit committee must satisfy certain independence standards under the Israeli Companies Law, and the chairman of the internal audit committee must be an outside director. The chairman of the Board of Directors, any director employed by the company or by its controlling shareholder or by an entity controlled by the controlling shareholder, a director who regularly provides services to the company or to its controlling shareholder, any director who derives most of its income from the controlling shareholder and a controlling shareholder or any relative of a controlling shareholder, may not be a member of the internal audit committee. All of the current members of our internal audit committee (presently comprised of Yocheved Dvir (Chairman), Joseph Atsmon and Dan Falk) meet these qualifications.

Internal Auditor

Under the Israeli Companies Law, the Board of Directors must appoint an internal auditor, proposed by the internal audit committee. The role of the internal auditor is to examine, among other matters, whether the company's activities comply with the law and orderly business procedure. Under the Israeli Companies Law, the internal auditor may be an employee of the company but may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of the company's independent accounting firm or its representative. We have appointed an internal auditor in accordance with the requirements of the Israeli Companies Law.

Audit Committee

The NASDAQ rules also require that the audit committee of a listed company must be composed of at least three directors, each of whom is (i) independent; (ii) does not receive any compensation (except for board fees) from the company; (iii) is not an affiliated person of the company or any subsidiary; and (iv) has not participated in the preparation of the company's (or a current subsidiary's) financial statements during the past three years. All of the current members of our audit committee (presently comprised of Joseph Atsmon (Chairman), David Kostman, Dan Falk and Yocheved Dvir) meet the NASDAQ standards described above.

Our audit committee has adopted a charter specifying the committee's purpose and outlining its duties and responsibilities which include, among other things, (i) appointing, retaining and compensating the company's independent auditor, subject to shareholder approval, (ii) pre-approving all services of the independent auditor, (iii) reviewing the annual audited financial statements and quarterly financial statements, and the content of our earnings press releases, as well as financial information and earnings guidance, and (iv) overseeing our accounting and financial reporting processes and the audits of our financial statements. Our audit committee is also authorized to act as our "qualified legal compliance committee." As such, our audit committee will be responsible for investigating reports made by attorneys appearing and practicing before the SEC in representing us, of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar material violations of U.S. law by us or any of our agents.

We believe we currently meet the applicable NASDAQ requirements with respect to our Audit Committee and we intend to continue to take all actions as may be necessary for us to maintain our compliance with applicable NASDAQ requirements.

Compensation Committee

As required by NASDAQ rules, our compensation committee approves the compensation of our executive officers. The compensation committee is also authorized to approve the grant of stock options and other securities to eligible grantees under our benefit plans pursuant to guidelines adopted by our Board of Directors. However, grants of stock options and other securities to our executive officers also require approval of our Board of Directors. Under a recent amendment to the Israeli Companies Law, the Board of Directors of a public company must establish a compensation committee. The compensation committee must consist of at least three directors who satisfy certain independence qualifications as further detailed above in relation to Internal Audit Committee members, and the chairman of the compensation committee is required to be an outside director. Under the Israeli Companies Law, the role of the compensation committee is to recommend to the Board of Directors, for ultimate shareholder approval by a special majority, a policy governing the compensation of office holders based on specified criteria, to review modifications to the compensation policy from time to time, to review its implementation and to approve the actual compensation terms of office holders prior to the approval thereof by the Board of Directors.

In 2013, NASDAQ adopted new rules regarding approval of executive officer compensation generally applicable to NASDAQ-listed companies. Pursuant to the new rules, which began applying to us on May 27, 2014, the date of our general meeting of shareholders held in 2014, our compensation committee is required to consist of at least two members, with all members of the compensation committee required to be independent, unless we elect to take advantage of the exemption provided to "foreign private issuers" to comply with home country practice instead of the listing rules of exchanges such as NASDAQ, which we do not presently intend to do. The determination of whether a director is independent takes into account all factors relevant to whether a director has a relationship to us which would be material to such director's ability to be independent from management in connection with carrying out the duties of a compensation committee member. Factors required for consideration in making this determination specifically include (i) the source of compensation of such director (including any consulting, advisory or other compensatory fee paid by us to such director) and (ii) whether such director is affiliated with us or one of our affiliates or subsidiaries. Pursuant to the new NASDAQ rules, we are also required to adopt a compensation committee charter, which among other things, must set forth the scope of the compensation committee's responsibilities and how they will be carried out, as well as grant the compensation committee the power to retain compensation advisers following consideration of certain factors that may be indicative of a conflict of interest by the compensation adviser in rendering compensation advice.

On March 20, 2014 our Board of Directors (i) determined that each of the members of our compensation committee (Dan Falk (chairman), Rimon Ben Shaoul, Yocheved Dvir and Joe Cowan) are independent in accordance with the standards of the new NASDAQ rules described in the paragraph above, and (ii) adopted a compensation committee charter that includes the requirements of the new NASDAQ rules. However, the charter provides that if there is any conflict between the responsibilities and requirements set forth therein and either the Israeli Companies Law or compensation policy approved by our Board of Directors upon the recommendation of our compensation committee and subsequently approved by our shareholders (the “Compensation Policy”), the latter will govern. For information regarding the Compensation Policy, see Item 10 “Additional Information - Memorandum and Articles of Association – Approval of Office Holder Compensation” in this annual report.

We do not believe that there are any existing conflicts between the compensation committee charter and either of the Israeli Companies Law or the Compensation Policy. However, if any such conflict should develop, such that we are no longer in compliance with the requirements of the NASDAQ rules, we intend to utilize the foreign private issuer exemption described above with respect to such requirement, and in accordance with the NASDAQ Rules we will disclose the practice that we follow in lieu of the applicable NASDAQ requirement in our future annual reports.

Dan Falk (chairman), Rimon Ben Shaoul, Yocheved Dvir and Joe Cowan, the current members of the compensation committee, also satisfy the independence requirements of the Israeli Companies Law.

Nominations Committee

As required by NASDAQ rules, our nominations committee recommends candidates for election to our Board of Directors pursuant to a written charter. The current members of this committee, all of whom are independent directors, are David Kostman, Joseph Atsmon and Dan Falk.

Mergers and Acquisitions Committee

Our Board of Directors has delegated powers with respect to the review and recommendation of mergers and acquisitions and related investments and transactions, which are then subject to approval by the Board of Directors. The committee also has limited authority to approve mergers and acquisitions for consideration up to a certain amount. The current members of this committee, all of whom are independent directors, are David Kostman (chairman), Dan Falk, Rimon Ben Shaoul, Yehoshua Ehrlich and Leo Apotheker.

Employees

As of December 31, 2014, we had 3,513 employees worldwide, which represented a decrease of approximately 1.8% from year-end 2013.

The following table sets forth the number of our full-time employees at the end of each of the last three fiscal years as well as the main category of activity and geographic location of such employees:

| | At December 31, | | |
|---|---|---|---|
| Category of Activity | 2012 | 2013 | 2014 |
| Operations | 110 | 110 | 108 |
| Customer Support | 1,291 | 1,393 | 1,343 |
| Sales & Marketing | 809 | 840 | 811 |
| Research & Development | 803 | 865 | 890 |
| General & Administrative | 387 | 368 | 361 |
| Total | 3,400 | 3,576 | 3,513 |
| | | | |
| Geographic Location | | | |
| Israel | 1,206 | 1,285 | 1,256 |
| Americas | 1,298 | 1,365 | 1,344 |
| Europe | 607 | 631 | 607 |
| Asia Pacific | 289 | 295 | 306 |
| Total | 3,400 | 3,576 | 3,513 |

We also utilize temporary employees in various activities. On average, we employed 70 temporary employees and obtained services from 833 consultants (not included in the numbers set forth above) during 2014.

Our future success will depend in part upon our ability to attract and retain highly skilled and qualified personnel. Although competition for such personnel is generally intense, we believe that adequate personnel resources are currently available in Israel to meet our requirements.

We are not a party to any collective bargaining agreement with our employees or with any labor organization. However, we are subject to certain labor related statutes, and to certain provisions of collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordinating Bureau of Economic Organizations (includ–ing the Industrialists' Association of Israel) that are applicable to our Israeli employ–ees by order of the Israeli Ministry of Labor and Welfare. These statutes and provisions principally concern the length of the work day and the work week, minimum wages for workers, insurance for work-related accidents, determination of severance pay and other conditions of employment. Israeli law generally requires the payment by employers in Israel of severance pay upon the death of an employee, his retirement or upon termination of employment by the employer without due cause. We currently fund our ongoing severance obligations in Israel by making monthly payments to approved severance funds or insurance policies. For more information, please see Note 2q to our Consolidated Financial Statements. In addition, according to the National Insurance Law, Israeli employers and employees are required to pay predetermined sums to the National Insurance Institute, an organization similar to the U.S. Social Security Administration. These contributions entitle the employees to benefits in periods of unemployment, work injury, maternity leave, disability, reserve military service and bankruptcy or winding-up of the employer. Since January 1, 1995, such amount also includes payments for national health insurance. The payments to the National Insurance Institute are equal to approximately 17% of an employee's wages (up to a certain cap as determined from time to time by law), of which the employee contributes approximately 66% and the employer contributes approximately 34%.

In addition to our severance obligations for employees located in Israel, we pay severance benefits to our employees located elsewhere in accordance with the local laws and practices of the countries in which they are employed.  Moreover, we are subject to Dutch labor laws and practices for our employees in Alkmaar.

Employment Agreements

We have employment agreements with our officers.  Pursuant to these employ−ment agreements, each party may terminate the employment for no cause by giving a 30, 60 or 90 day prior written notice (six to twelve months in the case of certain senior officers).  In addition, we may terminate such agreement for cause with no prior notice.  The agreements generally include non-competition and non-disclosure provisions, although the enforceability of non-competition provisions in employment agreements under Israeli law is very limited.

Share Ownership

As of March 15, 2015, our directors and executive officers beneficially owned an aggregate of 378,457 options to purchase ordinary shares that were vested on such date or that are scheduled to vest within 60 days thereafter, or approximately 0.63% of our outstanding ordinary shares. The options have an average exercise price of $33.32 per share and expire between 2015 and 2021. No individual director or executive officer beneficially owns 1% or more of our outstanding ordinary shares.

The following is a description of each of our option plans, including the amount of options currently outstanding and the weighted average exercise price.

2008 Share Incentive Plan

In June 2008, we adopted the NICE-Systems Ltd. 2008 Share Incentive Plan, or 2008 Plan, to provide incentives to employees, directors, consultants and/or contractors by rewarding performance and encouraging behavior that will improve our profitability. Under the 2008 Plan, our employees, directors, consultants and/or contractors may be granted any equity-related award, including any type of an option to acquire our ordinary shares and/or share appreciation right and/or share and/or restricted share and/or restricted share unit and/or other share unit and/or other share-based award and/or other right or benefit under the Plan (each an “Award”).  We have registered, through the filing of registration statements on Form S-8 with the SEC under the Securities Act of 1933, 6,000,000 ADSs for issuance under the 2008 Plan.

Generally, under the terms of the 2008 Plan, 25% of an Award granted becomes exercisable on the first anniversary of the date of grant and 6.25% becomes exercisable once every quarter during the subsequent three years. Specifically with respect to restricted share units and par value options, unless determined otherwise by the Board of Directors, 25% of the restricted share units and par value options granted become vested on each of the four consecutive annual anniversaries following the date of grant. Certain executive officers are entitled to acceleration of vesting of awards in the event of a change of control, subject to certain conditions. Awards with a vesting period expire six years after the date of grant. Pursuant to an amendment of the 2008 Plan approved by our Board of Directors on February 4, 2014, options that are performance-based and are granted during calendar year 2014 and thereafter shall expire seven years following the date of grant. Awards are non-transferable except by will or the laws of descent and distribution.

In December 2010, the 2008 Plan was amended to provide that options would be granted at an exercise price equal to the average of the closing prices of one American Depositary Receipts or ADR, as quoted on the NASDAQ market, during the 30 consecutive calendar days preceding the date of grant, unless determined otherwise by the administrator of the 2008 Plan (including in some cases options granted with an exercise price equal to the nominal value of an ordinary share). Prior to the amendment of the 2008 Plan that occurred in 2010, options to acquire ordinary shares were granted at an exercise price of not less than the fair market value of the ordinary shares on the date of the grant, subject to certain exceptions which could be determined by the Company's Board of Directors, including in some cases the granting of par value options.

Our Board of Directors adopted an addendum to the 2008 Plan for Awards granted to grantees who are residents of Israel (the “Addendum”). On June 16, 2008, our Board of Directors resolved to elect the “Capital Gains Route” (as defined in Section 102(b)(2) of the Israeli Income Tax Ordinance [New Version], 1961 (the “Tax Ordinance”)) for the grant of Awards to Israeli grantees, which is described below under “2003 Stock Option Plan.” The U.S. addendum of the 2008 Plan provides only for non-qualified stock options for purposes of U.S. tax laws.

The 2008 Plan provides that the number of shares that may be subject to Awards granted under the 2008 Plan shall be an amount per calendar year, equal to 3.5% of our issued and outstanding share capital as of December 31 of the preceding calendar year. Out of such quantity, options that are not granted in a particular calendar year will not be allocated during the next calendar years. By setting these terms, our Board of Directors took into account the need for current employee retention and retention of future employees, including, specifically, the need to retain in certain years employees that join through acquisitions. During 2014, we granted 1,544,326 options and restricted share units under the 2008 Plan (which constituted 2.2% of our issued and outstanding share capital as of December 31, 2014).

The 2008 Plan is generally administered by our Board of Directors and compensation committee, which determines the grantees under the 2008 Plan and the number of Awards to be granted. As of March 15, 2015, options and restricted share units to purchase 4,155,989 ordinary shares were outstanding under the 2008 Plan at a weighted average exercise price of $20.67. On November 6, 2014, we registered, through the filing of registration statements on Form S-8 with the SEC under the Securities Act of 1933, an additional 1,000,000 ADSs, issuable to participants in the 2008 Plan.

Actimize Ltd. 2003 Omnibus Stock Option and Restricted Stock Incentive Plan

Pursuant to the terms of the acquisition of Actimize Ltd. in August 2007, we assumed and replaced the stock options and restricted shares granted by Actimize.

In 2003, Actimize adopted the 2003 Omnibus Stock Option and Restricted Stock Incentive Plan, or the 2003 Actimize Plan, to afford an incentive to employees, officers, office holders, directors, subcontractors and consultants of Actimize or any subsidiary of Actimize, to acquire a proprietary interest in Actimize, to increase their efforts on behalf of Actimize and to provide the success of Actimize’s business. Under the 2003 Actimize Plan, the grantees could be granted options to acquire Actimize’s ordinary shares, restricted shares and shares. Incentive stock options to acquire ordinary shares of Actimize were granted at an exercise price not less than the fair market value of the ordinary shares of Actimize on the date of grant or as determined by Actimize’s Board of Directors or by a committee thereof. In addition, the options were granted at an exercise price of not less than the par value of the ordinary shares of Actimize.

In September 2007, we registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act, an aggregate of 987,104 ADSs, which are comprised of (i) 564,225 ADSs subject to issuance upon the exercise of stock options outstanding under the 2003 Actimize Plan and (ii) 422,879 ADSs representing restricted ordinary shares issued in lieu of restricted shares issued under the 2003 Actimize Plan.

Generally, under the terms of the 2003 Actimize Plan, 25% of the options granted become exercisable on the first anniversary of the date of grant and 6.25% become exercisable following the lapse of every consecutive quarter thereafter during the subsequent three years. Options generally expire ten years after the date of grant. Options are non-transferable except upon the death of the grantee. When applicable, the options are held by, and registered in the name of, a trustee for a period of two years after the date of grant in accordance with Section 102 of the Tax Ordinance.

As of March 15, 2015, assumed Actimize options to purchase 13,169 ordinary shares of NICE were outstanding at a weighted average exercise price of $10.91. No additional grants are being made under this plan following the acquisition of Actimize.

Orsus Solutions Limited 2007 Incentive Option Plan

In 2007, Orsus adopted the 2007 Incentive Option Plan that was further amended by Orsus on January 10, 2010 (the “2007 Orsus Plan”), to afford an incentive to employees, office holders and service providers of Orsus and its subsidiaries. Under the 2007 Orsus Plan, the grantees could be granted options to acquire Orsus’ ordinary A shares, restricted ordinary A shares or restricted ordinary A share units.

Pursuant to the terms of the Orsus acquisition agreement, we assumed and converted the outstanding stock options and restricted share units granted by Orsus under the Orsus 2007 Plan, into stock options to purchase ordinary shares of NICE or restricted share units of NICE, pursuant to a set formula (the "Assumed Awards"). The Assumed Awards include (i) options or restricted share units granted to certain key employees of Orsus or its subsidiaries (the "Key Employee Awards"); and (ii) retention options granted to certain employees of Orsus or its subsidiaries (the "Retention Options"). Under the terms of the 2007 Orsus Plan and the acquisition agreement, 50% of the Key Employee Awards granted become exercisable and vest after a period of twelve months of continuous employment with NICE (or its applicable subsidiary) commencing on January 11, 2010 and the remaining 50% become exercisable following the lapse of six months thereafter. In addition, if employment of a key employee is terminated within a limited time period and under certain circumstances, such key employee's Options shall become vested immediately. The Retention Options vest over a course of four years as follows: (i) 25% vest and become exercisable at the lapse of 12-month period of continuous employment with NICE (or its applicable subsidiary) commencing on January 11, 2010, and (ii) the balance thereof vests on a quarterly basis during the 36 months period thereafter, such that 6.25% vest and become exercisable at the lapse of each quarter of continuous employment with NICE (or its applicable subsidiary). Options generally expire ten years after the date of grant and restricted share units generally expire seven years after the date of grant. Options are non-transferable except upon the death of the grantee. When applicable, the options are held by, and registered in the name of, a trustee for a period of two years after the date of grant in accordance with Section 102 of the Tax Ordinance.

As of March 15, 2015, assumed Orsus options to purchase 4,292 ordinary shares of NICE were outstanding under the 2007 Orsus Plan, at a weighted average exercise price of $13.88. We have registered, through the filing of registration statements on Form S-8 with the SEC under the Securities Act of 1933, 60,000 ADRs for issuance under the 2007 Orsus Plan.

e-Glue Software Technologies Inc., 2004 Stock Option Plan

In 2004, e-Glue adopted the 2004 Stock Option Plan that was further amended by e-Glue on June 9, 2010 (the "2004 e-Glue Plan"), for the grant of awards to employees, directors and service providers of e-Glue and its subsidiaries. The 2004 e-Glue Plan provides for the grant of options to acquire e-Glue's stock, for the grant of restricted stock and for the grant of restricted share units.

Pursuant to the terms of the e-Glue acquisition agreement, we assumed the outstanding stock options and restricted share units granted by e-Glue under the 2004 e-Glue Plan that did not expire upon closing of the e-Glue acquisition. Following such assumption, the options represent rights to purchase ordinary shares of NICE or restricted share units of NICE, pursuant to a set formula (such options and restricted share units, together the "Assumed e-Glue Options"). Some of the Assumed e-Glue Options have a three year vesting period, with a third becoming vested and exercisable one year from their date of grant and the remainder vesting and become exercisable in equal installments on an annual basis over the following two years. The remaining portion of the Assumed e-Glue Options vest as follows: 25% vest and become exercisable one year from their date of grant, and the remaining 75% vested and became exercisable on December 31, 2011. Certain Assumed e-Glue Options are subject to acceleration rights if employment is terminated within a limited time period and under certain circumstances. If the grantee ceases to be an employee or service provider of us or one of our subsidiaries, for any reason, the optionee may exercise or be entitled to the Assumed e-Glue Options to the extent they were vested and exercisable on the date of termination of employment or service, as the case may be, but only during the period ending on the earlier of (a) 10 years from the date of grant (unless sooner terminated as provided in a specific award agreement) or (b) three months after the date of termination of employment or service, as the case may be. However, if the optionee dies or becomes disabled prior to the expiration date of his or her Assumed e-Glue Options while still in the employ or service of us or one of our subsidiaries, or during the three month period described in the preceding sentence, or in the event of the retirement of the optionee for reasons of disability (within the meaning of Section 22(e)(3) of the U.S. Internal Revenue Code, 1986), the Assumed e-Glue Options shall remain exercisable until the earlier of their expiration date in accordance with the award agreement or one year from the date of such death or retirement. When applicable, the Assumed e-Glue Options shall be held by, and registered in the name of, a trustee, according to Section 102(b) of the Tax Ordinance.

As of March 15, 2015, Assumed e-Glue Options and restricted share unit to purchase 1,660 ordinary shares of NICE were outstanding under the 2004 e-Glue Plan. The exercise price per share underlying the options and restricted share units is equal to the nominal value of an ordinary share. We have registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act of 1933, 76,035 ADRs for issuance under the 2004 e-Glue Plan.

Fizzback Group (Holdings) Limited Employee Share Option Scheme

In July 2010, Fizzback adopted the Fizzback Group (Holdings) Limited Employee Share Option Scheme, as amended (the "Fizzback Plan"), to grant options to employees, directors and consultants, as applicable, of Fizzback. Under the Fizzback Plan, the grantees could be granted options which are deemed "qualifying options" for the purposes of the EMI Code (as that term is defined in the United Kingdom’s Income Tax (Earnings and Pensions) Act 1993) to acquire Fizzback’s ordinary shares, restricted share units and unapproved options.

Pursuant to the terms of the Fizzback share purchase agreement, we replaced the options and restricted share units originally granted under the Fizzback Plan with stock options to purchase ordinary shares of NICE and restricted share units of NICE, respectively.

Under the Fizzback Plan, the exercise price per option shall be determined by the Board of Directors in its sole and absolute discretion provided that such price shall not be less than the nominal value per option, or (when applicable) such price as from time to time adjusted pursuant to the Fizzback Plan. If a grantee ceases to be an employee, all options which have not become exercisable or which, having become exercisable, have not been exercised, shall lapse.

Options generally expire, inter alia, ten years after the date of grant, upon an insolvent liquidation of Fizzback or upon the grantee being adjudged bankrupt.

As of March 15, 2015, assumed Fizzback options and restricted share units to purchase 12,551 ordinary shares of NICE were outstanding under the Fizzback Plan, at a weighted average exercise price of $0.49. We have registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act of 1933, 165,695 ordinary shares for issuance under the Fizzback Plan.

Merced Plans

Merced Systems, Inc. 2001 Stock Plan

In 2001, Merced adopted the Merced Systems, Inc. 2001 Stock Plan, as amended (the "2001 Merced Plan"), to afford an incentive to employees and consultants of Merced and to promote the success of Merced’s business. Under the 2001 Merced Plan, the grantees could be granted options to acquire Merced’s ordinary shares and restricted shares.

Pursuant to the terms of the Merced acquisition agreement, we assumed and converted Merced's options and replaced Merced’s restricted shares that were originally granted under the 2001 Merced Plan into stock options to purchase ordinary shares of NICE, and with restricted shares of NICE, respectively.

Under the 2001 Merced Plan, the exercise price per share of incentive stock options granted to an employee shall be no less than 100% of the fair market value per share on the date of grant, or 110% of the fair market value if the employee was a 10% shareholder of Merced at the date of grant. The exercise price per share of non-statutory stock options granted shall be no less than 85% of the fair market value per share on the date of grant, or 110% of the fair market value if the person was a 10% shareholder of Merced at the date of grant, if required by applicable law and, if not so required, the exercise price per share shall be determined by the plan administrator. Notwithstanding the foregoing, options may be granted with an exercise price per share other than as required above pursuant to a merger or other corporate transaction.

An option granted under the 2001 Merced Plan is exercisable at the rate of at least 20% per year over five years from the date the option was granted. Options generally expire ten years after the date of grant.

Merced Systems, Inc. 2011 Stock Plan

In 2011, Merced adopted the Merced Systems, Inc. 2011 Stock Plan (the "2011 Merced Plan"), to afford an incentive to employees and consultants of Merced and to promote the success of Merced’s business. Under the 2011 Merced Plan, the grantees could be granted options to acquire Merced’s ordinary shares and restricted share units.

Pursuant to the terms of the Merced acquisition agreement, we assumed and converted Merced's options and restricted share units originally granted under the 2011 Merced Plan into stock options to purchase ordinary shares of NICE and restricted share units of NICE, respectively.

Under the 2011 Merced Plan, the exercise price per share of incentive stock options granted to an employee shall be no less than 100% of the fair market value per share on the date of grant, or 110% of the fair market value if the employee was a 10% shareholder of Merced at the date of grant. The exercise price per share of non-statutory stock options shall be no less than 85% of the fair market value per share on the date of grant, or 110% of the fair market value if the person was a 10% shareholder of Merced at the date of grant, if required by applicable law and, if not so required, the exercise price per share shall be determined by the plan administrator. Notwithstanding the foregoing, options may be granted with an exercise price per share other than as required above pursuant to a merger or other corporate transaction.

An option granted under the 2011 Merced Plan is exercisable at the rate of at least 20% per year over five years from the date the option was granted.  Options generally expire ten years after the date of grant.

As of March 15, 2015, assumed Merced options, restricted share units and restricted shares to purchase 22,667 ordinary shares of NICE were outstanding under the 2001 Merced Plan and the 2011 Merced Plan, at a weighted average exercise price of $14.57.  We have registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act of 1933, 343,288 ordinary shares for issuance under the 2001 Merced Plan and the 2011 Merced Plan.

Causata, Inc. 2013 Executive Share Option Scheme and 2010 Stock Plan

Causata Inc. Executive Share Option Scheme

On July 31, 2013, Causata adopted the Causata Executive Share Option Scheme (the “Causata Scheme”), to grant options to employees and directors, as applicable, of Causata. Under the Causata Scheme, the participants could be granted options which are deemed “qualifying options” for the purposes of the EMI Code to acquire Causata’s ordinary shares and unapproved options.

Pursuant to the terms of the Causata agreement and plan of merger, we assumed and converted the options originally granted under the Causata Scheme with stock options to purchase ordinary shares of NICE.

Under the Causata Scheme, the option price per share shall be determined by the Board of Directors in its sole and absolute discretion provided that such price shall not be less than the nominal value per share, or (when applicable) such price as from time to time adjusted pursuant to the Causata Scheme. If a participant ceases to be an employee or director, all options which have not become exercisable or which, having become exercisable, have not been exercised, shall lapse.

Options generally expire, inter alia, on the earliest of the following: on July 31, 2023, upon an insolvent liquidation of Causata, upon the participant being adjudged bankrupt or upon the date on which the option shall lapse in accordance with the terms of the option letter.

As of March 15, 2015, assumed Causata options to purchase 26,400 ordinary shares of NICE were outstanding under the Causata Scheme.  We have registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act of 1933, 131,316 ordinary shares for issuance under the Causata Scheme.

Causata Inc. 2010 Stock Plan

On October 19, 2010, Causata adopted the Causata Inc. 2010 Stock Plan, to offer an opportunity to employees, outside directors and consultants of Causata to acquire a proprietary interest in the success of Causata. Causata adopted an appendix to such plan for the grant of restricted stock units (together with the Causata Inc. 2010 Stock Plan, the “Causata Plan”). Under the Causata Plan, the grantees can be granted options to acquire Causata’s ordinary shares and restricted stock units.

Pursuant to the terms of the Causata agreement and plan of merger, we assumed and converted Causata's restricted stock units originally granted under the Causata Plan into restricted stock units of NICE to purchase ordinary shares of NICE.

Under the Causata Plan, the exercise price per share of incentive stock options granted to an employee shall be no less than 100% of the fair market value per share on the date of grant, or 110% of the fair market value if the employee was a 10% shareholder of Causata at the date of grant. The exercise price per share of non-statutory stock options shall be no less than 85% of the fair market value per share on the date of grant, or 110% of the fair market value if the person was a 10% shareholder of Causata at the date of grant, if required by applicable law and, if not so required, the exercise price per share shall be determined by the plan administrator. Notwithstanding the foregoing, options may be granted with an exercise price per share other than as required above pursuant to a merger or other corporate transaction.

Each stock option agreement shall specify the date when all or any installment of the option is to become exercisable. Options generally expire ten years after the date of grant.

Under the Causata Plan, the Board of Directors, may decide to grant restricted stock units, under certain terms and conditions, for a consideration of no more than the underlying share’s nominal value (the “Consideration”). Upon the lapse of the vesting schedule of a restricted stock unit, such restricted stock unit shall automatically vest into a share (subject to adjustments under the Causata Plan) and the grantee shall pay to Causata the Consideration. The Board of Directors, in its discretion, shall set vesting criteria or performance objectives which, depending on the extent to which they are met, will determine the number of restricted stock units that will vest, all as specified in the applicable restricted stock unit agreement.

As of March 15, 2015, assumed Causata restricted stock units to purchase 21,190 ordinary shares of NICE were outstanding under the Causata Plan.

We have registered, through the filing of a registration statement, on Form S-8 with the SEC under the Securities Act of 1933, dated September 16, 2013, 131,316 ordinary shares for issuance under the Causata Scheme and the Causata Plan.

Option Exchanges and Price Adjustment

On June 23, 2009, we commenced a tender offer to offer eligible employees in Israel, Hong Kong, the United States and the United Kingdom, excluding our directors, Chief Executive Officer and certain other executive officers, the opportunity to tender options granted before September 1, 2008 under the 2003 Plan or the 2003 Actimize Plan (almost all of which had an exercise price per share above $34.00), in exchange for restricted share units (RSUs) or options (depending on the employee's country of residence) with a per share exercise price or per share purchase price equal to the par value of our ordinary shares, or NIS 1.00 (approximately $0.25). The exchange was on a one-for-three basis, meaning that eligible employees electing to participate received a new RSU or option with respect to one share for every three shares subject to the options tendered for exchange. The new awards vest in 25% annual increments over a four-year period starting from August 5, 2009 and have a new six-year term. Options surrendered in the exchange were cancelled. On August 5, 2009, the expiration date of the exchange offer, we accepted for exchange eligible options to purchase an aggregate of 1,492,204 ordinary shares that had been granted under the 2003 Plan and the 2003 Actimize Plan, and granted, under the 2008 Plan, new options to purchase 311,454 ordinary shares, and new RSUs representing 185,932 ordinary shares, in exchange for the eligible options tendered and accepted pursuant to the exchange offer.

On June 15, 2009, our Board of Directors approved the reduction of the exercise price per share of our options to acquire ordinary shares granted on September 2, 2008 under the 2008 Plan held by eligible employees, including certain of our executive officers, based in Israel, Hong Kong, the United States, and the United Kingdom. The exercise price per share of these options was originally $30.25 per share, and was reduced to $22.53 per share, which was the closing price of our ADSs on the NASDAQ Global Select Market on June 15, 2009. Other than the exercise price, no other terms of these options were modified. The aggregate number of our ordinary shares that are subject to the options that have been repriced is 1,020,400.

In addition, on June 15, 2009, our Board of Directors approved an option exchange with three of our executive officers, in which such executive officers exchanged options to purchase an aggregate of 265,000 ordinary shares, issued in 2007 under the 2003 Plan and having an exercise price between $34.00 and $39.00 per share, for new options to be issued under the 2008 Plan with a per share exercise price equal to $22.53 per share, which was the closing price of our ADSs on the NASDAQ Global Select Market on June 15, 2009. The new options issued in this exchange vest in four equal annual installments (or as nearly as possible) following the new grant date and will expire six years following the new grant date.

Item 7. Major Shareholders and Related Party Transactions

Major Shareholders

The following table sets forth certain information with respect to the beneficial ownership of our ordinary shares, with respect to each person known to us to be the beneficial owner of 5% or more of our outstanding ordinary shares, reported as of March 15, 2015. None of our shareholders has any different voting rights than any other shareholder.

| Name and Address | Number of Shares | Percent of Shares Beneficially Owned (1) |
|---|---|---|
| Psagot Investment House Ltd.<br>14 Ahad Ha'am Street<br>Tel Aviv 65142, Israel | 4,329,691 (2) | 7.3 % |
| Massachusetts Financial Services Company<br>111 Huntington Avenue<br>Boston, MA 02199 | 4,162,819 (3) | 7.0 % |
| Migdal Insurance & Financial Holdings Ltd.<br>4 Efal Street; P.O. Box 3063 Petach Tikva 49512, Israel | 3,729,783 (4) | 6.3 % |
| Harel Insurance Investments & Financial Services Ltd.<br>Harel House<br>3 Abba Hillel Street<br>Ramat Gan 52118, Israel | 3,446,287 (5) | 5.8 % |

(1) Based upon 59,549,523 ordinary shares issued and outstanding as of March 15, 2015.

(2) These securities are held for members of the public through, among others, portfolio accounts managed by Psagot Securities Ltd., Psagot Exchange Traded Notes Ltd., mutual funds managed by Psagot Mutual Funds Ltd., provident funds managed by Psagot Provident Funds and Pension Ltd., and pension funds managed by Psagot Pension (Haal) Ltd., according to the following segmentation: 1,573,543 ordinary shares are held by portfolio accounts managed by Psagot Securities Ltd., 1,342,311 ordinary shares are held by Psagot Exchange Traded Notes Ltd., 1,177,341 ordinary shares are held by provident funds managed by Psagot Provident Funds and Pension Ltd., and 236,496 ordinary shares are held by mutual funds managed by Psagot Mutual Funds Ltd. (of this amount, 30,400 shares may also be considered beneficially owned by Psagot Securities Ltd., but are not included in the shares beneficially owned by Psagot Securities Ltd., as indicated above). Each of the foregoing companies is a wholly-owned subsidiary of Psagot Investment House Ltd. This information is based upon a Schedule 13G/A filed by Psagot Investment House Ltd. with the SEC on February 18, 2015.

(3) These securities consist of (i) American Depositary Shares that can be converted to ordinary shares and (ii) ordinary shares. This information is based upon a Schedule 13G/A filed by Massachusetts Financial Service Company with the SEC on February 11, 2015.

(4) Of these securities, (i) 3,598,558 ordinary shares are held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies, which are managed by subsidiaries of Reporting Person, according to the following segmentation: 1,913,888 ordinary shares are held by profit-participating life

assurance accounts, 1,377,539 ordinary shares are held by provident funds and companies that manage provident funds, and 307,131 ordinary shares are held by companies for the management of funds for joint investments in trusteeship, each of which subsidiaries operates under independent management and makes independent voting and investment decisions, and (ii) 131,225 are beneficially held for their own account (Nostro account). This information is based upon a Schedule 13G filed by Migdal with the SEC on February 10, 2015.

(5) Of these securities, (i) 3,275,459 ordinary shares are held for members of the public through, among others, provident funds and/or mutual funds and/or pension funds and/or insurance policies, which are managed by subsidiaries of Harel Insurance Investments & Financial Services Ltd. ("Harel"), each of which subsidiaries operates under independent management and makes independent voting and investment decisions; (ii) 92,370 ordinary shares are held by third-party client accounts managed by a subsidiary of Harel as portfolio managers, which subsidiary operates under independent management and makes independent investment decisions and has no voting power in the securities held in such client accounts and (iii) 78,458 ordinary shares are beneficially held for its own account. This information is based upon a Schedule 13G filed by Harel with the SEC on February 12, 2015.

As of March 15, 2015, we had approximately 48 registered ADS holders of record in the United States, holding approximately 46% of our outstanding ordinary shares, as reported by The Bank of New York Mellon, the depositary for our ADSs.

As of January 23, 2014, Migdal Insurance and Financial Holdings Ltd. (“Migdal”) held 3,101,146 or 4.5%, of our ordinary shares. This information is based upon a Schedule 13G/A filed by Migdal with the SEC on February 3, 2014. These securities are held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies, which are managed by subsidiaries of Migdal Insurance and Financial Holdings Ltd., according to the following segmentation: 1,572,484 ordinary shares are held by Profit participating life assurance accounts; 1,094,288 ordinary shares are held by Provident funds and companies that manage provident funds and 235,787 ordinary shares are held by companies for the management of funds for joint investments in trusteeship, each of which subsidiaries operates under independent management and makes independent voting and investment decisions, and (ii) 198,587 ordinary shares are beneficially held for their own account (Nostro account).

As of December 31, 2013, Massachusetts Financial Services Company (“MFS”) held 3,230,824, or 4.7%, of our ordinary shares. This information is based upon a Schedule 13G filed by MFS with the SEC on February 10, 2014.

As of May 1, 2013, DS Apex holdings Ltd. (“Apex”) held 2,436,925, or 4.01%, of our ordinary shares. This information is based upon a Schedule 13G filed by Apex with the SEC on May 16, 2013. As of April 4, 2013, Apex held 3,026,549, or 5.02%, of our ordinary shares. This information is based upon a Schedule 13G filed by Apex with the SEC on May 16, 2013.

To our knowledge, we are not directly or indirectly owned or controlled by another corporation or by any foreign government and there are no arrangements that might result in a change in control of our company.

Related Party Transactions

None.

Item 8. Financial Information.

Consolidated Statements and Other Financial Information

See Item 18, “Financial Statements” in this annual report.

Legal Proceedings

We are not involved in any legal proceedings that we believe, individually or in the aggregate, will have a material adverse effect on our business, financial condition or results of operation, except as noted below.

Consultant Dispute

On November 4, 2014, a former consultant of Nice Systems Latin America, Inc. sent a demand letter claiming a breach of contract by Nice Systems Latin America, Inc. due to its failure to pay him full consideration for consultation services. The former consultant is claiming an outstanding payment in the total amount of $937,264.82 for such services. Nice Systems Latin America, Inc. responded in December 2014 and denied Mr. Gordon’s entitlement to such payment. To date, no claim has been filed against Nice Systems Latin America, Inc. At this preliminary stage we are unable to evaluate the probability of a favorable or unfavorable outcome in this dispute.

Actimize Former Employee Dispute

On November 7, 2012, a former employee of Actimize Inc. filed a suit in the United States District Court for the Southern District of New York claiming discrimination on the basis of disability. The suit includes a claim for reinstatement as well as compensatory damages and other relief. The parties engaged in mediation, but the mediation did not result in a resolution of the case. A settlement conference was held on February 10, 2014, but no settlement was reached. Actimize Inc. filed a motion for partial summary judgment, seeking dismissal of the statutory discrimination claims. The briefing on the motion has been completed and the parties await the Court’s decision. We are unable to evaluate the probability of a favorable or unfavorable outcome in this dispute.

Dividends

On February 13, 2013, we announced that our Board of Directors approved a dividend plan under which we intend to pay quarterly cash dividends to holders of our ordinary shares and ADRs subject to declaration by the Board. The initial annual dividend was $0.64 per share, or $0.16 per share quarterly, and the first quarterly dividend payment was made in the second quarter of 2013. The total amount of dividends paid in 2014 was $0.64 per share. Under Israeli law, dividends may be paid only out of profits and other surplus (as defined in the law) as of our most recent financial statements or as accrued over a period of two years, whichever is higher, provided that there is no reasonable concern that the dividend distribution will prevent us from meeting our existing and foreseeable obligations as they come due. Apart from these dividends, the Company has never declared or paid cash dividends on its ordinary shares. Payment of future dividends, if any, will be at the discretion of our Board of Directors and will depend on various factors, such as our statutory profits, financial condition, operating results and current and anticipated cash needs. In the event cash dividends are declared by us, we may decide to pay such dividends in Israeli currency. Under current Israeli regulations, any cash dividend in Israeli currency paid in respect of ordinary shares purchased by non-residents of Israel with non-Israeli currency may be freely repatriated in such non-Israeli currency, at the rate of exchange prevailing at the time of conversion. For more information regarding the taxation implications of the dividend plan, see “Item 10 - Additional Information - Taxation” of this annual report.

Significant Changes

On February 5, 2015, we announced that Dafna Gruber will be retiring from her position as Chief Financial Officer of our company. As approved by our Board of Directors on February 4, 2015, Ms. Sarit Sagiv will assume the position of Chief Financial Officer of NICE following a transition period.

Other than as disclosed above, there are no significant changes that occurred since December 31, 2014, except as otherwise disclosed in this annual report and in the annual consolidated financial statements included in this annual report.

Item 9. The Offer and Listing.

Trading in the ADSs

Our American Depositary Shares, or ADSs, have been quoted on the NASDAQ Stock Market under the symbol "NICEV" from our initial public offering in January 1996 until April 7, 1999, and thereafter under the symbol "NICE." Prior to that time, there was no public market for our ordinary shares in the United States. Each ADS represents one ordinary share. The following table sets forth, for the periods indicated, the high and low reported market (sale) prices for our ADSs.

| | ADSs | |
|---|---|---|
| | High | Low |
| Annual | | |
| 2010 | 35.20 | 25.10 |
| 2011 | 38.49 | 27.17 |
| 2012 | 40.04 | 29.51 |
| 2013 | 42.12 | 33.63 |
| 2014 | 51.75 | 37.08 |
| | | |
| Quarterly | | |
| | | |
| Quarterly 2013 | | |
| First Quarter | $38.28 | $34.02 |
| Second Quarter | 37.96 | 33.63 |
| Third Quarter | 42.12 | 36.31 |
| Fourth Quarter | 42.06 | 37.44 |
| | | |
| Quarterly 2014 | | |
| First Quarter | $45.00 | $37.79 |
| Second Quarter | 46.07 | 37.08 |
| Third Quarter | 41.55 | 37.84 |
| Fourth Quarter | 51.75 | 38.60 |
| | | |
| Quarterly 2015 | | |
| First Quarter | $61.92 | $47.95 |
| Monthly | | |
| September 2014 | $41.55 | $38.62 |
| October 2014 | 41.80 | 38.60 |
| November 2014 | 50.09 | 40.26 |
| December 2014 | 51.75 | 47.23 |
| January 2015 | 51.20 | 47.95 |
| February 2015 | 59.64 | 48.21 |
| March 2015 | 61.92 | 57.99 |

On April 1, 2015, the last reported price of our ADSs was $60.50 per ADS.

The Bank of New York Mellon is the depositary for our ADSs. Its address is 1 Wall Street, New York, New York 10286.

Trading in the Ordinary Shares

Our ordinary shares have been listed on the Tel-Aviv Stock Exchange, or TASE, since 1991. Our ordinary shares are not listed on any other stock exchange and have not been publicly traded outside Israel (other than through ADSs as noted above). The table below sets forth the high and low reported market (sale) prices of our ordinary shares (in NIS and dollars) on the TASE. The translation into dollars is based on the daily representative rate of exchange published by the Bank of Israel.

| | Ordinary Shares | | | |
|---|---|---|---|---|
| | High | | Low | |
| | NIS | $ | NIS | $ |
| Annual | | | | |
| 2010 | 129.70 | 34.66 | 97.20 | 25.08 |
| 2011 | 139.00 | 37.45 | 97.25 | 27.12 |
| 2012 | 150.00 | 38.82 | 117.80 | 30.29 |
| 2013 | 149.10 | 42.21 | 122.10 | 33.27 |
| 2014 | 203.30 | 51.94 | 130.60 | 36.90 |
| | | | | |
| Quarterly 2013 | | | | |
| First Quarter | 144.00 | 38.69 | 124.20 | 33.27 |
| Second Quarter | 137.90 | 37.20 | 122.10 | 33.74 |
| Third Quarter | 147.80 | 42.05 | 130.50 | 36.76 |
| Fourth Quarter | 149.10 | 42.21 | 132.60 | 37.49 |
| | | | | |
| Quarterly 2014 | | | | |
| First Quarter | 155.00 | 44.45 | 133.70 | 36.90 |
| Second Quarter | 158.70 | 45.71 | 130.60 | 37.73 |
| Third Quarter | 152.30 | 41.74 | 132.70 | 37.70 |
| Fourth Quarter | 203.30 | 51.94 | 145.20 | 38.85 |
| | | | | |
| Quarterly 2015 | | | | |
| First Quarter | 246.70 | 61.58 | 189.40 | 47.95 |
| | | | | |
| Monthly | | | | |
| September 2014 | 152.30 | 41.74 | 139.90 | 38.99 |
| October 2014 | 154.10 | 42.12 | 145.20 | 38.85 |
| November 2014 | 184.90 | 47.84 | 152.90 | 40.35 |
| December 2014 | 203.30 | 51.94 | 183.70 | 46.93 |
| January 2015 | 201.60 | 51.40 | 189.90 | 47.95 |
| February 2015 | 236.10 | 59.74 | 189.40 | 48.11 |
| March 2015 | 246.70 | 61.58 | 228.80 | 58.28 |

As of April 1, 2015, the last reported price of our ordinary shares on the TASE was NIS 241.50 (or $60.77) per share.

Item 10. Additional Information.

Memorandum and Articles of Association

Organization and Register

We are a company limited by shares organized in the State of Israel under the Israeli Companies Law. We are registered with the Registrar of Companies of the State of Israel and have been assigned company number 52-0036872.

Objectives and Purposes

Our objectives and purposes include a wide variety of business purposes, including all kinds of research, development, manufacture, distribution, service and maintenance of products in all fields of technology and engineering and to engage in any other kind of business or commercial activity. Our objectives and purposes are set forth in detail in Section 2 of our memorandum of association.

Directors

Our articles of association provide that the number of directors serving on the Board shall be not less than three but shall not exceed thirteen, including at least two outside directors. Our directors, other than outside directors, are elected at the annual shareholders meeting to serve until the next annual meeting or until their earlier death, resignation, bankruptcy, incapacity or removal by resolution of the general shareholders meeting. Directors may be re-elected at each annual shareholders meeting. The Board may appoint additional directors (whether to fill a vacancy or create new directorship) to serve until the next annual shareholders meeting, provided, however, that the Board shall have no obligation to fill any vacancy unless the number of directors is less than three. Our officers serve at the discretion of the Board.

The Board of Directors may meet and adjourn its meetings according to the Company's needs but must meet at least once every three months. A meeting of the Board may be called at the request of any two directors. The quorum required for a meeting of the Board consists of a majority of directors who are lawfully entitled to participate in the meeting and vote thereon. The adoption of a resolution by the Board requires approval by a simple majority of the directors present at a meeting in which such resolution is proposed. In lieu of a Board meeting, a resolution may be adopted if all of the directors lawfully entitled to vote thereon consent not to convene a meeting.

Subject to the Israeli Companies law, the Board may appoint a committee of the Board and delegate to such committee all or any of the powers of the Board, as it deems appropriate. Under the Israeli Companies Law the Board of Directors must appoint an internal audit committee, comprised of at least three directors and including both of the outside directors. The function of the internal audit committee is to review irregularities in the management of the Company's business and recommend remedial measures. The committee is also required, under the Israeli Companies Law, to approve certain related party transactions and to assess our internal audit system and the performance of our internal auditor. Notwithstanding the foregoing, the Board may, at any time, amend, restate or cancel the delegation of any of its powers to any of its committees. The Board has appointed an internal audit committee which has three members, an audit committee which has four members, a compensation committee which has four members and a mergers and acquisitions committee which has five members. For more information on the Company's committees, please see Item 6, "Directors, Senior Management and Employees—Board Practices" in this annual report.

Fiduciary Duties of Officers

The Israeli Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his personal affairs, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal advantage for himself or others, and revealing to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder.

Approval of Certain Transactions

The Israeli Companies Law requires that an office holder of the company promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction as defined under Israeli law, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandpar–ents, descendants, spouse's descendants and the spouses of any of the foregoing. In addition, the office holder must also disclose any interest held by any corporation in which the office holder is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction not in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities.

In the case of a transaction which is not an extraordinary transaction, after the office holder complies with the above disclosure requirement, only Board approval is required unless the articles of association of the company provide otherwise. The transaction must not be adverse to the company's interest. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the articles of association, it also must be approved by the company's internal audit committee and then by the Board of Directors, and, under certain circumstances, by a meeting of the shareholders of the company. An office holder who has a personal interest in a transaction that is considered at a meeting of the Board of Directors or the internal audit committee generally may not be present at the deliberations or vote on this matter, unless the chairman of the Board or chairman of the internal audit committee, as the case may be, determined that the presence of such person is necessary to present the transaction to the meeting. If a majority of the directors have a personal interest in an extraordinary transaction with the Company, shareholder approval of the transaction is required.

It is the responsibility of the audit committee to determine whether or not a transaction should be deemed an extraordinary transaction. In addition, as a result of a recent amendment to the Israeli Companies Law, the audit committee must also establish (i) procedures for the consideration of any transaction with a controlling shareholder, even if it is not extraordinary, such as a competitive process with third parties or negotiation by independent directors, and (ii) approval requirements for controlling shareholder transactions that are not negligible.

The Israeli Companies Law applies the same disclosure requirements to a controlling share−holder of a public company, which includes a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Extraor−dinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the terms of management fees of a controlling shareholder or compensation of a controlling shareholder who is an office holder, require the approval of the audit committee, the Board of Directors and the shareholders of the company by simple majority, provided that either such majority vote must include at least a simple majority of the shareholders who have no personal interest in the transaction and are present at the meeting (without taking into account the votes of the abstaining shareholders), or that the total shareholdings of those who have no personal interest in the transaction who vote against the transaction represent no more than two percent of the voting rights in the company. Any such extraordinary transaction whose term is longer than three years requires further shareholder approval every three years, unless (with respect to transactions not involving management fees or employment terms) the internal audit committee approves that a longer term is reasonable under the circumstances.

In addition, under the Israeli Companies Law, a private placement of securities requires approval by the Board of Directors and the shareholders of the company if it will cause a person to become a controlling shareholder or if:

- the securities issued amount to 20% or more of the company’s outstanding voting rights before the issuance;
- some or all of the consideration is other than cash or listed securities or the transaction is not on market terms; and
- the transaction will increase the relative holdings of a shareholder that holds five percent or more of the company’s outstanding share capital or voting rights or that will cause any person to become, as a result of the issuance, a holder of more than five percent of the company’s outstanding share capital or voting rights.

According to the Company’s articles of association certain resolutions, such as resolutions regarding mergers, and windings up, require approval of the holders of 75% of the shares represented at the meeting and voting thereon.

Approval of Office Holder Compensation

Under the Israeli Companies Law, we are required to adopt a compensation policy, recommended by the compensation committee, and approved by the Board of Directors and the shareholders, in that order, at least once every three years. Following the recommendation of our compensation committee and approval by our Board of Directors, our shareholders approved such compensation policy at our 2013 general meeting of shareholders held on August 27, 2013. The shareholder approval requires a majority of the votes cast by shareholders, excluding any controlling shareholder and those who have a personal interest in the matter (similar to the threshold described above). In general, all office holders' terms of compensation – including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability - must comply with the company's compensation policy. Although NASDAQ rules generally require shareholder approval when an equity based compensation plan is established or materially amended, as a foreign company we follow the aforementioned requirements of the Israeli Companies Law.

In addition, the compensation terms of directors, the chief executive officer, and any employee or service provider who is considered a controlling shareholder generally must be approved separately by the compensation committee, the Board of Directors and the shareholders of the company, in that order. The compensation terms of other officers require the approval of the compensation committee and the Board of Directors.

Duties of Shareholders

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

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

In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of a company's articles of association, has the power to appoint or prevent the appointment of an office holder in the company, is under a duty to act with fairness towards the company. The Israeli Companies Law does not describe the substance of this duty but provides that a breach of his duty is tantamount to a breach of fiduciary duty of an officer of the Company.

Exemption, Insurance and Indemnification of Directors and Officers

We provide our directors with indemnification letters whereby we agree to indemnify them to the fullest extent permitted by law. On September 19, 2011, at our 2011 annual general meeting of shareholders, after the approval of the audit committee and the Board, our shareholders approved a modified form of indemnification letter to ensure that our directors are afforded protection to the fullest extent permitted by law.

Exemption of Office Holders

Under the Israeli Companies Law, an Israeli company may not exempt an office holder from liability for breach of his duty of loyalty, but may exempt in advance an office holder from liability to the company, in whole or in part, for a breach of his duty of care (except in connection with distributions), provided the articles of association of the company allow it to do so. Our articles of association do not allow us to do so.

Office Holder Insurance

Our articles of association provide that, subject to the provisions of the Israeli Companies Law, including the receipt of all approvals as required therein or under any applicable law, we may enter into an agreement to insure an office holder for any responsibility or liability that may be imposed on such office holder in connection with an act performed by such office holder in such office holder's capacity as an office holder of us with respect to each of the following:

- a violation of his duty of care to us or to another person,
- a breach of his duty of loyalty to us, provided that the office holder acted in good faith and had reasonable grounds to assume that his act would not prejudice our interests,
- a financial obligation imposed upon him for the benefit of another person,
- a payment which the office holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 5728-1968, as amended (the "Securities Law") and Litigation Expenses (as defined below) that the office holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, and
- any other event, occurrence or circumstance in respect of which we may lawfully insure an office holder.

Indemnification of Office Holders

Our articles of association provide that, subject to the provisions of the Israeli Companies Law, including the receipt of all approvals as required therein or under any applicable law we may indemnify an office holder with respect to any liability or expense for which indemnification may be provided under the Companies Law, including the following liabilities and expenses, provided that such liabilities or expenses were imposed upon or incurred by such office holder in such office holder's capacity as an office holder of us:

- a monetary liability imposed on or incurred by an office holder pursuant to a judgment in favor of another person, including a judgment imposed on such office holder in a settlement or in an arbitration decision that was approved by a court of law;

- reasonable Litigation Expenses, expended by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent (mens rea) or in connection with a financial sanction;

- "conclusion of a proceeding without filing an indictment" in a matter in which a criminal investigation has been instigated and "financial liability in lieu of a criminal proceeding," have the meaning ascribed to them under the Israeli Companies Law. The term "Litigation Expenses" shall include, without limitation, attorneys' fees and all other costs, expenses and obligations paid or incurred by an office holder in connection with investigating, defending, being a witness or participating in (including on appeal), or preparing to defend, be a witness or participate in any claim or proceeding relating to any matter for which indemnification may be provided;

- reasonable Litigation Expenses, which the office holder incurred or with which the office holder was charged by a court of law, in a proceeding brought against the office holder, by the Company, on its behalf or by another person, or in a criminal prosecution in which the office holder was acquitted, or in a criminal prosecution in which the office holder was convicted of an offense that does not require proof of criminal intent (mens rea);

- a payment which the office holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law, and Litigation Expenses that the office holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law; and

- any other event, occurrence or circumstance in respect of which we may lawfully indemnify an office holder.

The foregoing indemnification may be procured by us (a) retroactively and (b) as a commitment in advance to indemnify an office holder, provided that, in respect of the first bullet above, such commitment shall be limited to (A) such events that in the opinion of the Board of Directors are foreseeable in light of our actual operations at the time the undertaking to indemnify is provided, and (B) to the amounts or criterion that the Board of Directors deems reasonable under the circumstances, and further provided that such events and amounts or criterion are set forth in the undertaking to indemnify, and which shall in no event exceed, in the aggregate, the greater of: (i) 25% of our shareholder's equity at the time of the indemnification, or (ii) 25% of our shareholder's equity at the end of fiscal year of 2010.

We have undertaken to indemnify our directors and officers pursuant to applicable law. We have obtained directors' and officers' liability insurance for the benefit of our directors and officers.  The Company currently has a directors and officers liability insurance policy limited to $100 million (the “Policy”), at an annual premium of approximately $432,473. Our internal audit committee, Board of Directors, and shareholders have approved the Company’s “Side A” Difference in Conditions extension of the Policy, limited to an additional $25 million, which provides the directors and officers with personal asset protection in situations when other sources of insurance or indemnification fail or are not available (the “Extended Policy”). The Extended Policy portion is at an additional annual premium of approximately $58,500.

Limitations on Exemption, Insurance and Indemnification

The Israeli Companies Law provides that a company may not exempt or indemnify an office holder, or enter into an insurance contract, which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his duty of loyalty unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his duty of care if the breach was done intentionally or recklessly (other than if solely done in negligence);
- any act or omission done with the intent to derive an illegal personal benefit; or
- a fine, civil fine or ransom levied on an Office Holder, or a financial sanction imposed upon an Office Holder under Israeli Law.

Required Approvals

In addition, under the Israeli Companies Law, any exemption of, indemnification of, or procurement of insurance coverage for, our office holders must be approved by our audit committee and our Board of Directors and, if the beneficiary is a director, by our shareholders.  We have obtained such approvals for the procurement of liability insurance covering our officers and directors and for the grant of indemnification letters to our officers and directors.

Rights of Ordinary Shares

Our ordinary shares confer upon our shareholders the right to receive notices of, and to attend, shareholder meetings, the right to one vote per ordinary share at all shareholders’ meetings for all purposes, and to share equally, on a per share basis, in such dividends as may be declared by our Board of Directors; and upon liquidation or dissolution, the right to participate in the distribution of any surplus assets of the Company legally available for distribution to shareholders after payment of all debts and other liabilities of the Company.  All ordinary shares rank pari passu in all respects with each other.  Our Board of Directors may, from time to time, make such calls as it may think fit upon a shareholder in respect of any sum unpaid in respect of shares held by such shareholder which is not payable at a fixed time, and each shareholder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments).

Meetings of Shareholders

An annual general meeting of our shareholders shall be held once in every calendar year at such time and at such place either within or without the State of Israel as may be determined by our Board of Directors.

Our Board of Directors may, whenever it thinks fit, convene a special general meeting at such time and place, within or without the State of Israel, as may be determined by the Board of Directors. Special general meetings may also be convened upon shareholder request in accordance with the Israeli Companies Law and our articles of association.

The quorum required for a meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent between them at least 25% of the outstanding voting shares, unless otherwise required by applicable rules. Although NASDAQ generally requires a quorum of 33-1/3%, we have an exception under the NASDAQ rules and follow the generally accepted business practice for companies in Israel, which have a quorum requirement of 25%. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the chairman may designate with the consent of a majority of the voting power represented at the meeting and voting on the matter adjourned. At such reconvened meeting the required quorum consists of any two members present in person or by proxy.

Mergers and Acquisitions

A merger of the Company shall require the approval of the holders of a majority of 75% of the voting power represented at the annual or special general meeting in person or by proxy or by written ballot, as shall be permitted, and voting thereon in accordance with the provisions of the Israeli Companies Law. Upon the request of a creditor of either party of the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least (i) 50 days have passed from the time that the requisite proposal for the merger has been filed by each party with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each party.

The Israeli Companies Law also provides that an acquisition of shares of a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a 25% or greater shareholder of the company and there is no existing 25% or greater shareholder in the company. An acquisition of shares of a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a 45% or greater shareholder of the company and there is no existing 45% or greater shareholder in the company. These requirements do not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval, (ii) was from a 25% shareholder of the company and resulted in the acquirer becoming a 25% shareholder of the company or (iii) was from a 45% shareholder of the company and resulted in the acquirer becoming a 45% shareholder of the company. The tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer may be consummated only if (i) at least 5% of the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If as a result of an acquisition of shares the acquirer will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. If as a result of a full tender offer the acquirer would own more than 95% of the outstanding shares, then all the shares that the acquirer offered to purchase will be transferred to it. The law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer, but the acquirer is entitled to stipulate that tendering shareholders forfeit their appraisal rights. If as a result of a full tender offer the acquirer would own 95% or less of the outstanding shares, then the acquirer may not acquire shares that will cause his shareholding to exceed 90% of the outstanding shares. Shareholders may request an appraisal in connection with a tender offer for a period of six months following the consummation of the tender offer, but the purchaser is entitled to stipulate as a condition of such tender offer that any tendering shareholder renounce its appraisal rights.

Material Contracts

None.

Exchange Controls

Holders of ADSs are able to convert dividends and liquidation distributions into freely repatriable non-Israeli currencies at the rate of exchange prevailing at the time of repatriation, pursuant to regulations issued under the Currency Control Law, 5738–1978, provided that Israeli income tax has been withheld by us with respect to amounts that are being repatriated to the extent applicable or an exemption has been obtained.

Our ADSs may be freely held and traded pursuant to the General Permit and the Currency Control Law. The ownership or voting of ADSs by non-residents of Israel, except with respect to citizens of countries that are in a state of war with Israel, are not restricted in any way by the our memorandum of association or articles of association or by the laws of the State of Israel.

Taxation

The following is a discussion of Israeli and United States tax consequences material to our shareholders. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

Holders of our ADSs should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of our ADSs, including, in particular, the effect of any foreign, state or local taxes.

Israeli Tax Considerations

The following is a summary of the principal tax laws applicable to companies in Israel, with special reference to their effect on us. The following also contains a discussion of the material Israeli tax consequences to purchasers of our ordinary shares or ADSs. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

General Corporate Tax Structure

Generally, Israeli companies are subject to corporate tax on taxable income, currently at the rate of 26.5%. Following an amendment to the Israeli Income Tax Ordinance [New Version], 1961 (the “Tax Ordinance”), which came into effect on January 1, 2014, the corporate tax rate is scheduled to remain at a rate of 26.5% for future tax years. Israeli companies are generally subject to capital gains tax at the corporate tax rate. However, the effective tax rate payable by a company that derives income from a Preferred Enterprise (see below), may be considerably less.

We are permitted to measure our Israeli taxable income in U.S. dollars pursuant to regulations published by the Israeli Minister of Finance, which provide the conditions for doing so. We believe that we meet and will continue to meet, the necessary conditions and as such, we measure our results for tax purposes based on the U.S. dollar/NIS exchange rate.

Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959, as amended.

We derive and expect to continue to derive significant tax benefits in Israel relating to our “Preferred Enterprise” programs, pursuant to the Law for Encouragement of Capital Investments, 1959, or the Investments Law. To be eligible for these tax benefits, we must continue to meet certain conditions. In the event of a failure to comply with these conditions, the benefits may be canceled and we may be required to refund the amount of the benefits, in whole or in part, including interest and certain inflation adjustments. As of December 31, 2014, we believe that we are in compliance with all the conditions required by the law.

Income from sources other than the "Preferred Enterprises" will be taxable at regular corporate tax rates.

Benefits under the Preferred Enterprise regime include:

- A reduced corporate tax rate for industrial enterprises, provided that more than 25% of their annual income is derived from export. In 2014, the reduced tax rate was 9% for preferred income derived from industrial facilities located in development area A and 16% for those located elsewhere in Israel. These tax rates are scheduled to remain at the same level for the 2015 tax year.

- The reduced tax rates will no longer be contingent upon making a minimum qualifying investment in productive assets.

- A definition of "preferred income" was introduced into the Investments Law to include certain types of income that are generated by the Israeli production activity of a Preferred Enterprise.

- A reduced dividend withholding tax rate of 15% for the tax year 2013, and 20% for the tax year 2014 and thereafter applies to dividends paid from preferred income to both Israeli and non-Israeli investors, with an exemption from such withholding tax applying to dividends paid to an Israeli company.

- A special tax benefits route will be granted to certain industrial enterprises entitling them to a reduced tax rate of 5% for preferred income derived from industrial facilities located in development area A and 8% for those located elsewhere in Israel, provided certain threshold requirements are met and such enterprise can demonstrate its significant contribution to Israel's economy and promotion of national market objectives.

Full details regarding our Preferred Enterprises may be found in Note 13(a)(2) of our Consolidated Financial Statements.

Tax Benefits and Grants for Research and Development

Israeli tax law allows, under specified conditions, a tax deduction for expenditures, including capital expenditures, for the year in which they are incurred. These expenses must relate to scientific research and development projects and must be approved by the relevant Israeli government ministry, determined by the field of research, and the research and development must be for the promotion of the company and carried out by or on behalf of the company seeking such deduction. However, the amount of such deductible expenses shall be reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period.

Tax Benefits Under the Law for the Encouragement of Industry (Taxes), 1969

Under the Law for the Encouragement of Industry (Taxes), 1969 (the "Industry Encouragement Law"), Industrial Companies (as defined below) are entitled to the following tax benefits, among others:

- deductions over an eight-year period for purchases of know-how and patents;
- deductions over a three-year period of expenses involved with the issuance and listing of shares on a stock market;
- the right to elect, under specified conditions, to file a consolidated tax return with other related Israeli Industrial Companies; and
- accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. Under the Industry Encouragement Law, an "industrial company" is defined as a company resident in Israel, at least 90% of the income of which, in any tax year, determined in Israeli currency, exclusive of income from government loans, capital gains, interest and dividends, is derived from an "Industrial Enterprise" owned by it. An "Industrial Enterprise" is defined as an enterprise whose major activity in a given tax year is industrial production activity. We believe that we currently qualify as an industrial company within the definition of the Industry Encouragement Law. No assurance can be given that we will continue to qualify as an industrial company or that the benefits described above will be available in the future.

Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain, which is equivalent to the increase of the relevant asset's purchase price, which is attributable to the increase in the Israeli consumer price index, or a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

The following discussion refers to the sale of our ordinary shares. However, the same tax treatment would apply to the sale of our ADSs.

Taxation of Israeli Residents

As of January 1, 2012, the tax rate generally applicable to the capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder is considered a "significant shareholder" at any time during the 12-month period preceding such sale (i.e., such shareholder holds directly or indirectly, including jointly with others, at least 10% of any means of control in the company) the tax rate will be 30%. Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of listed shares. However, different tax rates may apply to dealers in securities and shareholders who acquired their shares prior to an initial public offering.

As of January 1, 2013, shareholders that are individuals who have taxable income that exceeds NIS 800,000 in a tax year (linked to the CPI each year) (NIS 811,560 in 2014), will be subject to an additional tax, referred to as Income Surtax, at the rate of 2% on their taxable income for such tax year which is in excess of such threshold. For this purpose taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions.

Taxation of Non-Israeli Residents

Non-Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on the TASE provided such gains did not derive from a permanent establishment of such shareholders in Israel. Non-Israeli residents are also exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock market outside of Israel, provided such shareholders did not acquire their shares prior to the issuer's initial public offering (in which case a partial exemption may be available), that the gains did not derive from a permanent establishment of such shareholders in Israel. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of 25% or more in such non-Israeli corporation, or (ii) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In addition, the sale, exchange or disposition of our ordinary shares by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) and who holds ordinary shares as a capital asset is also exempt from Israeli capital gains tax under the U.S.-Israel Tax Treaty unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale or (ii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder located in Israel. If the above conditions are not met, the U.S. resident would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, the gain would be treated as foreign source income for United States foreign tax credit purposes and such U.S. resident would be permitted to claim a credit for such taxes against the United States federal income tax imposed on such sale, exchange or disposition, subject to the limitations under the United States federal income tax laws applicable to foreign tax credits.

Taxation of Dividends Paid on our Ordinary Shares

The following discussion refers to dividends paid on our ordinary shares. However, the same tax treatment would apply to dividends paid on our ADSs.

Taxation of Israeli Residents

Israeli resident individuals are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, other than bonus shares (share dividends) or stock dividends. As of January 1, 2012, the tax rate applicable to such dividends is 25% or 30% for a shareholder that is considered a significant shareholder at any time during the 12-month period preceding such distribution. Dividends paid from income derived from our Approved and Privileged Enterprises are subject to withholding at the rate of 15%. Dividends paid from January 1, 2014 from income derived from our Preferred Enterprises will be subject to withholding at the rate of 20%. We cannot assure you that we will designate the profits that are being distributed in a way that will reduce shareholders' tax liability.

For information with respect to the applicability of Income Surtax on distribution of dividends, please see "Capital Gains Tax on Sales of Our Ordinary Shares" and "Taxation of Israeli Residents" above in this Item 10.

Taxation of Non-Israeli Residents

Non-residents of Israel, both companies and individuals, are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, at the aforementioned rates applicable to Israeli residents, which tax will be withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence.

Under the U.S.-Israel Treaty, the maximum Israeli withholding tax on dividends paid by us is 25%. Dividends of an Israeli company distributed from income of an Approved Enterprise (or Privileged Enterprise or Preferred Enterprise) are subject to a 15% withholding tax under the U.S.-Israel Tax Treaty. The U.S.-Israel Tax Treaty further provides for a 12.5% Israeli dividend withholding tax on dividends paid by an Israeli company to a United States corporation owning at least 10% or more of such Israeli company's issued voting power for, in general, the part of the tax year which precedes the date of payment of the dividend and the entire preceding tax year. The lower 12.5% rate applies only to dividends from income not derived from an Approved Enterprise (or Privileged Enterprise or Preferred Enterprise) in the applicable period and does not apply if the company has more than 25% of its gross income derived from certain types of passive income. Residents of the United States generally will have withholding tax in Israel deducted at source. They may be entitled to a credit or deduction for United States federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in United States tax legislation.

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

U.S. Federal Income Tax Considerations

The following is a summary of the material U.S. Federal income tax consequences that apply to U.S. holders (defined below) who hold ADSs as capital assets for tax purposes. This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing final, temporary and proposed regulations thereunder, judicial decisions and published positions of the Internal Revenue Service and the U.S.-Israel income tax treaty in effect as of the date of this annual report, all of which are subject to change at any time (including changes in interpretation), possibly with retroactive effect. It is also based in part on representations by The Bank of New York Mellon, the depositary for our ADSs, and assumes that each obligation under the Deposit Agreement between us and The Bank of New York Mellon and any related agreement will be performed in accordance with its terms. This summary does not address all U.S. Federal income tax matters that may be relevant to a particular prospective holder or all tax considerations that may be relevant with respect to an investment in ADSs.

This summary does not address tax considerations applicable to a holder of an ADS that may be subject to special tax rules including, without limitation, the following:

- dealers or traders in securities, currencies or notional principal contracts;
- financial institutions;
- insurance companies;
- real estate investment trusts;
- banks;
- investors subject to the alternative minimum tax;
- tax-exempt organizations;
- regulated investment companies;
- investors that actually or constructively own 10 percent or more of our voting shares;
- investors that will hold the ADSs as part of a hedging or conversion transaction or as a position in a straddle or a part of a synthetic security or other integrated transaction for U.S. Federal income tax purposes;
- investors that are treated as partnerships or other pass through entities for U.S. Federal income tax purposes and persons who hold the ADSs through partnerships or other pass through entities;
- investors whose functional currency is not the U.S. dollar; and
- expatriates or former long-term residents of the United States.

This summary does not address the effect of any U.S. Federal taxation other than U.S. Federal income taxation. In addition, this summary does not include any discussion of state, local or foreign taxation or the indirect effects on the holders of equity interests in a holder of an ADS.

You are urged to consult your own tax advisor regarding the foreign and U.S. Federal, state and local and other tax consequences of an investment in ADSs.

For purposes of this summary, a "U.S. holder" is a beneficial owner of ADSs that is, for U.S. Federal income tax purposes:

- an individual who is a citizen or a resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. Federal income tax regardless of its source; or
- a trust if:

(a) a court within the United States is able to exercise primary supervision over administration of the trust; and

(b) one or more United States persons have the authority to control all substantial decisions of the trust.

If an entity that is classified as a partnership for U.S. federal tax purposes holds ADSs, the U.S. federal income tax treatment of its partners will generally depend upon the status of the partners and the activities of the partnership. Entities that are classified as partnerships for U.S. federal tax purposes and persons holding ADSs through such entities should consult their own tax advisors.

In general, if you hold ADSs, you will be treated as the holder of the underlying shares represented by those ADSs for U.S. Federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate U.S. holders. Accordingly, the analysis of the creditability of Israeli taxes and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. holders, each described below, could be affected by actions taken by parties to whom the ADSs are released and the positions of the U.S. Treasury.

U.S. Taxation of ADSs

Distributions

Subject to the discussion under “Passive Foreign Investment Companies” below, the gross amount of any distribution, including the amount of any Israeli taxes withheld from these distributions (see “Israeli Tax Considerations”), actually or constructively received by a U.S. holder with respect to ADSs will be taxable to the U.S. holder as a dividend to the extent of our current and accumulated earnings and profits as determined under U.S. Federal income tax principles. Distributions in excess of earnings and profits will be non-taxable to the U.S. holder to the extent of, and will be applied against and reduce, the U.S. holder’s adjusted tax basis in the ADSs. Distributions in excess of earnings and profits and such adjusted tax basis will generally be taxable to the U.S. holder as capital gain from the sale or exchange of property. We do not maintain calculations of our earnings and profits under U.S. Federal income tax principles. If we do not report to a U.S. holder the portion of a distribution that exceeds earnings and profits, the distribution will generally be taxable as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. The amount of any distribution of property other than cash will be the fair market value of that property on the date of distribution. The U.S. holder will not, except as provided by Section 245 of the Code, be eligible for any dividends received deduction in respect of the dividend otherwise allowable to corporations.

Under the Code, certain dividends received by non-corporate U.S. holders will be subject to a maximum income tax rate of 20%. This reduced income tax rate is only applicable to dividends paid by a “qualified foreign corporation” that is not a “passive foreign investment company” and only with respect to shares held by a qualified U.S. holder (i.e., a non-corporate holder) for a minimum holding period (generally 61 days during the 121-day period beginning 60 days before the ex-dividend date). We should be considered a qualified foreign corporation because (i) we are eligible for the benefits of a comprehensive tax treaty between Israel and the U.S., which includes an exchange of information program, and (ii) the ADSs are readily tradable on an established securities market in the U.S. In addition, based on our current business plans, we do not expect to be classified as a “passive foreign investment company” (see “Passive Foreign Investment Companies” below). Accordingly, dividends paid by us to individual U.S. holders on shares held for the minimum holding period should be eligible for the reduced income tax rate. In addition to the income tax on dividends discussed above, certain non-corporate U.S. holders will also be subject to the 3.8% Medicare tax on dividends as discussed below under “Medicare Tax on Unearned Income”.

The amount of any distribution paid in a currency other than U.S. dollars (a “foreign currency”) including the amount of any withholding tax thereon, will be included in the gross income of a U.S. holder in an amount equal to the U.S. dollar value of the foreign currencies calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the foreign currencies are converted into U.S. dollars. If the foreign currencies are converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend. If the foreign currencies received in the distribution are not converted into U.S. dollars on the date of receipt, a U.S. holder will have a basis in the foreign currencies equal to its U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the foreign currencies will be treated as ordinary income or loss.

Dividends received by a U.S. holder with respect to ADSs generally will be treated as foreign source income for the purposes of calculating that holder's foreign tax credit limitation. Subject to certain conditions and limitations, any Israeli taxes withheld on dividends at the rate provided by the U.S.-Israel income tax treaty may be deducted from taxable income or credited against a U.S. holder's U.S. Federal income tax liability. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to "passive" income and "general" income. The rules relating to foreign tax credits and the timing thereof are complex. U.S. holders should consult their own tax advisors regarding the availability of a foreign tax credit under their particular situation.

Sale or Other Disposition of ADSs

If a U.S. holder sells or otherwise disposes of its ADSs, gain or loss will be recognized for U.S. Federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and such holder's adjusted tax basis in the ADSs. Subject to the discussion below under the heading "Passive Foreign Investment Companies," such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the holder had held the ADSs for more than one year at the time of the sale or other disposition. Long-term capital gains realized by individual U.S. holders generally are subject to a lower marginal U.S. Federal income tax rate (currently up to 20%) than the marginal tax rate on ordinary income. In addition to the income tax on gains discussed above, certain non-corporate U.S. holders will also be subject to the 3.8% Medicare tax on net gains as discussed below under "Medicare Tax on Unearned Income." Under most circumstances, any gain that a holder recognizes on the sale or other disposition of ADSs will be U.S. source for purposes of the foreign tax credit limitation and any recognized losses will be allocated against U.S. source income.

If a U.S. holder receives foreign currency upon a sale or exchange of ADSs, gain or loss, if any, recognized on the subsequent sale, conversion or disposition of such foreign currency will be ordinary income or loss, and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. However, if such foreign currency is converted into U.S. dollars on the date received by the U.S. holder, the U.S. holder generally should not be required to recognize any gain or loss on such conversion.

A U.S. Holder who holds shares through an Israeli stockbroker or other Israeli intermediary may be subject to Israeli withholding tax on any capital gains recognized if the U.S. Holder does not obtain approval of an exemption from the Israeli Tax Authorities or claim any allowable refunds or reductions. U.S. Holders are advised that any Israeli tax paid under circumstances in which an exemption from (or a refund of or a reduction in) such tax was available will not give rise to a deduction or credit for foreign taxes paid for U.S. federal income tax purposes. If applicable, U.S. Holders are advised to consult their Israeli stockbroker or intermediary regarding the procedures for obtaining an exemption or reduction.

Medicare Tax on Unearned Income

Certain U.S. holders that are individuals, estates or trusts are required to pay an additional 3.8% tax on all or a portion of their "net investment income," which includes dividends and net gains from the sale or other dispositions of ADSs (other than ADSs held in a trade or business).

Passive Foreign Investment Companies

For U.S. Federal income tax purposes, we will be considered a passive foreign investment company ("PFIC") for any taxable year in which either 75% or more of our gross income is passive income, or at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, royalties, rents, annuities and the excess of gain over losses from the disposition of assets which produce passive income. If we were determined to be a PFIC for U.S. Federal income tax purposes, highly complex rules would apply to U.S. holders owning ADSs.

Based on our estimated gross income, the average value of our gross assets and the nature of our business, we do not believe that we will be classified as a PFIC in the current taxable year. Our status in any taxable year will depend on our assets and activities in each year and because this is a factual determination made annually at the end of each taxable year, there can be no assurance that we will not be considered a PFIC for any future taxable year. If we were treated as a PFIC in any year during which a U.S. holder owns ADSs, certain adverse tax consequences could apply, as described below. Given our current business plans, however, we do not expect that we will be classified as a PFIC in future years.

If we are treated as a PFIC for any taxable year,

- a U.S. holder would be required to allocate income recognized upon receiving certain dividends or gain recognized upon the disposition of ADSs ratably over its holding period for such ADSs,

- the amount allocated to each year during which we are considered a PFIC other than the year of the dividend payment or disposition would be subject to tax at the highest individual or corporate tax rate, as the case may be, and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year,

- the amount allocated to the year of the dividend payment or disposition would be taxable as ordinary income, and

- a U.S. holder would be required to make an annual return on IRS Form 8621 regarding distributions received and gain realized with respect to ADSs, and additionally recently promulgated regulations impose an additional annual filing requirement for U.S. holders who are shareholders of a PFIC.

One method to avoid the aforementioned treatment is for a U.S. holder to make an election to treat us as a qualified electing fund. A U.S. holder may make a qualified electing fund election only if we furnish the U.S. holder with certain tax information and we do not presently intend to prepare or provide this information. Alternatively, another method to avoid the aforementioned treatment is for a U.S. holder to make a timely mark-to-market election in respect of its ADSs. If a U.S. holder elects to mark-to-market its ADSs, any excess of the fair market value of the ADSs at the close of each tax year over the adjusted basis in such ADSs will generally be included in income. If the fair market value of the ADSs had depreciated below the adjusted basis at the close of the tax year, the U.S. holder may generally deduct the excess of the adjusted basis of the ADSs over its fair market value at that time. However, such deductions generally would be limited to the net mark-to-market gains, if any, that were included in income by such holder with respect to ADSs in prior years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ADSs with respect to which the mark-to-market election is made, is treated as ordinary income or loss.

You are urged to consult your own tax advisor regarding the possibility of us being classified as a PFIC and the potential tax consequences arising from the ownership and disposition (directly or indirectly) of an interest in a PFIC.

Backup Withholding and Information Reporting

Payments of dividends with respect to ADSs and the proceeds from the sale, retirement, or other disposition of ADSs made by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. holder as may be required under applicable U.S. Treasury regulations. We, or an agent, a broker, or any paying agent, as the case may be, may be required to withhold tax (backup withholding), currently at the rate of 28%, if a non-corporate U.S. holder that is not otherwise exempt fails to provide an accurate taxpayer identification number and comply with other IRS requirements concerning information reporting. Certain U.S. holders (including, among others, corporations and tax-exempt organizations) are not subject to backup withholding. Any amount of backup withholding withheld may be used as a credit against your U.S. Federal income tax liability provided that the required information is timely furnished to the IRS. U.S. holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Foreign Asset Reporting

Certain U.S. Holders who are individuals are required to report information relating to an interest in our ADSs on IRS Form 8938, subject to certain exceptions (including an exception for shares held in accounts maintained by financial institutions). U.S. Holders are encouraged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our ADSs.

Documents on Display

We are subject to certain of the information reporting requirements of the Securities and Exchange Act of 1934, as amended. As a "foreign private issuer" we are exempt from the rules and regulations under the Securities Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Securities Exchange Act, with respect to their purchase and sale of our shares. In addition, we are not required to file reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Securities Exchange Act. NASDAQ rules generally require that companies send an annual report to shareholders prior to the annual general meeting, however we rely upon an exception under the NASDAQ rules and follow the generally accepted business practice for companies in Israel. Specifically, we file annual reports on Form 20-F, which contain financial statements audited by an independent accounting firm, electronically with the SEC and post a copy on our website. We also furnish to the SEC quarterly reports on Form 6-K containing unaudited financial information after the end of each of the first three quarters.

You may read and copy any document we file with the SEC at its public reference facilities at, 100 F Street, N.E., Washington, D.C. 20549 and at the SEC's regional offices at 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of this web site is http://www.sec.gov. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. In addition, our ADSs are quoted on the NASDAQ Global Select Market, so our reports and other information can be inspected at the offices of the National Association of Securities Dealers, Inc. at 1735 K Street, N.W., Washington, D.C. 20006.

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

General

Market risks relating to our operations result primarily from weak economic conditions in the markets in which we sell our products and changes in interest rates and exchange rates. To manage the volatility related to the latter exposure, we may enter into various derivative transactions. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in currency exchange rates. It is our policy and practice to use derivative financial instruments only to manage exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivative.

Foreign Currency Risk

We conduct our business primarily in U.S. dollars but also in the currencies of the United Kingdom, the European Union and Israel as well as other currencies. Thus, we are exposed to foreign exchange movements, primarily in GBP, EUR and NIS. We monitor foreign currency exposure and, from time to time, may use various instruments to preserve the value of sales transactions and commitments; however, this cannot assure our protection against risks of currency fluctuations. For more information regarding foreign currency related risks, please refer to Item 3, "Key Information—General Risks Relating to Our Business" of this annual report. We use currency forward contracts and option contracts in order to protect against the increase in value of forecasted non-dollar currency cash flows and to hedge future anticipated payments.

As of December 31, 2014, we had outstanding currency option contracts to hedge payroll and facilities expenses, denominated in NIS, in the total amount of approximately $108.3 million. The fair value of those contracts was approximately $4.1 million. These transactions were for a period of up to one year.

The following table details the balance sheet exposure (i.e, the difference between assets and liabilities) in our main foreign currencies, as of December 31, 2014, against the relevant functional currency.

| | Functional currencies (In U.S. dollars in millions) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | USD | GBP | EUR | CAD | MXN | CHF | AUD | Other currencies |
| Foreign currencies | | | | | | | | |
| USD | - | 22.02 | 6.94 | 2.30 | 0.55 | 0.81 | 1.84 | (0.87 ) |
| GBP | 8.58 | - | 5.18 | - | - | - | - | - |
| EUR | 1.28 | 14.69 | - | - | - | - | - | - |
| CAD | 5.18 | 0.55 | - | - | - | - | - | - |
| AUD | 0.64 | - | 0.69 | - | - | - | - | - |
| MXN | 1.68 | - | - | - | - | - | - | - |
| CHF | 0.83 | - | - | - | - | - | - | - |
| HKD | (2.70 ) | - | - | - | - | - | - | - |
| ILS | (18.78 ) | - | - | - | - | - | - | - |
| Other currencies | - | - | - | - | - | - | - | 0.62 |

128

The table below presents the fair value of firmly committed transactions for lease obligations denominated in currencies other than the functional currency:

| | New Israeli Shekel | Other currencies | Total |
|---|---|---|---|
| | (In U.S. dollars in millions) | | |
| less than 1 year | 7.67 | 0.24 | 7.91 |
| 1-3 years | 12.71 | 0.06 | 12.77 |
| 3-5 years | 12.71 | 0.04 | 12.75 |
| Over 5 years | 18.01 | - | 18.01 |
| Total | 51.10 | 0.34 | 51.44 |

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment in marketable securities and deposits. Our marketable securities portfolio consists of investment-grade corporate debentures and U.S. treasuries. As of December 31, 2014, 91% of our portfolio was in such securities.

We invest in dollar deposits with U.S. banks, European banks, Israeli banks and money market funds. As of December 31, 2014, 9% of our portfolio was in such deposits. Since these investments are for short periods, interest income is sensitive to changes in interest rates.

The decline in interest rates in the global markets has a direct effect on our interest income and our ability to maintain our portfolio's yield level in line with prior years. In a market environment of declining interest rates, we are likely to reinvest the redeemed proceeds from our called or matured marketable securities in lower yielding investments. Conversely, an increase in market interest rates could also have an adverse effect on the value of our investment portfolio, for example, by decreasing the fair values of the fixed income securities that comprise a substantial majority of our investment portfolio.

The average duration of the securities portfolio, as of December 31, 2014, is 2.7 years. The securities in our marketable securities portfolio are rated generally as A- according to Standard and Poor's rating or A3, according to Moody's rating. Securities representing 8.1% of the marketable securities portfolio are rated as AAA; securities representing 21.9% of the marketable securities portfolio are rated as AA; securities representing 68.9% of the marketable securities portfolio are rated as A; and securities representing 1.1% of the marketable securities portfolio are rated below A- after being downgraded during the last two years.

The fair value of marketable securities, which are subject to risk of changes in interest rate, segregated by maturity dates:

| | Amortized Cost | | | | | Estimated fair value | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Up to 1 year | 1-3 years | 4-5 years | 6-10 years | Total | Up to 1 year | 1-3 years | 4-5 years | 6-10 years | Total |
| Corporate debentures | 65.3 | 109.7 | 123.1 | 7.0 | 305.1 | 65.8 | 110.2 | 122.6 | 7.1 | 305.7 |
| U.S treasuries | - | - | - | 7.0 | 7.0 | - | - | - | 6.8 | 6.8 |
| Total | 65.3 | 109.7 | 123.1 | 14.0 | 312.1 | 65.8 | 110.2 | 122.6 | 13.9 | 312.5 |

Other risks and uncertainties that could affect actual results and outcomes are described in Item 3, “Key Information—Risk Factors” in this annual report.

Item 12. Description of Securities Other than Equity Securities.

American Depositary Shares and Receipts

Set forth below is a summary of certain provisions in relation to charges and other payments under the Deposit Agreement, as amended, among NICE, The Bank of New York Mellon as depositary (the "Depositary"), and the owners and holders from time to time of ADRs issued thereunder (the “Deposit Agreement”). This summary is not complete and is qualified in its entirety by the Deposit Agreement, a form of which has been filed as Exhibit 1 to the Post-Effective Amendment No. 3 to the Registration Statement on Form F-6 (Registration No. 333- 157371) filed with the SEC on April 17, 2014.

Charges of the Depositary

NICE will pay the fees, reasonable expenses and out-of-pocket charges of the Depositary and those of any registrar only in accordance with agreements in writing entered into between NICE and the Depositary from time to time. The following charges shall be incurred by any party depositing or withdrawing ordinary shares or by any party surrendering ADRs or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or deposited ordinary shares or a distribution of ADRs pursuant to the terms of the Deposit Agreement):

(1) any applicable taxes and other governmental charges,

(2) any applicable transfer or registration fees,

(3) certain cable, telex and facsimile transmission charges as provided in the Deposit Agreement,

(4) any expenses incurred in the conversion of foreign currency,

(5) a fee of $5.00 or less per 100 ADSs (or a portion thereof) for the execution and delivery of ADRs and the surrender of ADRs, and

(6) a fee of $0.05 or less per year per ADS for any cash distribution made.

(7) a fee for the distribution of proceeds of rights that the Depositary sells pursuant to the Deposit Agreement.

The Depositary may own and deal in NICE securities and in NICE ADRs.

Liability of Holders for Taxes, Duties or Other Charges

Any tax or other governmental charge with respect to ADRs or any deposited ordinary shares represented by any ADR shall be payable by the holder of such ADR to the Depositary. The Depositary may refuse to effect transfer of such ADR or any withdrawal of deposited ordinary shares represented by such ADR until such payment is made, and may withhold any dividends or other distributions or may sell for the account of the holder any part or all of the deposited ordinary shares represented by such ADR and may apply such dividends or distributions or the proceeds of any such sale in payment of any such tax or other governmental charge and the holder of such ADR shall remain liable for any deficiency.

Fees paid by the Depositary

The Depositary has agreed to reimburse NICE for certain expenses it incurs that are related to maintenance and administration of the ADR program. The Depositary has also agreed to pay certain out-of-pocket administrative, maintenance and shareholder services expenses for providing services to the registered holders of ADRs. There are limits on the amount of expenses for which the Depositary will reimburse NICE, but the amount of reimbursement available to NICE is not necessarily tied to the amount of fees the Depositary collects from ADR holders.

From January 1, 2014 to December 31, 2014, NICE received from the depositary $153,958 as reimbursement for its expenses incurred in relation to the maintenance and administration of the ADR program.

# PART II

## Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

## Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

None.

## Item 15. Controls and Procedures.

### Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of NICE's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of NICE's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that NICE's disclosure controls and procedures were effective as of such date.

### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 15d-15(f) under the Securities Exchange Act. Our internal control over financial reporting system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective can only provide reasonable assurance with respect to financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed our internal control over financial reporting as of December 31, 2014. Our management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that, as of December 31, 2014, our internal control over financial reporting is effective.

### Attestation Report of the Independent Registered Public Accounting Firm

Our independent registered public accounting firm, Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global independently assessed the effectiveness of our internal control over financial reporting and has issued an attestation report, which is included under Item 18 on page F-3 of this annual report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert.

Our Board of Directors has determined that each of Dan Falk and Yocheved Dvir meets the definition of an audit committee financial expert, as defined in Item 407 of Regulation S-K, and is independent under the applicable regulations.

Item 16B. Code of Ethics.

We have adopted a Code of Ethics that applies to our principal executive and financial officers, and that also applies to all of our employees. The Code of Ethics is publicly available on our website at www.nice.com. Written copies are available upon request. If we make any substantive amendments to the Code of Ethics or grant any waiver from a provision of this code to our chief executive officer, principal financial officer or corporate controller, we will either disclose the nature of such amendment or waiver on our website or in our annual report on Form 20-F.

On February 14, 2012, our Board of Directors approved an amendment to our Code of Ethics, which included new provisions regarding sexual harassment in the workplace and a revised section on bribery and corruption, as well as other non-material revisions.

Item 16C. Principal Accountant Fees and Services.

Fees Paid to Independent Auditors

Fees billed or expected to be billed by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, and other members of Ernst & Young Global for professional services for each of the last two fiscal years were as follows:

| Services Rendered | 2013 Fees | 2014 Fees |
|---|---|---|
| Audit (1) | $675,000 | $691,000 |
| Audit-related (2) | $79,000 | $72,000 |
| Tax (3) | $469,000 | $399,000 |
| Total | $1,223,000 | $1,162,000 |

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(1) Audit fees are for audit services for each of the years shown in this table, including fees associated with the annual audit for 2013 (including audit in accordance with section 404 of the Sarbanes-Oxley Act) and certain procedures regarding our quarterly financial results submitted on Form 6-K, consultations concerning financial accounting and various accounting issues and performance of local statutory audits.

(2) Audit-related fees relate to assurance and associated services that traditionally are performed by the independent auditor, including: due diligence investigations and audit services provided in connection with other statutory or regulatory filings.

(3)

Tax fees are for professional services rendered by our auditors for tax compliance, tax advice on actual or contemplated transactions, tax consulting associated with international transfer prices and global mobility of employees.

Policies and Procedures

Our audit committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our external auditors, Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global. The policy, which is designed to ensure that such services do not impair the independence of our auditors, requires pre-approval from the audit committee on an annual basis for the various audit and non-audit services that may be performed by our auditors. If a type of service, that is to be provided by our auditors, has not received such general pre-approval, it will require specific pre-approval by our audit committee. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by our audit committee. The policy prohibits retention of the independent auditors to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act of 2002 or the rules of the SEC, and also considers whether proposed services are compatible with the independence of the public auditors.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

During 2014, we repurchased our ordinary shares as described in the table below.

| Period | (a) Total number of shares purchased | (b) Average price paid per share | (c) Total number of shares purchased as part of publicly announced plans or programs | (d) Maximum number (or approximately dollar value) of shares that may yet be purchased under the plans or programs |
|---|---|---|---|---|
| | (In U.S. dollars, except share amounts) | | | |
| January 1 – January 31 | 299,312 | 40.07 | 299,312 | 4,313,307 |
| February 1 - February 28 | 219,477 | 39.67 | 219,477 | 95,607,212 |
| March 1 - March 31 | 104,919 | 40.87 | 104,919 | 91,319,477 |
| April 1 - April 30 | - | - | - | 91,319,477 |
| May 1 - May 31 | 230,916 | 38.81 | 230,916 | 82,357,524 |
| June 1 - June 30 | 401,036 | 40.27 | 401,036 | 66,206,014 |
| July 1 - July 31 | 370,898 | 40.35 | 370,898 | 51,241,212 |
| August 1 - August 31 | 299,867 | 38.80 | 299,867 | 39,606,267 |
| September 1 - September 30 | 84,860 | 39.57 | 84,860 | 36,248,537 |
| October 1 - October 31 | 250,810 | 39.85 | 250,810 | 26,253,295 |
| November 1 - November 30 | 40,000 | 47.41 | 40,000 | 24,356,784 |
| December 1 - December 31 | 16,587 | 47.70 | 16,587 | 23,565,528 |
| Total | 2,318,682 | 40.00 | 2,318,682 | |

On February 15, 2011, we announced that our Board of Directors authorized a program to repurchase up to $100 million of our issued and outstanding ordinary shares and ADRs. Repurchases may be made from time to time in the open market or in privately negotiated transactions and will be in accordance with applicable securities laws and regulations. The timing and amount of the repurchase transactions will be determined by management and may depend on a variety of factors, including market conditions, alternative investment opportunities and other considerations. The program does not obligate us to acquire any particular amount of ordinary shares and ADRs and the program may be modified or discontinued at any time without prior notice.

On November 3, 2011, we announced that our Board of Directors authorized a new program to repurchase up to $100 million of our issued and outstanding ordinary shares and ADRs. Repurchases may be made from time to time in the open market or in privately negotiated transactions and will be in accordance with applicable securities laws and regulations. The timing and amount of the repurchase transactions will be determined by management and may depend on a variety of factors, including market conditions, alternative investment opportunities and other considerations. The program does not obligate us to acquire any particular amount of ordinary shares and ADRs and the program may be modified or discontinued at any time without prior notice.

On October 31, 2012, we announced that our Board of Directors authorized a program to repurchase up to $100 million of our issued and outstanding ordinary shares and ADRs. Repurchases may be made from time to time in the open market or in privately negotiated transactions and will be in accordance with applicable securities laws and regulations. The timing and amount of the repurchase transactions will be determined by management and may depend on a variety of factors, including market conditions, alternative investment opportunities and other considerations. The program does not obligate us to acquire any particular amount of ordinary shares and ADRs and the program may be modified or discontinued at any time without prior notice.

On February 5, 2014, we announced that our Board of Directors authorized a program to repurchase up to $100 million of our issued and outstanding ordinary shares and ADRs. Repurchases may be made from time to time in the open market or in privately negotiated transactions and will be in accordance with applicable securities laws and regulations. The timing and amount of the repurchase transactions will be determined by management and may depend on a variety of factors, including market conditions, alternative investment opportunities and other considerations. The program does not obligate us to acquire any particular amount of ordinary shares and ADRs and the program may be modified or discontinued at any time without prior notice.

Item 16F. Change in Registrant's Certifying Accountant.

None.

Item 16G. Corporate Governance.

We follow the Israeli Companies Law, the relevant provisions of which are summarized in this annual report, rather than comply with the NASDAQ requirements relating to: (i) the quorum for shareholder meetings (see Item 10, "Additional Information – Memorandum and Articles of Association – Meetings of Shareholders" in this annual report); (ii) shareholder approval with respect to issuance of securities under equity based compensation plans (see Item 10, "Additional Information – Memorandum and Articles of Association – Approval of Certain Transactions" and "Approval of Office Holder Compensation" in this annual report); and (iii) sending annual reports to shareholders (see Item 10, "Additional Information – Documents on Display" in this annual report).

Item 16H. Mine Safety Disclosure.

Not Applicable.

PART III

Item 17. Financial Statements.

Not Applicable.

Item 18. Financial Statements.

See pages F-1 through F-53 of this annual report attached hereto.

Item 19. Exhibits.

| Exhibit No. | Description |
|---|---|
| 1.1 | Amended and Restated Memorandum of Association, as approved on December 21, 2006 (English translation) (filed as Exhibit 1.1 to NICE-Systems Ltd.'s Annual Report on Form 20-F filed with the SEC on June 13, 2007, and incorporated herein by reference). |
| 1.2 | Amended and Restated Articles of Association, as amended on September 19, 2011 (filed as Exhibit 4.2 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-177510) filed with the SEC on October 26, 2011, and incorporated herein by reference). |
| 2.1 | Form of Share Certificate (filed as Exhibit 4.1 to Amendment No. 1 to NICE-Systems Ltd.'s Registration Statement on Form F-1 (Registration No. 333-99640) filed with the SEC on December 29, 1995, and incorporated herein by reference). |
| 2.2 | Form of Deposit Agreement including Form of ADR Certificate (filed as Exhibit 1 to NICE-Systems Ltd.'s Post-Effective Amendment No. 3 to the Registration Statement on Form F-6 (Registration No. 333-157371) filed with the SEC on April 17, 2014, and incorporated herein by reference). |
| 4.1 | NICE Systems Ltd. 2003 Stock Option Plan, as amended (filed as Exhibit 4.4 to NICE-System Ltd.'s Annual Report on Form 20-F (File No. 000-27466) filed with the SEC on April 6, 2009, and incorporated herein by reference). |
| 4.2 | Actimize Ltd. 2003 Omnibus Stock Option and Restricted Stock Incentive Plan (filed as Exhibit 4.4 to NICE-System Ltd.'s Registration Statement on Form S-8 (Registration No. 333-145981) filed with the SEC on September 11, 2007, and incorporated herein by reference). |
| 4.3 | NICE Systems Ltd. 2008 Share Incentive Plan, as amended on February 4, 2014 (filed as Exhibit 4.5 to NICE's Annual Report on Form 20-F filed with the Commission on March 26, 2014, and incorporated herein by reference). |
| 4.4 | Orsus Solutions Limited 2007 Incentive Option Plan, as amended (filed as Exhibit 4.10 to NICE-Systems Ltd.'s Annual Report on Form 20-F filed with the SEC on March 31, 2010, and incorporated herein by reference). |
| 4.5 | e-Glue Software Technologies, Inc. 2004 Stock Option Plan, as amended (filed as Exhibit 4.4 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-168100) filed with the SEC on July 14, 2010, and incorporated herein by reference). |
| 4.6 | Fizzback Group (Holdings) Limited Employee Share Option Scheme (filed as Exhibit 4.4 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-177510) filed with the SEC on October 26, 2011, and incorporated herein by reference). |
| 4.7 | Merced Systems, Inc. 2001 Stock Plan (filed as Exhibit 4.4 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-179408) filed with the SEC on February 7, 2012, and incorporated herein by reference). |
| 4.8 | Merced Systems, Inc. 2011 Stock Plan (filed as Exhibit 4.5 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-179408) filed with the SEC on February 7, 2012, and incorporated herein by reference). |

| | |
|---|---|
| 4.9 | The Causata Inc. Executive Share Option Scheme (filed as Exhibit 4.4 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-191176) filed with the SEC on September 16, 2013, and incorporated herein by reference). |
| 4.10 | Causata Inc. 2010 Stock Plan (filed as Exhibit 4.5 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-191176) filed with the SEC on September 16, 2013, and incorporated herein by reference). |
| 4.11 | NICE System Ltd.'s Executives & Directors Compensation Policy (filed as Annex A in Exhibit 99.1 of NICE-System's Ltd. Immediate Report on Form 6-K filed with the SEC on July 23, 2013 and incorporated herein by reference). |
| 8.1 | &#1 |