

Risk Factors

Risks Relating to Markets, Global Operations and Competition

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.

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 also reduce spending in relation to trading floors and operational risk management, as IT-related capital expenditures are typically lower in times of economic slowdowns. In addition, enterprises' ordering and payment patterns are influenced by market conditions and could cause fluctuations in our quarterly results. Moreover, our clients may, due to imminent regulatory or operational deadlines or objectives or for other reasons, prioritize other expenditures over the solutions that we offer.

Disruption to the global economy could, therefore, have 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, (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 values of our assets that are deemed to be other than temporary, which may result in impairment losses.

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. 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. 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.

If we fail to successfully compete with infrastructure vendors, such failure may materially adversely affect our financial results.

The economic climate has forced many organizations to reassess their contact center solutions' infrastructure. For the contact center, the enterprise and the remote and mobile workforce, an all-in-one contact center platform may be a preferred alternative to a multi-point system, as it may result in a reduction in the Total Cost of Ownership (TCO) and the enablement of new cross systems business processes. Although we may benefit from this trend, at the same time, we are observing that there are infrastructure players that are potentially looking to introduce a "contact center as a service" cloud-based solution that will include features and functionality currently supplied by us, in addition to the infrastructures supplied by such vendors. 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.

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 expand their product offering to compete with us, 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 offering, 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 offering. In addition, these channels may further their direct competition with us by offering recording as a standard functionality in the telephony infrastructure systems (recording at the switch). 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.

As a result of all of these factors, including any difficulties we may experience in maintaining our relationship with these channel (for example, entering into subsequent commercial agreements), on the one hand, and their direct competition with us on the other hand, we may lose sales opportunities, customers and market share, which may have a material adverse effect on our business, financial condition or 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. The convergence of voice and data networks and wired and wireless communications 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 and deliver 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.

Operating globally exposes us to additional and unpredictable risks.

We sell our products and solutions throughout the world and intend to continue to increase our penetration of international markets. In 2011, 2012 and 2013 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;
- 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 (or, 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, including 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.

Unpredictable events, including extreme weather events, earthquakes and tsunamis, 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 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.

If we fail to develop or maintain relationships with existing and new distribution and strategic partnership channels, such failure may materially adversely affect our financial results.

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. If we are not successful, we may lose sales opportunities, customers and market share, which may have a material adverse effect on our business and results of operations.

We depend on Avaya's 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 Avaya's infrastructure or operate in Avaya's environment. To the extent that Avaya does not allow or support the integration of our products with its infrastructure or products or uses other means to prevent us from selling our products to such customers (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 Avaya's 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.

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 2013, 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.

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. In addition, there may be more fluctuations in cash collection and revenue recognition with respect to such 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.

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 sustain growth.

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 revenues 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), and expect to continue to make acquisitions. 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, may result in unforeseen operating difficulties and large expenditures and may absorb significant management attention that would otherwise be available for the ongoing development of our business, and which may result in the loss of key customers and/or personnel and expose us to unanticipated liabilities.

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. From time to time, we may also need to acquire complementary technologies, whether to execute our strategies or in order to comply with customer needs. There are no assurances that we will be able to acquire or successfully integrate an acquired company, business or technology, or successfully leverage such complementary technology in the market.

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.

There can be no assurance that we will be successful in making additional acquisitions or effective in integrating such acquisitions into our existing business. We may also compete with others to acquire companies, and such competition may result in decreased availability of, or increased prices for, suitable acquisition candidates. In addition, for possible commercial and economic considerations, we may not be able to consummate acquisitions that we have identified as crucial to the implementation of our strategy. 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. For those and other reasons, we may ultimately fail to consummate an acquisition, even if we announce that we plan to acquire a company.

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. We have also invested in companies which can still be considered in the start-up or development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire initial investment in these companies. 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 shift towards advanced software applications could adversely affect our business.

Historically we have supplied the hardware and some software for implementing multimedia recording solutions. Our shift towards providing advanced software applications and a multi-product offering has required and will continue to require substantial investment and change in our business model, including the move to a more direct sales and service model, including customer installations. This requires, among other things, the continuous evolution of our sales force, maintenance and support offerings, manpower, research and development, and customer installation methods, as well as our route to market. Our customers' end-users are changing and therefore we need to expand our relationships and brand recognition within our customer base. While this new business model has so far affected our business positively in terms of growth and profitability, it leads to longer sales cycles and higher customization requirements. In addition, the sale of a multi-product offering is usually subject to a prolonged process of product testing and acceptance only once all components of the product offering are proven to be working together as a complete system. 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.

Our failure to adequately adapt to IT industry trends and customers' consolidation could negatively impact our future operating results.

Technological trends, such as the adoption of virtualization technologies, the need for IT efficiency (converting IT costs from capital expenses to operating expenses) and the increased demand for business agility are all contributing to the move of cloud computing into the mainstream.

As enterprise customers embrace cloud computing, the way they source business solutions likely will change, giving preference to 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 able to timely and adequately meet customer needs, which could have an adverse effect on our business, financial condition and results of operations. Furthermore, 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. In addition, cloud computing could make it easier for new competitors (such as telecom carriers) to enter our markets due to the lower up-front technology costs. Such increased competition is likely to heighten the pressure to decrease pricing. Such increased competition and the above-mentioned change in business model may negatively impact our revenues.

Furthermore, some of our enterprise customers have increased in size, partly due to consolidation in the financial market. If our technology is not scalable enough to support these changes, it may have a material adverse effect on our business, financial condition and results of operation.

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. In addition, some of our major suppliers use proprietary technology and software code that could require significant redesign of our products in the case of a change in vendor. 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.

If we lose our key personnel or cannot recruit and retain key personnel, our business may suffer.

In order to compete, we must recruit, 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. Mr. Zeev Bregman, our current President and CEO will be retiring and Mr. Barak Eilam will assume the position of CEO of NICE. The transition is expected to be completed by the end of April 2014, and it is likely that such changes will result in further changes in our management. The succession and transition process may have an effect on our business and operations. Additionally, in connection with the appointment of the new CEO, we will seek to retain our executive management team, hire new managers, and keep employees focused on achieving our strategic goals and objectives. In the event that we are not able to retain such executive management team and hire managers to fill in vacated positions and/or we are not able to keep our key employees focused on achieving our strategic goals, it could have a material adverse effect on our business and results of operation.

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, 2013, 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.

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.

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.

Risks Relating to Our Finances

We face foreign exchange currency risks.

We are impacted by exchange rate fluctuations. We are likely to face 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. 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. 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.

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 Our Products and Solutions, Intellectual Property and Privacy

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.

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 either case, 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.

Undetected problems in our products or solutions could directly impair our financial results and we could face potential product liability claims against us.

If flaws in the design, production, assembly or testing of our products and solutions (by us or our suppliers) were to occur, we could experience a rate of failure in our products or solutions that would result in substantial repair, replacement or return of products and solutions (and possible refund of payments) and/or service costs, and potential liability and damage to our reputation. There can be no assurance that our efforts to monitor, develop, modify and implement appropriate testing and manufacturing processes for our products or solutions will be sufficient to prevent a rate of failure in our products or solutions that results in substantial delays in shipment, significant repair or replacement costs or return of products, or potential damage to our reputation, or damage and penalties as a result of demands and claims, any of which could have a material adverse effect on our business, results of operations and financial condition.

We may be subject to claims that our products are defective or that some function or malfunction of our products caused or contributed to property, bodily or consequential damages. We attempt to minimize this risk by incorporating provisions into our distribution and standard sales agreements that are designed to limit our exposure to potential claims of liability. No assurance can be given that all claims will be barred by the contractual provisions limiting liability or that the provisions will be enforceable. We carry product liability insurance in the amount of \$25,000,000 per occurrence and \$25,000,000 overall per annum. No assurance can be given that the amount of any individual claim or all claims will be covered by the insurance or that the amount of any individual claim or all claims in the aggregate will not exceed insurance policy coverage limits. A significant liability claim against us could have a material adverse effect on our results of operations and financial position.

Any undetected errors or malfunctions in our products could adversely affect our reputation, result in significant costs to us, impair our ability to market our products and expose us to legal liability.

Our software products are highly complex. Despite extensive testing by us and by our clients, we have in the past discovered errors, failures, bugs or other weaknesses in our software applications and will likely continue to do so in the future. 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, 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.

Inadequate intellectual property protections could prevent us from enforcing or defending our intellectual property and we may be subject to liability in the event our products or solutions infringe on the proprietary rights of third parties and we are not successful in defending such claims.

Our success is dependent, to a significant extent, upon our proprietary technology. We currently hold 127 U.S. patents and 68 patents issued in additional countries covering substantially the same technology as the U.S. patents. We have over 120 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, or 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 use certain “open source” software tools that may be subject to intellectual property infringement claims or that may subject our derivative products to unintended consequences, possibly impairing our product development plans, interfering with our ability to support our clients or requiring us to allow access to our products or necessitating that we pay licensing fees.

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.

Risks Relating to the Regulatory Environment

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 products, us or our employees (including labor laws and regulations) are newly implemented or changed. In addition, our revenues would be harmed if we fail to adapt our products to changes in 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 include both internal and external regulations and 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.

We are seeing a global trend for adoption and enforcement of privacy and information security legislation and procedures, and 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.

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 customer 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, third parties may attempt to breach our security or inappropriately use our products through computer viruses, electronic break-ins and other disruptions. If successful, confidential information, including passwords, financial information, or other personal information may be improperly obtained 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.

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. 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.

In recent years, the European Union issued directives on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, or "RoHS," and Waste Electrical and Electronic Equipment, or "WEEE." We are making every effort in order to maintain compliance with these directives, without otherwise adversely affecting the quality and functionalities of our products. The countries of the European Union, as a single market for our products, accounted in 2012 and 2013 for approximately 17% and 18%, respectively, of our revenues. If our products fail to comply with WEEE or RoHS directives or any other directive issued from time to time by the European Union, we could be subject to penalties and other sanctions that could have a material adverse effect on our results of operations and financial condition. In addition, similar regulations are being formulated in other parts of the world. We may incur substantial costs in complying with other similar programs that might be enacted outside Europe in the future.

Moreover, the Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals (tantalum, tin, tungsten and gold) that are known as "conflict minerals", originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for public companies that utilize in their products "conflict minerals" mined from the DRC and adjoining countries that necessary to the functionality or production of the product manufactured or contracted to be manufactured by such company, as well as guidelines regarding efforts to identify the sourcing of such "conflict minerals". These new requirements require due diligence efforts, with initial disclosure requirements beginning in May 2014. There are costs associated with complying with these disclosure requirements, including for due diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. These requirements may have the effect of reducing the pool of suppliers who can supply DRC "conflict-free" components and parts, and we may not be able to obtain DRC conflict-free products or supplies in sufficient quantities for our operations or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be "conflict-free" or if we are unable to sufficiently verify the origins for all "conflict minerals" used in our products.

If we fail to meet current and new performance criteria prescribed by compliance regulators, we may suffer a loss to our business.

Our business, results of operations and financial condition could be materially adversely affected if we fail to meet current and new performance criteria prescribed by compliance regulators on our customers, such as the recording of all of the calls at our contact centers.

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 ("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.

History and Development of the Company

Our legal and commercial name is NICE-Systems Ltd. We are a company limited by shares organized under the laws of the State of Israel. We were originally incorporated as NICE Neptun Intelligent Computer Engineering Ltd. on September 28, 1986 and were renamed NICE-Systems Ltd. on October 14, 1991. Our principal executive offices are located at 22 Zarchin Street, P.O. Box 690, Ra'anana 43107, Israel and the telephone number at that location is +972-9-775-3030. Our agent for service in the United States is our subsidiary, Nice Systems Inc., located at 461 From Road, Paramus, New Jersey 07652.