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

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2015

OR

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

OR

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

Commission file number 0-27466

NICE-SYSTEMS LTD.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange On Which Registered</u>
<u>American Depositary Shares, each representing one Ordinary Share, par value one New Israeli Shekel per share</u>	<u>NASDAQ Global Select Market</u>

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

None

(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **59,526,506 Ordinary Shares, par value NIS 1.00 per share (which excludes 11,633,783 treasury shares)**

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

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant has submitted electronically 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).

Yes 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

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

Yes No

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," "continue," "goal" and "target" and similar expressions, as they relate to NICE or its management, are intended to identify forward-looking statements. Such statements reflect the current beliefs, expectations and assumptions of NICE with respect to future events and are subject to risks and uncertainties. The forward-looking statements relate to, among other things: operating results; anticipated cash flows; gross margins; adequacy of resources to fund operations; our ability to maintain our average selling prices despite the aggressive marketing and pricing strategies of our competitors; our ability to maintain and develop profitable relationships with our key distribution channels; the financial strength of our key distribution channels; and the market's acceptance of our technologies, products and solutions.

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

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

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not Applicable.

Item 2. Offer Statistics and Expected Timetable.

Not Applicable.

Item 3. Key Information.

Selected Financial Data

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

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	(U.S. dollars in thousands, except per share data)				
OPERATING DATA:					
Revenues					
Products	\$ 258,165	\$ 276,319	\$ 280,140	\$ 289,560	\$ 317,900
Services	412,789	482,552	541,375	582,435	608,967
Total revenues	670,954	758,871	821,515	871,995	926,867
Cost of revenues					
Products	68,894	78,878	69,335	63,919	66,363
Services	180,771	215,519	230,279	239,592	237,219
Total cost of revenues	249,665	294,397	299,614	303,511	303,582
Gross profit	421,289	464,474	521,901	568,484	623,285
Operating expenses:					
Research and development, net	87,270	103,818	115,431	123,141	128,485
Selling and marketing	160,669	194,346	214,579	231,097	225,817
General and administrative	94,414	94,654	86,467	83,360	90,349
Amortization of acquired intangible assets	22,528	31,455	29,438	19,157	12,528
Restructuring expenses	-	1,870	527	5,435	-
Total operating expenses	364,881	426,143	446,442	462,190	457,179
Operating income	56,408	38,331	75,459	106,294	166,106
Financial income and other net	10,625	8,268	3,927	3,765	5,304
Income before taxes on income	67,033	46,599	79,386	110,059	171,410
Taxes on income (tax benefits)	11,260	(14,799)	26,915	9,909	30,832
Net income from continuing operations	55,773	61,398	52,471	100,150	140,578
Discontinued operations:					
Gain on disposal and (loss) income from operations	2,616	7,301	4,294	4,965	152,459
Taxes on income	1,126	805	1,490	2,040	34,206
Net income on discontinued operations	1,490	6,496	2,804	2,925	118,253
Net income	57,263	67,894	55,275	103,075	\$ 258,831
Basic earnings per share from continuing operations	\$ 0.89	\$ 1.01	\$ 0.87	\$ 1.69	\$ 2.36
Basic earnings per share from discontinued operations	\$ 0.02	\$ 0.10	\$ 0.05	\$ 0.05	\$ 1.99
Basic earnings per share	\$ 0.91	\$ 1.11	\$ 0.92	\$ 1.74	\$ 4.35
Weighted average number of shares used in computing basic earnings per share (in thousands)	62,924	60,905	60,388	59,362	59,552
Diluted earnings per share from continuing operations	\$ 0.87	\$ 0.99	\$ 0.85	\$ 1.64	\$ 2.29
Diluted earnings per share from discontinued operations	\$ 0.02	\$ 0.10	\$ 0.04	\$ 0.05	\$ 1.93
Diluted earnings per share	\$ 0.89	\$ 1.09	\$ 0.89	\$ 1.69	\$ 4.22
Weighted average number of shares used in computing diluted earnings per share (in thousands)	64,241	62,261	61,830	60,895	61,281

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

*Including assets and liabilities that were accounted as discontinued operations

Risk Factors

Risks Relating to Global Economy, Competition and Markets

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

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

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

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

We face risks relating to our global operations.

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

- governmental controls and regulations, including import or export license requirements, trade protection measures and changes in tariffs;
- changes in applicable international and local laws, regulations and practices, including those related to trade compliance, anticorruption, data privacy and protection, tax, labor, employee benefits, customs, currency restrictions and other requirements;
- changes in foreign currency exchange rates;
- longer payment cycles in certain countries in our geographic areas of operations; and
- general difficulties in managing our global operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

General Risks Relating to Our Business, Offerings and Operations

We depend on the stability of the financial services sector.

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

We depend on the success of our recording solutions.

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

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

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

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

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

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

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

The increasing prevalence of a cloud delivery model offered by us and our competitors may unfavorably affect pricing in each of our on-premise enterprise software business and our cloud business, as well as overall demand for our on-premise software product and service offerings, which could reduce our revenues and profitability.

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

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

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

We depend on a small number of significant customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our Financial Condition

We face foreign exchange currency risks.

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

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

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

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

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

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

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

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

Risks Relating to Intellectual Property and Data Protection

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Regulatory Environment

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

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

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

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

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

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

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

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

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

Risks Relating to our Presence in Israel

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to our shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax. These and other similar provisions could delay, prevent or impede an acquisition of us or our merger with another company, even if such an acquisition or merger would be beneficial to us or to our shareholders.

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

Risks Relating to our ADSs and Ordinary Shares

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

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

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

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

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

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

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

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

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

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

Item 4. Information on the Company.

Company Background

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

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

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

About NICE

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

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

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

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

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

We rely on several key assets to drive our growth:

- Our loyal customer base. Today, more than 20,000 organizations in over 150 countries, including 80 of the Fortune 100 companies, are using NICE solutions.
- Our market leadership makes us a well-recognized brand, and creates top-of-mind awareness for our solutions in our areas of operation.
- Our products and market leading data capture and analytics technologies, which are protected by a broad array of patents.
- Our ability to quickly drive mainstream adoption for innovative solutions and new technologies, which we introduce to the market through our direct sales force and distribution network.
- Our skilled employees and domain expertise in our core markets allows us to bring our customers the right solutions to address key business challenges and build strong customer partnerships.
- Our services and customer support, which enable our customers to quickly enjoy the benefits of our solutions, with multiple deployment models and support for full value realization.

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

Business Overview

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

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

Customer Interactions

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

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

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

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

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

Financial Crime and Compliance

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

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

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

Industry Trends

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

Increased Focus on Improving Customer Experience

- **Consumers demand better experiences across channels.** Consumer behavior is significantly changing in terms of expectations and the way they interact with service providers. Consumers demand immediate, consistent and personalized experiences across all communication channels, including mobile apps, web, chat and over the phone. They easily and often traverse these channels depending on their task, location, time-of-day or even progress within a certain process. They view all of these channels as one, and organizations are expected to quickly adapt to the large variety of channels as well to view them in the same way their consumers do, offering a consistent experience across all channels.
- **Proliferation of analytics as a main driver for successful customer engagement.** Organizations are increasingly implementing a customer-centric strategy to get better visibility to their customers' multi-channel journey with them. Organizations are now moving from simple Business Intelligence tools to focused decisioning and real-time action solutions – being proactive instead of reactive and predictive/prescriptive instead of descriptive. Front, as well as back, office functions seek to employ analytics to better optimize their operations. Organizations today are exploring cognitive engagement solutions, like interactive computing, predictive analytics and machine learning.
- **Regulatory compliance is becoming an increasing consideration for customer service organizations.** In many industries, including financial services, healthcare and utilities regulators are focusing attention on service and sales practices as well as handling customer complaints. Regulatory bodies such as the CFPB in the U.S. are directly imposing standards of care. Organizations are responding by deploying analytics software to monitor compliance adherence and alert to regulation violations in order to proactively avoid potential fines and penalties.
- **Organizations look at Big Data technologies to analyze a wealth of consumer information, derive new business insight and act in real time.** Structured and unstructured data, from millions of multi-channel interactions, open up an opportunity to gain deep insight regarding customer and employee intentions and behavioral patterns. Organizations keep looking for ways to elevate their usage of Big Data and advance from glimpses of interactions and transactions to a meaningful understanding of behaviors and to identify a customer's underlying concerns. Furthermore, they strive to ensure compliance in real time, which is then translated into action and providing the best solution and accurate response.

- **Preventing Financial Crime and Ensuring Compliance Stringent and evolving regulatory environment.** Financial services regulators are calling for a fundamental change in the underlying culture of the entities that they regulate in order to send a strong message from the executive suite on down that protecting an institution, its customers, and its assets is of primary importance. Failings in corporate attitudes towards compliance are likely to continue to be a topic of great concern to financial services organizations. The need to ensure compliance with requirements for advanced technological solutions can be seen across customer interactions and financial services markets. Financial services organizations are increasingly being asked to document and prove to their regulators that the controls that are in place are working and effective. This is evidenced by substantial fines that have recently been levied against such institutions. Furthermore, the regulatory requirements are constantly evolving, requiring financial institutions to respond with solutions that are up to date with the latest modifications.
- **An Unpredictable Threat Landscape Environment.** The growing number of data breaches and cyber security incidents puts increasing amounts of personally identifiable information and sensitive data at risk of exposure. This information can be used to open accounts that can be used for laundering money, terrorist financing, account fraud, market manipulation, social engineering, and more. Such potential risks threaten an organization's reputation, as well as create large financial exposures due to both losses as well as fines. In addition, the large volumes of data having to do with both internal and external threats place an enormous operational burden on organizations dealing with threats. Having the ability to aggregate, analyze, compare, and decision those incidents and cases increasingly points to the need for a robust and comprehensive way in which cases are handled by large financial services organizations.
- **An Integrated Risk Management Platform.** The growing complexity of risks and increasing magnitude of exposure, as well as the sophistication of financial criminals creates a growing need for single view of all risk, which allows organizations to aggregate the different detection signals and analyze them in light of the magnitude of exposure as well as the risk level. Financial institutions are seeking a single dashboard that can aggregate all such information from across the organization and present it to both operational people as well as to executives.

Technology Trends

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

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

- **Real-time analytics capabilities** – Deriving real-time insights over growing amounts of data is becoming essential for multiple business cases. Real-time analytics capabilities are adopted to operationalize Big Data and realize business value. These capabilities include:
 - **Customer interaction analytics** for mining insights from multiple channels (such as phone, email, chat, social media, etc.), transactional data (usage, action taken in the account, etc.), and personal information (demographics, segmentations, etc.).
 - **Transactional analytics** for preventing internal and external fraud, and for mitigating other forms of financial risk.
- **Cloud technologies and SaaS business models** – Cloud delivery is becoming increasingly popular in providing flexible and cost-effective deployment models for enterprise systems. These include SaaS, Infrastructure as a Service, Platform as a Service, Contact Center as a Service, and other cloud-based solutions. There are several market needs driving this trend, such as the pressure to continually improve operational efficiency and innovate, a reduced total cost of ownership (“TCO”), and the ease of implementation.
- **Automation and Machine Learning** - Smart and self-learning machines allow for the automated enhancement of real-time guidance and analytics-based insights (including speech and text analytics), behavior analytics and technique focused on profiling, trending and pattern detection.

Strategy

Market leadership and expansion

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

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

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

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

Customer Interactions Business Strategy

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

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

Financial Crime and Compliance Business Strategy

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

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

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

Continuing to deliver more comprehensive solutions to our existing customers

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

Continuing organic innovation and development, while also pursuing acquisitions

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

Maximizing the synergetic potential across some of our businesses

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

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

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

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

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

Offering an enterprise software business model

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

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

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

Our Solutions

I. Customer Interactions

Our Solutions' Core Capabilities

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

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

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

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

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

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

Addressing Business and Operational Needs

1. Compliance and Risk

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

2. Operational Efficiency

Solution	Description
Contact Center Recording	Provides comprehensive call recording technology that adapts easily to the unique operational requirements of any contact center. It supports virtually any telephony environment and hybrid networks. This enables a seamless transition during technology migrations as the contact center grows and evolves. It supports thousands of concurrent IP streams in a single platform: capturing, forwarding streams in real time, recording and archiving. It also captures non-voice interactions such as video, chat and email, and stores them in a single recording platform, ensuring regulatory adherence and standardized cross-channel workforce optimization.
Performance Management	Maps enterprise business objectives to group and individual goals, and tracks and reports performance. It also automates critical managerial activities, including employee coaching, recognition, and performance improvement, allowing front-line managers to become more effective and efficient in developing their teams. Performance Management also includes unique capabilities, such as gamification, to engage and motivate and align employees around common business goals.
Workforce Management	Forecasts an organization's interactions load, schedules agent shifts across multiple sites with appropriate skills to manage and optimize the level of customer service resources in multi-skilled environments. It measures agent and team performance, and provides real-time change management to proactively respond to changing conditions.
Quality Management	Automates quality assurance processes and selection of calls for evaluation based on performance data. The solution facilitates root-cause evaluation, with easy drill down to interactions missing their Key Performance Indicator targets. Quality improvement is thus managed across voice, email, chat, and social media channels.
Interaction Analytics	Analyzes large quantities of customer interactions across multiple channels to identify hot topics and root causes quickly, and to produce actionable insights. These insights are then leveraged to improve processes, increase sales, optimize marketing campaigns and reduce operational costs.
Back Office Workforce Optimization	Automates manual processes, integrates data from employees' desktops, improves forecast accuracy, enables managers to view and manage resource capacity, and empowers employees to improve their own performance. It also provides tools to ensure regulatory compliance and accuracy, elevating the level of service customers receive across the entire enterprise.
Real-time Authentication	Leverages voice biometrics for authenticating customers in real time. The technology helps organizations to seamlessly enroll customers, expedites agent service, and significantly reduces the risk of fraud for all customers.
Call Volume Optimization	Leverages Big Data infrastructure and advanced predictive analytics to help organizations resolve customer needs in one contact, to predict and preempt follow-up calls, and to enable customers to effectively use self-service tools.
Real-time Service Optimization-	Automatically monitors agent activity in real time, enabling organizations to identify process bottlenecks and implement best practices. With this information, the solution navigates agents through complex processes using on-screen guidance, and automates routine tasks to shorten handle time and eliminate manual processing errors.
Interactive Voice Response ("IVR") Optimization	The IVR Optimization solution enables customers to reduce customer effort by increasing IVR containment rate, reducing IVR repeat calls, agent transfers, drop-offs and deflections and dramatically improving call center efficiency.
Robotic Automation	Robotic solution for the automation of routine back office and contact center processes. Installed on virtual servers, these robots handle end-to-end processes, essentially performing any routine task which the human user would otherwise do manually.

3. Customer Experience

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

4. Sales Optimization

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

5. Public Safety

Incident Debriefing and Investigation

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

Public Safety Emergency Response Optimization

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

II. Financial Crime and Compliance

Our Solutions' Core Capabilities

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

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

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 offer end-to-end coverage for detection, scoring, alerting, workflow processing and reporting of suspicious activity to make sure nothing slips through the cracks. It supports the full investigation life cycle and, with NICE's integrated case management platform, improves staff productivity, helping meet regulatory obligations in a cost-efficient manner.
Watch List Filtering	Provides enterprise-wide customer and transaction screening against multiple watch lists, for end-to-end sanctions list coverage. It identifies and manages sanctioned or high-risk individuals and entities, with real-time name recognition capabilities, providing customers the ability to conduct accurate name matching to prevent non-compliance occurrences.
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. It is an open, flexible platform that can adapt to unique requirements across business segments, regions, and jurisdictions.
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. This allows for the reduction in manual intervention and errors. Built-in validation tools and flexible capabilities enhance the quality and timeliness of completed reports while letting organizations adapt to changing regulatory and business needs.
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. The solution enables complete life cycle assessment for FATCA-status identification, management and reporting, ensuring compliance while minimizing operational and customer impact.

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

Solution	Description
Card Fraud	<p>Enables card issuers, acquirers and processors to detect fraudulent transactions, whether ATM, PIN, signature point-of-sale, or without a physical card. The Actimize Digital & Mobile Wallet Fraud solution protects customers from digital account takeover, and protects companies from fraud liability and negative brand reputation. Monitors and protects a full range of wallet activity, including card/account provisioning, card present and not present purchases, person-to-person transfers, bill payments, and account-service events.</p> <p>The Actimize Pre-Paid Card Fraud solution identifies and prevents fraud in the pre-paid sector. From ATM to point-of-sale (POS) and Card-Not-Present (CNP), all transactions can be identified, interdicted on and alerted in real time. Market leading profile based behavioral analytics takes into account all available transaction, reference and location data to provide holistic coverage of card and account takeover.</p>
Remote Banking	<p>Provides end-to-end protection against account takeover from online, mobile, IVR, and contact center transactions. Unique industry-leading analytic models accurately detect anomalies and patterns in real time and Actimize open analytics offer the flexibility to develop in-house models and strategies. A central “risk hub” enables the sharing of internal and third-party data from multiple channels for fraud and cyber detection, operations, and investigations. By accurately and efficiently coordinating customer lifetime value, transaction amounts and service history, the solution optimizes fraud prevention by offering greater insight into cross-channel authentication and facilitates interdiction strategies.</p>
Commercial Banking	<p>Specifically designed to address the complexities facing commercial banks, applying targeted analytics to identify fraudulent payments among the high volume of legitimate transactions processed by commercial clients each day. The solution protects payments from origination through approval and processing, allowing organizations to interdict in real time to address suspicious activity and ensure an excellent customer experience.</p>
Employee Fraud	<p>Offers advanced analytic monitoring capabilities and flexible configuration options to detect fraudulent employee activity and violation of corporate policy across the enterprise, business lines, and channels. Comprehensive investigation tools are supported by multichannel data ingest, multi-country data and policy requirement configurations, secure and auditable user access levels, and automated configurable workflows, enabling banks to efficiently sift through employee audit reports and build cases to support fraudulent employee activity.</p>
Deposit Account Fraud	<p>Helps institutions minimize deposit fraud losses by providing comprehensive account activity monitoring. The solution analyzes risk across silos of data and lines of business, consolidates suspicious activity notifications into account and customer level alerts, and allows real-time decisioning to safely accelerate fund availability and enhance customer satisfaction.</p>

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

Solution	Description
Institutional Trade Surveillance	<p>As a real-time, cloud-based, institutional trade surveillance solution, it 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.</p> <p>By leveraging communication surveillance capabilities from NICE's Customer Interactions business, customers benefit from holistic and integrated surveillance solutions that include trade, voice, email, chat and more.</p>
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. Enables organizations to effectively manage employee requests for personal trades by evaluating details of the proposed trade in real time and automatically determining if the request should be approved, rejected, or escalated to a supervisor for approval. The solution includes detection models that compare executions with the employee's trade request history to determine whether the trade was pre-cleared and approved and to reconcile the trade details with the terms and conditions of the approved trade request.
Sales Practices and Suitability	Provides coverage for a broad range of sales practices and issues, helping firms meet current and future global regulatory requirements and ensure investment recommendations are consistent with each client's investment objectives and suitability profiles. It also includes a comprehensive toolset to automate sales practice compliance processes. By automating oversight and supervision, firms can ensure consistency and maintain a consolidated audit trail, lowering regulatory risk while improving productivity and efficiency.

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, consulting firms, 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: Boston Consulting Group, Cisco, Deloitte, IBM, IPC, Motorola, PWC, Tata Consulting Services and Verizon.

Professional Service and Support

The NICE Professional Services and Support organization enables our customers to derive sustainable business value from our solutions.

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 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

The vast majority of our solutions are software-based and are deployed by customers on standard commercial servers.

There is a small portion of our products that have certain hardware elements that are based primarily on standard commercial off-the-shelf components and utilize proprietary in-house developed circuit cards and algorithms, digital processing techniques and software. These products are IT-grade compatible.

We manufacture those of our products that contain hardware elements through subcontractors. 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 such 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-9001:2008 quality standard for all of our products, as well as the ISO 27001:2013 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 2013, 2014 and 2015 were approximately \$117.9 million, \$126.0 million, and \$132.0 million respectively, of which approximately \$2.1 million, \$2.5 million, and \$2.2 million, respectively, were derived from third-party funding, and \$0.4 million, \$0.4 million, and \$1.4 million, respectively, were capitalized software development costs.

In 2015, we were qualified to participate in 8 programs funded by the 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 were approved as programs for companies with large research and development activities and some of these programs are in the form of membership in 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 2013, 2014, and 2015 we received a total of \$1.6 million, \$2.2 million, and \$2.1 million from the OCS programs, respectively, and we anticipate receiving approximately \$0.5 million in 2016 from 2014 and 2015 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 may participate from time to time in the European Community Framework Program for Research, Technological Development and Demonstration, which funds and promotes research. There are no royalty obligations associated with receiving such funding.

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 135 U.S. patents and 50 patents issued in additional countries covering substantially the same technology as the U.S. patents. We have over 72 patent applications pending in the United States and other countries. We 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.

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

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

We own the following trademarks and/or registered trademarks in different countries: ACTIMIZE, Actimize logo, Adaptive WFO, Customer Engagement Analytics, Decisive Moment, eGlue Interact, Fortent, Fortent Logo, IEX, Insight from Interactions, Intent, Insight, Impact., Know More Risk Less, Last Message Replay, Mirra, NICE, NICE Analyzer, NICE Engage, NICE Engage Platform, NICE Interaction Management, NICE Sentinel, NICE Inform, NICE Inform Lite, NICE Inform Media Player, NICE Inform Verify, NICE Logo, NICE Perform, NICE Work Force Management, NICE Incentive Compensation Management, NICE Real Time Solutions, NICE Trading Recording, NICE Proactive Compliance, NICE Seamless, NICE Security Recording, NICE SmartCenter, NICE Systems, NiceLog, Own the Decisive Moment, Scenario Replay, Syfact, Syfact Investigator and TotalView.

Seasonality

The majority 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

We may be subject to applicable export control regulations in 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”, Currently SVHC-168), 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 (as set forth above in this Item 4 – “Business Overview”) as well as: their scale, performance and accuracy, comprehensiveness of solutions and broad functionality.

In Customer Interactions space, we are seeing more CRM and Business Intelligence companies offer solutions that compete with our Customer Interactions analytics offerings. Also, with the shift to cloud, CCaaS providers are offering complete solutions that include several of our WFO capabilities. In this market, we compete against WFO vendors, as well as contact center infrastructure vendors that expand their offering to include some WFO or analytics capabilities, such vendors include Aspect Technology, Genesys and Verint Systems,

In Financial Crime and Compliance we compete against niche vendors that provide one subset of functionality to protect against a specific risk and against vendors that provide a more comprehensive offering. Such vendors include BAE Systems, FICO, Oracle and SAS Institute

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 occupy approximately 320,811 square feet (which are partially sub-leased as detailed below), with an annual rent and maintenance fee of approximately \$11.7 million, paid in NIS and linked to the Israeli consumer price index. The lease for these offices in our Northern Ra'anana facilities will expire in October 2022.

Due to the sale of our Cyber and Intelligence and Physical Security business units during 2015, some of our office space was sub-leased and our portion of the annual rent and maintenance fee is now approximately \$9.0 million, paid in NIS and linked to the Israeli consumer price index.

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 36,674 square feet. Both locations are used as office space. In 2016 we plan to consolidate our North American locations into new leased offices in Hoboken, New Jersey.
- Our EMEA headquarters in Southampton, U.K., occupies approximately 11,151 square feet. We also have an additional office in London, which occupies approximately 22,504 square feet. Both locations are used as office space and include a lab; and
- Our APAC headquarters 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 office in Pune, India occupies 26,878 square feet and includes a training center; and
- Our office in the Netherlands occupies approximately 10,452 square feet and is used as office space and includes a test 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 is a leading global enterprise software provider that enables organizations to improve customer experience, drive business performance, ensure compliance and fight financial crime.

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

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

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

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

We rely on several key assets to drive our growth:

- Our loyal customer base. Today, more than 20,000 organizations in over 150 countries, including 80 of the Fortune 100 companies, are using NICE solutions.
- Our market leadership makes us a well-recognized brand, and creates top-of-mind awareness for our solutions in our areas of operation.
- Our products and market leading data capture and analytics technologies, which are protected by a broad array of patents.

- Our ability to quickly drive mainstream adoption for innovative solutions and new technologies, which we introduce to the market through our direct sales force and distribution network.
- Our skilled employees and domain expertise in our core markets allows us to bring our customers the right solutions to address key business challenges and build strong customer partnerships.
- Our services and customer support, which enable our customers to quickly enjoy the benefits of our solutions, with multiple deployment models and support for full value realization.

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

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, other than the acquisition of Nexidia (which is expected to occur in 2016) are included in our consolidated statement of income from the date of acquisition.

On March 22, 2016, we completed the acquisition of Nexidia Inc., a leading provider of advanced customer analytics. We acquired Nexidia for total consideration of approximately \$135.0 million in cash. The acquisition will allow us to offer a combined offering, featuring analytics capabilities with accuracy, scalability and performance, enabling organizations to expand their analytics usage in critical business use cases. Organizations will benefit from the combined offering, which features a best-in-class, analytics-based solution.

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 \$2.0 million. The acquisition allows 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 March 11, 2016, NICE completed the acquisition of Voiceprint International, Inc., a provider of workforce optimization software and services for enterprises, contact centers, first responders and trading floors.

In addition, from time to time we complete acquisitions and investments that are not considered material to our business and operations.

Discontinued Operations

In order to allow NICE to focus on its core business as an enterprise software company in accordance with its long-term strategic plan, we recently completed the sale of the Physical Security and Cyber and Intelligence business units.

In September 2015, we sold our Physical Security business unit to Battery Ventures for total consideration of \$92.5 million, consisting of \$74.6 million in cash, notes of \$2.9 million and up to a \$15.0 million earn out based on future performance. Through NICE's Physical Security business unit, we previously provided video surveillance technologies and capabilities to security-aware organizations. We previously accounted for the Physical Security unit under the Security Solution segment.

In July 2015, we sold our Cyber and Intelligence business unit to Elbit Systems for total consideration of \$151.6 million, consisting of \$111.6 million in cash and \$40.0 million earn out based on future performance. Through NICE's Cyber and Intelligence business unit, we previously offered solutions which provide law enforcement agencies, intelligence organizations and signal intelligence agencies with tools for generating intelligence from communications. We previously accounted for the Cyber and Intelligence unit under the Security Solution segment.

Following the sale of these two business units, we have classified their results of operations (including the gain on their disposal) and their assets and liabilities as discontinued operations in accordance with ASC 205-20, "Presentation of Financial Statements - Discontinued Operations".

The carrying amount used in determining the gain on disposal of the operations included goodwill in an amount calculated based on the relative fair values of the disposed operations and the portion of the operation that was retained within the segment.

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 investments in marketable securities.

Revenue Recognition. We generate revenues from sales of software products and services, which include support and maintenance, implementation, configuration, project management, 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 contract.

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. These credit limits are reviewed and revised periodically on the basis of new customer financial statements information, credit insurance data 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 operation-based segments, which also comprise our reporting units: Customer Interactions Solutions and Financial Crime and Compliance Solutions. We performed a qualitative assessment for our reporting units during the fourth quarter of 2015 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 was recorded for 2015

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," and 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 April 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 states that only disposals representing strategic shifts in operations that have, or will have, a major effect on an entity's operations should be reported as discontinued operations when any of the following occurs: the component of an entity or group of components of an entity is classified as held for sale, the component of an entity or group of components of an entity is disposed of by sale, or the component of an entity or group of components of an entity is disposed of other than by sale. A strategic shift could include a disposal of (i) a separate major line of business, (ii) a separate major geographic area of operations, (iii) a major equity method investment, or (iv) other major parts of an entity. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014, which is effective for us for the year ended December 31, 2015. We have considered the sale of the Intelligence and Physical Security operations as a strategic shift and accordingly implemented this guidance in our consolidated financial position and results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for us in 2018 using either (i) retrospective application of ASU 2014-09 to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09 or retrospective application of ASU 2014-09 with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently in the process of evaluating the impact of the adoption of the update on our consolidated financial statements, implementing accounting system changes related to the adoption and considering additional disclosure requirements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, related to balance sheet classification of deferred taxes. The ASU requires that deferred tax assets and liabilities be classified as noncurrent in the statement of financial position, thereby simplifying the current guidance that requires an entity to separate deferred assets and liabilities into current and noncurrent amounts. The ASU will be effective beginning in the first quarter of fiscal year 2018, though early adoption is permitted. We have early adopted the ASU as of December 31, 2015 and our statement of financial position as of this date reflects the revised classification of current deferred tax assets and liabilities as noncurrent. There is no other impact on our financial statements of early-adopting the ASU.

Results of Operations

The following table sets forth our selected consolidated statements of income for the years ended December 31, 2013, 2014, and 2015, expressed as a percentage of total revenues. Totals may not add up due to rounding.

	2013	2014	2015
Revenues			
Products	34.1%	33.2%	34.3%
Services	65.9	66.8	65.7
	100.0	100.0	100.0
Cost of revenues			
Products*	24.8	22.1	20.9
Services*	42.5	41.1	38.9
	36.5	34.8	32.8
Gross profit	63.5	65.2	67.2
Operating expenses			
Research and development, net	14.1	14.1	13.9
Selling and marketing	26.1	26.5	24.4
General and administrative	10.5	9.6	9.8
Amortization of acquired intangibles	3.6	2.2	1.3
Restructuring expenses	0.1	0.6	0.0
Total operating expenses	54.3	53.0	49.3
Operating income	9.2	12.2	17.9
Financial income, net	0.5	0.5	0.7
Other income (expenses), net	0.0	(0.1)	(0.1)
Income before taxes	9.7	12.6	18.5
Taxes on income (Tax benefit)	3.3	1.1	3.3
Net income from continuing operations	6.4	11.5	15.2
Discontinued operations	0.5	0.6	16.4
Taxes on income on discontinued operations	0.2	0.2	3.7
Net income on discontinued operations	0.3	0.4	12.7
Net income	6.7	11.9	27.9

(*) Respective revenues

Comparison of Years Ended December 31, 2014 and 2015

Revenues

Our total revenues increased by approximately 6.3% to \$926.9 million in 2015 from \$872.0 million in 2014. Revenues from sales of Customer Interactions Solutions and Financial Crime and Compliance Solutions in 2015 were \$688.1 million and \$238.8 million, respectively, an increase of 2.0% and 21.1% from 2014, respectively. The growth in revenues from Customer Interactions Solutions is primarily driven by increased demand for our portfolio of solutions, as they enable organizations to improve operational efficiency and customer experience, enhance compliance and improve sales optimization. The increase in revenues from Financial Crime and Compliance Solutions is primarily driven by 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)		Dollar Change	Percentage Change
	2014	2015		
Product revenues	\$ 289.6	\$ 317.9	\$ 28.3	9.8%
Service revenues	582.4	609.0	26.6	4.6
Total revenues	\$ 872.0	\$ 926.9	\$ 54.9	6.3%

The increase in product revenues is attributable to an increase of \$14.4 million in our revenues from Financial Crime and Compliance Solutions and an increase of \$13.9 million in our Customer Interactions Solutions.

The increase in service revenues is attributable to an increase in professional services, of which 58% of the increase is attributed to installations and integrations services and the rest is attributed in maintenance services resulting primarily from an increase in the install base from previous years' sales.

Revenue by Region

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change
	2014	2015		
United States, Canada and Central and South America ("Americas")	\$ 591.1	\$ 630.1	\$ 39.0	6.6%
Europe, the Middle East and Africa ("EMEA")	189.2	196.9	7.7	4.1
Asia-Pacific ("APAC")	91.7	99.9	8.2	8.9
Total revenues	\$ 872.0	\$ 926.9	\$ 54.9	6.3%

The Americas revenue increased by 6.6%, of which approximately \$23.1 million is attributed to growth in the Financial Crime and Compliance Solutions and \$15.9 million is attributable to growth in the Customer Interactions Solutions.

The EMEA revenue increased by 4.1%. The increase is primarily attributable to growth in the Financial Crime and Compliance Solutions of \$15.9 million, partially offset by a decrease in the Customer Interactions of \$8.2 million.

The APAC revenue increased by 8.9%. The increase is primarily attributable to growth in Customer Interactions and Financial Crime and Compliance Solutions.

Cost of Revenues

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change
	2014	2015		
Cost of product revenues	\$ 63.9	\$ 66.4	\$ 2.5	3.9%
Cost of service revenues	239.6	237.2	(2.4)	(1.0)
Total cost of revenues	\$ 303.5	\$ 303.6	\$ 0.1	0.0%

Cost of product revenues increased on a dollar basis, but decreased as a percentage of product revenues. The increase on a dollar basis is mostly a result of an increase in royalties payable to third party vendors, partially offset by lower amortization of intangible assets following previous years' acquisitions. The decrease in the percentage of cost of product from product revenue is mainly attributed to revenue increase from software based solutions.

Cost of service revenues decreased on a dollar basis and as a percentage of service revenues. The decrease on a dollar basis is primarily due to a decrease in cost of wages and travel expenses, partially offset by an increase in sub-contractors and consultants. The decrease in the percentage of cost of service from service revenues is mainly attributed to increasing efficiency and better utilization of service resources.

Gross Profit

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change
	2014	2015		
Gross profit on product revenues	\$ 225.7	\$ 251.5	\$ 25.8	11.4%
as a percentage of product revenues	77.9%	79.1%		
Gross profit on service revenues	342.8	371.8	29.0	8.4%
as a percentage of service revenues	58.9%	61.0%		
Total gross profit	\$ 568.5	\$ 623.3	\$ 54.8	9.6%
as a percentage of total revenues	65.2%	67.2%		

The increase in gross profit margin on product revenues is primarily a result of an increase in product revenues, continued increase in software based solutions with higher margins 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)		Dollar Change	Percentage Change
	2014	2015		
Research and development, net	\$ 123.1	\$ 128.5	\$ 5.4	4.4%
Selling and marketing	231.1	225.8	(5.3)	(2.3)
General and administrative	83.4	90.4	7.0	8.4
Amortization of acquired intangible assets	19.2	12.5	(6.7)	(34.9)
Restructuring expenses	5.4	0.0	(5.4)	(100)

Research and Development, Net. Research and development expenses, before capitalization of software development costs and government grants, increased to \$132.0 million in 2015, as compared to \$125.9 million in 2014, and represented 14.2% and 14.4% of revenues in 2015 and 2014, respectively. The increase in research and development, net is attributed primarily to an increase in cost of wages and travel expenses. Capitalized software development costs were \$1.4 million in 2015, as compared to \$0.4 million in 2014. The increase is a result of capitalization of software development for internal use software that supports our SaaS business. Amortization of capitalized software development costs included in cost of product revenues were \$0.4 million in each of 2015 and 2014.

Selling and Marketing Expenses. Selling and marketing expenses decreased to \$225.8 million in 2015 as compared to \$231.1 million in 2014, and represented 24.4% and 26.5% of total revenues in 2015 and in 2014, respectively. The decrease in selling and marketing expense is attributed primarily to a decrease in cost of wages following a decrease in headcount, sales incentives and travel, partially offset by an increase in advertising and other marketing expenses.

General and Administrative Expenses. General and administrative expenses increased to \$90.4 million in 2015 as compared to \$83.4 million in 2014, and represented 9.8% of total revenues in 2015 as compared to 9.6% of total revenues in 2014. The increase in general and administrative expense is due primarily to an additional administrative cost incurred in 2015 partially offset by a decrease in rent and utilities expenses following a reorganization and operational efficiency of our facilities, while in 2014 we recorded an income due to re-measurement of earn-out liabilities that resulted from prior year's acquisitions.

Amortization of acquired intangible assets. Amortization of acquired intangibles included in the operating expenses represented 1.3% and 2.2% of our revenues in 2015 and 2014, respectively. The decrease in amortization of acquired intangible assets is primarily attributable to the completion of amortization of intangible assets related to previous years' acquisitions.

Restructuring expenses. We did not incur restructuring expenses in 2015, as compared to \$5.4 million in 2014. The restructuring expenses in 2014 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)		Dollar Change	Percentage Change
	2014	2015		
Financial income, net	\$ 3.8	\$ 5.7	\$ 1.9	50%
Other expenses, net	0.0	0.4	0.4	100%

Financial Income, Net. Financial income, net, was \$5.7 million in 2015 compared to \$3.8 million in 2014. The increase in financial income, net is attributable primarily to a higher cash volume invested.

Other Expenses, Net. Other expenses, net amounted to \$0.4 million in 2015, comprised primarily of loss on disposal of assets.

Taxes on Income. In 2015, taxes on income amounted to \$30.8 million, as compared to \$9.9 million in 2014. Our provision for taxes during 2015 increased as compared with 2014, mainly as taxes on income for 2014 were favorably affected by certain releases of tax provisions made in prior years.

Our effective tax rate for 2015 was 18.0% compared to 9.0% in 2014. Our tax rate in 2014 was lower 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 majority of our income in Israel continues to benefit from lower tax rates pursuant to our Preferred Enterprise programs which were 16.0% in 2014 and 2015, the details of which can be found in Note 12 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 2016 and future years.

Net Income. Net income was \$140.6 million in 2015, as compared to \$100.2 million in 2014. The increase in 2015 resulted primarily from increase in revenues and operating margin, offset by an increase in taxes on income in 2015.

Discontinued operations. During 2015 we sold our Cyber and Intelligence and Physical Security business units for gain of \$101.8 million and \$45.5 million, respectively, which is presented as part of the net income on discontinued operations. There were no divestment activities in 2014.

Comparison of Years Ended December 31, 2013 and 2014

Revenues

Our total revenues increased by approximately 6.1% to \$872.0 million in 2014 from \$821.5 million in 2013. Revenues from sales of Customer Interactions Solutions and Financial Crime and Compliance Solutions in 2014 were \$674.8 million and \$197.2 million, respectively, an increase (decrease) of 2.5%, 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 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,		Dollar Change	Percentage Change
	(U.S. dollars in millions)			
	2013	2014		
Product revenues	\$ 280.1	\$ 289.6	\$ 9.5	3.4%
Service revenues	541.4	582.4	41.0	7.6
Total revenues	\$ 821.5	\$ 872.0	\$ 50.5	6.1%

The increase in product revenues is attributable to increase of \$13.5 million in our revenues from Financial Crime and Compliance Solutions offset by a decrease of \$4.0 million in Customer Interactions Solutions.

The increase in service revenues is attributed to an increase in maintenance revenue of \$24.3 million resulting primarily from an increase in the install base from previous years' sales, increase of professional services of \$11.6 million resulting primarily from an increase in installations and integrations and an increase of \$5.1 million in SaaS and hosting revenues.

Revenue by Region

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change
	2013	2014		
Americas	\$ 540.4	\$ 591.1	\$ 50.7	9.4%
EMEA	188.3	189.2	0.9	0.5
APAC	92.8	91.7	(1.1)	(1.2)
Total revenues	\$ 821.5	\$ 872.0	\$ 50.5	6.1%

The Americas revenue increased by 9.4%, of which approximately \$26.8 million is attributed to growth in the Financial Crime and Compliance Solutions and \$23.9 million is attributable to growth in the Customer Interactions Solutions.

The EMEA revenue increased by 0.5%. The increase is primarily attributable to growth in the Financial Crime and Compliance Solutions, partially offset by a decrease in the Customer Interactions.

The APAC revenue decreased by 1.2%. The decrease is primarily attributable to a decrease in the Customer Interactions Solutions.

Cost of Revenues

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change
	2013	2014		
Cost of product revenues	\$ 69.3	\$ 63.9	\$ (5.4)	(7.8)%
Cost of service revenues	230.3	239.6	9.3	4.0
Total cost of revenues	\$ 299.6	\$ 303.5	\$ 3.9	1.3%

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 decrease in royalties payable to third party vendors and 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)		Dollar Change	Percentage Change
	2013	2014		
Gross profit on product revenues	\$ 210.8	\$ 225.7	\$ 14.9	7.0%
as a percentage of product revenues	75.2%	77.9%		
Gross profit on service revenues	311.1	342.8	31.7	10.2%
as a percentage of service revenues	57.5%	58.9%		
Total gross profit	\$ 521.9	\$ 568.5	\$ 46.6	8.9%
as a percentage of total revenues	63.5%	65.2%		

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)		Dollar Change	Percentage Change
	2013	2014		
Research and development, net	\$ 115.4	\$ 123.1	\$ 7.7	6.7%
Selling and marketing	214.6	231.1	16.5	7.7
General and administrative	86.5	83.4	(3.1)	(3.6)
Amortization of acquired intangible assets	29.4	19.2	(10.2)	(34.7)
Restructuring expenses	0.5	5.4	4.9	980.0

Research and Development, Net. Research and development expenses, before capitalization of software development costs and government grants, increased to \$125.9 million in 2014, as compared to \$117.9 million in 2013, and represented 14.4% of revenues in each of 2014 and 2013. 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 \$0.4 million in each of 2014 and 2013. Amortization of capitalized software development costs included in cost of product revenues were \$0.4 million in 2014 as compared to \$0.5 million in 2013.

Selling and Marketing Expenses. Selling and marketing expenses increased to \$231.1 million in 2014, as compared to \$214.6 million in 2013 and represented 26.5% and 26.1% 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, sub-contractors and other marketing expenses.

General and Administrative Expenses. General and administrative expenses decreased to \$83.4 million in 2014, as compared to \$86.5 million in 2013, and represented 9.6% and 10.5% of total revenues in 2014 and in 2013, respectively. The decrease in general and administrative expense is due primarily to re-measurement 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 assets included in the operating expenses represented 2.2% and 3.6% 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 \$5.4 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)		Dollar Change	Percentage Change
	2013	2014		
Financial income, net	\$ 4.0	\$ 3.8	\$ (0.2)	(5.0)%
Other 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 \$0.1 million in 2013, was comprised primarily of loss on property disposal.

Taxes on Income. In 2014, taxes on income amounted to \$9.9 million, as compared to \$26.9 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 9.0% 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 majority of our income in Israel continues to benefit from lower tax rates pursuant to our Preferred Enterprise programs, which were 12.5% and 16.0% in 2013 and 2014, respectively, the details of which can be found in Note 12 of our Consolidated Financial Statements under the caption "Taxes on Income".

Net Income. Net income was \$100.2 million in 2014, as compared to \$52.5 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.

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, 2015, we had \$828.4 million of cash and cash equivalents and short-term and long-term investments, as compared to \$500.0 million at December 31, 2014 and \$443.2 million at December 31, 2013.

Cash provided by operating activities was \$244.7 million, \$182.3 million, and \$124.3 million in 2015, 2014, and 2013, respectively. Net cash from operations in 2015 consisted primarily of net income of \$111.5 million (excluding gain on disposal of discontinued operations of \$147.3), adjusted for non-cash activities such as depreciation and amortization of \$57.9 million, stock-based compensation of \$28.4 million as well as working capital changes derived from an increase in accrued expenses and other liabilities of \$38.5 million and increase in deferred revenues of \$54.9, which were partially offset by decrease in trade receivables, net of \$56.3. 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 working capital changes derived from an increase in accrued expenses and other liabilities of \$10.3 million, which were partially offset by a decrease in deferred taxes, net of \$27.8 million and in trade payables of \$13.8 million. Net cash from operations in 2013 consisted primarily of net income of \$55.2 million and adjustments for non-cash activities including depreciation and amortization of \$91.3 million and stock-based compensation of \$26.3 million, which were partially offset by a decrease in deferred taxes, net of \$17.3 million and in trade receivables, net of \$34.5 million.

Net cash used in investing activities was \$28.3 million, \$8.9 million and \$33.1 million in 2015, 2014 and 2013, respectively. In 2015, net cash used in investing activities consisted primarily of net investment in marketable securities and short term bank deposits of \$195.0 million and purchase of property and equipment of \$16.6 million, which were offset by proceeds from sale of discontinued operations of \$186.1 million. In 2014, net cash used in investing activities consisted primarily of net investment in marketable securities of \$28.4 million and net purchase of property and equipment of \$16.8 million, which were partially offset by net proceeds from short-term bank 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 \$23.9 million and net purchase of property and equipment of \$20.3 million, which were partially offset by net proceeds of marketable securities of \$17.4 million.

Net cash used in financing activities was \$71.8 million, \$101.8 million and \$69.2 million in 2015, 2014 and 2013, respectively. In 2015, net cash used in financing activities was attributed primarily to the repurchase of our ordinary shares of \$68.4 million and payment of dividends of \$38.2 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 \$27.5 million. In 2014, net cash used in financing activities was attributed primarily to the purchase of our ordinary shares of \$94.3 million and payment of dividends of \$38.0 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 \$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 offset by proceeds from issuance of shares upon exercise of options and purchase of shares under employee share purchase plans of \$38.4 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.

For more information on trends in our industry, please see Item 4, “Information on the Company—Business Overview—Industry 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, 2015 (in thousands of U.S. dollars).

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1- 3 years	3-5 years	More than 5 years
Operating Leases	68,580	15,743	24,033	17,603	11,201
Unconditional Purchase Obligations	19,619	13,083	6,536	-	-
Severance Pay*	17,952				
Total Contractual Cash Obligations	106,151	28,826	30,569	17,603	11,201
Uncertain Income Tax Positions **	18,236				

* 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 12(h) of our Consolidated Financial Statements for further information regarding our liability under ASC 740.

Other Commercial Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1- 3 years	3-5 years	More than 5 years
Guarantees – Continuing operations	3,159,420	3,109,011	-	50,410	-
Guarantees – Discontinued operations*	24,298,737	4,868,198	18,266,633	1,163,906	-
Total Guarantees	27,458,157	7,977,209	18,266,633	1,214,316	-

* Guarantees which were not endorsed and remain in effect in relation to contracts assumed as part of the sale of the Cyber and Intelligence business for which NICE has a back to back contractual commitment and is entitled to indemnification to the extent that these guarantees are realized.

Item 6. Directors, Senior Management and Employees.

6.A. Directors and Senior Management

The following tables set forth, as of March 10, 2016, the name, age and position of each of our directors and executive officers and, in regard to our directors, any of the committees of our board of directors on which they serve and whether any such director is an outside director:

Members of the Board of Directors

Name	Age	Position	Audit Committee Member	Compensation Committee Member	Internal Audit Committee Member	Mergers and Acquisitions Member	Nominations Committee Member	Outside Director*
David Kostman	51	Chairman of the Board of Directors	X			X	X	
Rimon Ben-Shaoul	71	Director	X			X		
Dan Falk	71	Director	X	X	X	X	X	X
Yocheved Dvir	63	Director	X	X	X			X
Yehoshua Ehrlich	66	Director				X		
Leo Apotheker	62	Director		X		X		
Joe Cowan	67	Director		X		X		
Zehava Simon	57	Director	X	X	X			X

* See Item 6, "Directors, Senior Management and Employees—Board Practices— Outside Directors."

Members of Management

Name	Age	Position
Barak Eilam	40	Chief Executive Officer
Miki Migdal	55	President, Enterprise Product Group
Joseph Friscia	61	President, NICE-Actimize
Sarit Sagiv	47	Chief Financial Officer
Yechiam Cohen	59	Corporate Vice President, General Counsel and Corporate Secretary
Eran Porat	53	Corporate Vice President, Finance
Eran Liron	48	Executive Vice President, Marketing and Corporate Development
Tom Dzersk	52	President, NICE Americas
John O'Hara	57	President, NICE EMEA
Raghav Sahgal	53	President, NICE APAC
Christopher Wooten	50	Executive Vice President, Vertical Markets
Sigal Gill-more	46	Executive Vice President, Human Resources

In January 2016, Mr. Benny Einhorn retired from his position as President, NICE EMEA, and Mr. John O'Hara assumed the position.

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.

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 Menorah Insurance Company and its subsidiary, Alrov Real Estate and Endey Med. She recently served on the boards of Visa Cal, Trendline Business Information & Communications 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, Vice Chairman of Unit4, a leading Dutch ERP provider for mid-sized people centric companies, and Vice Chairman and Lead Independent Director of Schneider Electric SA. 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. During 2009, Mr. Cowan 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.

Zehava Simon has served as one of our statutory outside directors since July 2015. Ms. Simon served as a Vice President of BMC Software Inc. from 2000 until 2013, most recently as Vice President of Corporate Development. From 2002 to 2011, Ms. Simon served as Vice President and General Manager of BMC Software in Israel. Prior to that, Ms. Simon held various positions at Intel Israel, which she joined in 1982, including leading of Finance & Operations and Business Development for Intel in Israel. Ms. Simon is currently a board member of Audiocodes, a public company traded on NASDAQ and TASE, Nova Measurements, a publicly-traded company on NASDAQ and TASE, and Amiad Water Systems, a public company traded on the London Stock Exchange. Ms. Simon is a former member of the board of directors of Insightec Ltd., M-Systems Ltd. (acquired by SanDisk Corp.) and Tower Semiconductor Ltd. Ms. Simon holds a B.A. in Social Sciences from the Hebrew University, Jerusalem, a law degree (LL.B.) from the Interdisciplinary Center in Herzliya and an M.A. in Business and Management from Boston 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.

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.

Sarit Sagiv has served as our Chief Financial Officer since March 2015. 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 Bejski 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 Dziarsk has served as the President of NICE Americas since April 2014. Prior to NICE, Mr. Dziarsk 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. Dziarsk holds a B.A. in Economics from the University of Michigan.

John O'Hara has served as our President of NICE EMEA since January 2016. From July 2013 to January 2016, Mr. O'Hara served as non-executive Chairman at Rosslyn Data Technologies, where he supported the cloud-based data and analytics software start-up until its IPO. Prior to that, between 2007 and 2013, he was Executive Vice President, International for Pitney Bowes Software and President of Pitney Bowes Software. He also acted as General Manager, Enterprise and Partner Group, at Microsoft UK, where he ran the enterprise sales organization of Microsoft UK and previously held leadership positions at IBM, Pivotal Corporation and Lotus Development Corporation. Mr. O'Hara holds a B.A. (with honors) in Applied Science from the University of Wales, Institute of Science and Technology and a Masters in Computer Science from the University of Manchester.

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.

Christopher Wooten has served as Executive Vice President, Vertical Markets since September 2015, and previously served as Executive Vice President of the Surveillance Group since June 2014. During his tenure with NICE, Mr. Wooten has also held various other 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.

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

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 24 persons during 2015 consisted of approximately \$11.5 million in salary, fees, bonus, commissions and directors' fees and approximately \$1.0 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 2015, our officers and directors received, in the aggregate, (i) options to purchase 478,865 ordinary shares, that include 101,365 options with an exercise price equal to the par value of the ordinary shares (the "par value options"), and (ii) 36,166 restricted share units, under our equity based compensation plans. The options (other than the par value options) have a weighted average price of \$52.13 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 statutorily determined pursuant to the Israeli Companies Law. Effective as of July 1, 2015, our shareholders approved the payment to each of our non-executive directors, including outside directors, of an annual fee of \$40,000 and a meeting attendance fee of \$1,500 for each Board meeting attended (whether in person or through media), and \$1,000 for each Board committee meeting attended (whether in person or through media) (in each case paid in U.S. dollars or in NIS based on the exchange rate on the date of the approval by shareholders), subject to additional value added tax, as applicable.

On July 9, 2015, at our 2015 annual general meeting of shareholders, following the recommendation of our compensation committee and approval by our Board of Directors, our shareholders approved an amended 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 \$115,652). 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 2015, based on the total of salary costs, bonus cost and equity granted in 2015 ("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 3.89, which represents the average rate for the year, and for the Covered Executive in Singapore are based on the Singapore dollar exchange rate of 1.37, 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, 2015, 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, 2015, with respect to equity granted in 2015 and in previous years (if applicable). For assumptions and key variables used in the calculation of such amounts see note 13b of our audited consolidated financial statements.
- i. **Barak Eilam – CEO.** Salary Costs - \$597; Bonus Costs - \$960; Equity Costs - \$1,368 expense recorded in 2015 for equity granted in 2015 and \$1,539 expense recorded in 2015 for equity granted in previous years.

- ii. **Thomas Dzierzk – President, NICE Americas.** Salary Costs - \$470; Bonus Costs - \$525; Equity Costs - \$493 expense recorded in 2015 for equity granted in 2015 and \$512 expense recorded in 2015 for equity granted in previous years.
- iii. **Joseph Friscia – President, NICE Actimize.** Salary Costs - \$405; Bonus Costs - \$600; Equity Costs - \$370 expense recorded in 2015 for equity granted in 2015 and \$341 expense recorded in 2015 for equity granted in previous years.
- iv. **Raghav Sahgal – President, NICE APAC.** Salary Costs - \$493; Bonus Costs - \$555; Equity Costs - \$326 expense recorded in 2015 for equity granted in 2015 and \$458 expense recorded in 2015 for equity granted in previous years.
- v. **Christopher Wooten – EVP, NICE Vertical Markets.** Salary Costs - \$354; Bonus Costs - \$691; Equity Costs - \$308 expense recorded in 2015 for equity granted in 2015 and \$259 expense recorded in 2015 for equity granted in previous years.

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 five members, a compensation committee that has five members, a nominations committee that has two members and a mergers and acquisitions committee that has six 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), Dan Falk and Zehava Simon) 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 require that the audit committee of a listed company 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 Rimon Ben-Shaoul (Chairman), David Kostman, Dan Falk, Yocheved Dvir and Zehava Simon) 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, 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 with respect to our Audit Committee.

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.

Pursuant to the NASDAQ rules, 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 NASDAQ rules, we are also required to have 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.

Our Board of Directors adopted a compensation committee charter that includes the requirements of the 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.

All of the current members of the compensation committee, Dan Falk (chairman), Yocheved Dvir, Joe Cowan, Leo Apotheker and Zehava Simon, satisfy the respective independence requirements of both the NASDAQ rules and 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. Both of the current members of this committee, David Kostman and Dan Falk, are independent directors.

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. All of the current members of this committee, David Kostman (chairman), Dan Falk, Rimon Ben Shaoul, Yehoshua Ehrlich, Leo Apotheker and Joe Cowan, are independent directors.

Employees

As of December 31, 2015, we had 3,316 employees worldwide, which represented a decrease of approximately 5.6% from December 31, 2014.

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:

Category of Activity	2013	At December 31, 2014	2015*
Operations	110	108	86
Customer Support	1,393	1,343	1,374
Sales & Marketing	840	811	682
Research & Development	865	890	801
General & Administrative	368	361	352
Total	3,576	3,513	3,316
Geographic Location			
Israel	1,285	1,256	946
Americas	1,365	1,344	1,263
Europe	631	607	564
Asia Pacific	295	306	543
Total	3,576	3,513	3,316

* The decrease in number of employees in 2015 resulted mainly from the sale of the Cyber and Intelligence and Physical Security businesses in 2015 (for more information, please see Item 5, "Operating and Financial Review and Prospects—Discontinued Operations" in this annual report).

We also utilize temporary employees in various activities. On average, we employed 50 temporary employees and obtained services from 756 consultants (not included in the numbers set forth above) during 2015.

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 (including the Industrialists' Association of Israel) that are applicable to our Israeli employees 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 2p 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 17.25% of an employee's wages (up to a certain cap as determined from time to time by law), of which the employee contributes approximately 62% and the employer contributes approximately 38%.

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 employment agreements, each party may terminate the employment without 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 10, 2016, our directors and executive officers beneficially owned an aggregate of 314,019 options to purchase ordinary shares that were vested on such date or that are scheduled to vest within 60 days thereafter, or approximately 0.53% of our outstanding ordinary shares. The options have an average exercise price of \$36.83 per share and expire between 2016 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 equity plans, under which awards were outstanding during 2015.

2016 Share Incentive Plan

In February 2016, we adopted the NICE-Systems Ltd. 2016 Share Incentive Plan, or 2016 Plan, to provide incentives to employees, directors, consultants and/or contractors by rewarding performance and encouraging behavior that will improve our profitability. Under the 2016 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, including any such equity related award that is a performance based award (each an "Award").

Generally, under the terms of the 2016 Plan, and 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. Specifically with respect to options (other than options granted at an exercise price equal to their nominal value), unless determined otherwise by the Administrator, 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. 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. Options that are performance-based shall expire seven years following the date of grant. Awards are non-transferable except by will or the laws of descent and distribution.

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 2016 Plan (including in some cases options granted with an exercise price equal to the nominal value of an ordinary share).

Our Board of Directors also adopted an addendum to the 2016 Plan for Awards granted to grantees who are residents of Israel (the "Addendum") and resolved to elect the "Capital Gains Route" (as defined in Section 102(b)(2) of the Tax Ordinance for the grant of Awards to Israeli grantees. The U.S. addendum of the 2015 Plan provides only for non-qualified stock options for purposes of U.S. tax laws.

The 2016 Plan provides that the number of shares that may be subject to Awards granted under the 2016 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.

The 2016 Plan is generally administered by our Board of Directors and compensation committee, which determines the grantees under the 2016 Plan and the number of Awards to be granted. As of March 10, 2016, no options and restricted share units to purchase ordinary shares were outstanding under the 2016 Plan. A grant of options and restricted share units to purchase in the aggregate 360,706 ordinary shares under the 2016 Plan will become effective in March and May 2016.

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, 8,000,000 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 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 2015, we granted 1,242,168 options and restricted share units under the 2008 Plan (which constituted 1.7% of our issued and outstanding share capital as of December 31, 2015).

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 10, 2016, options and restricted share units to purchase 3,038,900 ordinary shares were outstanding under the 2008 Plan at a weighted average exercise price of \$19.57.

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 10, 2016, assumed Actimize options to purchase 7,977 ordinary shares of NICE were outstanding at a weighted average exercise price of \$12.13. No additional grants are being made under this plan following the acquisition of Actimize.

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 10, 2016, Assumed e-Glue Options and restricted share unit to purchase 494 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 10, 2016, assumed Fizzback options and restricted share units to purchase 10,261 ordinary shares of NICE were outstanding under the Fizzback Plan, at a weighted average exercise price of \$0.53. 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 10, 2016, assumed Merced options, restricted share units and restricted shares to purchase 13,954 ordinary shares of NICE were outstanding under the 2001 Merced Plan and the 2011 Merced Plan, at a weighted average exercise price of \$14.83. 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. 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 10, 2016, assumed Causata options to purchase 10,560 ordinary shares of NICE were outstanding under the Causata Scheme, at a weighted average exercise price of \$0.26. 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 10, 2016, assumed Causata restricted stock units to purchase 8,970 ordinary shares of NICE were outstanding under the Causata Plan at a weighted average exercise price of \$0.26.

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 vested 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 10, 2016. 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)
Janus Capital Management LLC 151 Detroit Street Denver, Colorado 80206, USA	3,826,621 ⁽²⁾	6.4%
Psagot Investment House Ltd. 14 Ahad Ha'am Street Tel Aviv 65142, Israel	3,645,806 ⁽³⁾	6.1%
IDB Development Corporation Ltd. The Triangular Tower, 44th floor, 3 Azrieli Center, Tel Aviv 67023, Israel	3,481,910 ⁽⁴⁾	5.9%
Massachusetts Financial Services Company 111 Huntington Avenue Boston, Massachusetts 02199	3,356,795 ⁽⁵⁾	5.5%
Migdal Insurance & Financial Holdings Ltd. 4 Efal Street; P.O. Box 3063 Petach Tikva 49512, Israel	3,245,107 ⁽⁶⁾	5.4%
Harel Insurance Investments & Financial Services Ltd. Harel House 3 Abba Hillel Street Ramat Gan 52118, Israel	3,198,207 ⁽⁷⁾	5.4%

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- (1) Based upon 59,498,331 ordinary shares issued and outstanding as of March 10, 2016.
- (2) This information is based upon a Schedule 13G filed by Janus Capital Management LLC with the SEC on February 16, 2016.
- (3) 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: 1,671,758 ordinary shares are held by portfolio accounts managed by Psagot Securities Ltd., 1,132,461 ordinary shares are held by Psagot Exchange Traded Notes Ltd., 673,303 ordinary shares are held by provident funds managed by Psagot Provident Funds and Pension Ltd., 158,575 ordinary shares are held by mutual funds managed by Psagot Mutual Funds Ltd. (of this amount, 26,100 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) and 9,709 ordinary shares are held by Psagot Insurance Company Ltd. 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 15, 2016.
- (4) Of these securities, IDB Development Corporation Ltd. ("IDB") disclaims ownership of 3,479,410 ordinary shares reported as owned by Clal Insurance Enterprises Holdings Ltd. ("Clal") and 2,500 ordinary shares are reported as held by Bayside Land Corporation Ltd., an indirect subsidiary of IDB. The 3,479,410 ordinary shares reported as beneficially owned by Clal (i) include 139,236 ordinary shares are beneficially held for its own account, and (ii) are held for members of the public through, among others, provident funds and/or pension funds and/or insurance policies, which are managed by subsidiaries of Clal, which subsidiaries operate under independent management and make independent voting and investment decisions. This information is based upon a Schedule 13G/A filed by IDB and Clal with the SEC on February 16, 2016.
- (5) 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, 2016.
- (6) Of these securities, (i) 3,110,502 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: 1,598,555 ordinary shares are held by profit-participating life assurance accounts, 1,164,822 ordinary shares are held by provident funds and companies that manage provident funds, and 347,125 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) 134,605 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, 2016.
- (7) Of these securities, (i) 2,893,491 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) 172,610 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) 132,106 ordinary shares are beneficially held for its own account. This information is based upon a Schedule 13G filed by Harel with the SEC on January 28, 2016.

As of March 10, 2016, we had approximately 44 registered ADS holders of record in the United States, with our ADS holders holding in total approximately 45% of our outstanding ordinary shares, as reported by JPMorgan Chase Bank, N.A., the depository for our ADSs.

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

From time to time we or our subsidiaries may be involved in legal proceedings and/or litigation arising in the ordinary course of our business. While the outcome of these matters cannot be predicted with certainty, we do not believe they will have a material effect on our consolidated financial position, results of operations, or cash flows.

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.

Patent Lawsuit by NICE

On August 27, 2015, we initiated a lawsuit in the United States District Court for the District of Delaware by filing a complaint against ClickFox for infringement of NICE's U.S. Patent No. 8,976,955 ("the '955 patent") entitled "System and method for tracking web interactions with real time analytics". ClickFox moved to dismiss the complaint on October 26, 2015. Subsequently, we filed an amended complaint alleging infringement of additional claims of the 955 patent, and ClickFox filed a renewed motion to dismiss. The motion hearing is scheduled for April 2016. At this preliminary stage we are unable to evaluate the probability of a favorable or unfavorable outcome in this dispute.

Dispute under Sale Agreement

Following the divestiture of one of our business units, the buyer of such business unit made certain demands and allegations, claiming indemnification pursuant to the sale agreement between NICE and such buyer. The parties corresponded regarding these claims, and NICE has denied all demands and allegations made by the buyer. If the parties fail to reach a negotiated resolution, the buyer may initiate legal proceedings against NICE to enforce its indemnification claims. If such buyer is successful in such proceedings, it will result in a reduction of the consideration amount under the sale agreement within the discontinued operation. At this preliminary stage we cannot estimate the probability of a favorable or unfavorable outcome in this dispute.

Dividends

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 annual dividend amount under the dividend plan is currently \$0.64 per share, or \$0.16 per share quarterly. The total amount of dividends paid in 2015 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.

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

There are no significant changes that occurred since December 31, 2015, 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		
2011	38.49	27.17
2012	40.04	29.51
2013	42.12	33.63
2014	51.75	37.08
2015	68.38	47.95
Quarterly		
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
Second Quarter	68.38	58.15
Third Quarter	67.56	53.06
Fourth Quarter	64.92	54.54
Quarterly 2016		
First Quarter (through March 22, 2016)	65.06	54.12
Monthly		
September 2015	\$ 61.32	\$ 53.06
October 2015	62.50	54.54
November 2015	64.92	60.00
December 2015	63.00	56.55
January 2016	60.58	55.10
February 2016	63.62	54.12
March 2016 (through March 22, 2016)	65.06	59.34

On March 22, 2016, the last reported price of our ADSs was \$64.05 per ADS.

JPMorgan Chase Bank, N.A. is the depository for our ADSs. Its address is 4 New York Plaza, Floor 12, New York, New York 10004.

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				
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
2015	262.6	68.76	189.4	47.95
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	246.7	61.58	189.4	47.95
Second Quarter	262.6	68.76	228.8	58.25
Third Quarter	259.0	67.93	209.3	53.35
Fourth Quarter	252.0	64.86	211.1	54.99
Quarterly 2016				
First Quarter (through March 22, 2016)	250.7	65.00	207.2	53.29
Monthly				
September 2015	240.8	61.66	209.3	53.35
October 2015	241.9	62.30	211.1	54.99
November 2015	252.0	64.86	231.2	59.42
December 2015	244.3	62.85	217.6	56.27
January 2016	239.0	60.34	216.9	55.09
February 2016	249.5	63.08	207.2	53.29
March 2016 (through March 22, 2016)	250.7	65.00	233.2	59.88

As of 22, 2016, the last reported price of our ordinary shares on the TASE was NIS 245.7 (or \$63.80) 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 the 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 all 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 five members, a compensation committee which has five members, a nominations committee which has two members and a mergers and acquisitions committee which has six 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, grandparents, 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 shareholder 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. Extraordinary 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 annual general meeting of shareholders held on August 27, 2013, and an amended compensation policy at our 2015 annual general meeting of shareholders held on July 9, 2015. 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 \$386,888. 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 \$54,112.

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

Not Applicable.

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 at the rate of 26.5% for the 2014 and 2015 tax years. Following an amendment to the Ordinance, which came into effect on January 1, 2016, the corporate tax rate has been reduced to 25.0% for the 2016 tax year and 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, 2015, 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 2015, 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 2016 tax year.
- The reduced tax rates are no longer 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 12(a)(1) 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 810,720 in 2015), 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 more than 25% 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 out of profits sourced from ordinary income are subject to withholding tax at the rate of 25% or 30%. Dividends paid from income derived from our Approved and Privileged Enterprises are subject to withholding at the rate of 15%. Dividends paid as of 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.

All dividend distributions to Israeli resident corporations whether sourced in ordinary income, freed "trapped profits" accruing from our Approved or Privileged Enterprises, or income from our Preferred Enterprises are not subject to a withholding tax.

For information with respect to the applicability of Income Surcharge 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 JPMorgan Chase Bank, N.A., the depository for our ADSs, and assumes that each obligation under the Deposit Agreement between us and JPMorgan Chase Bank, N.A. 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.

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 (“PFIC”)

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, 2015, we had outstanding currency option contracts to hedge payroll and facilities expenses, denominated in NIS, in the total amount of approximately \$115 million. The fair value of those contracts was approximately \$0.6 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, 2015, against the relevant functional currency.

Functional currencies
(In U.S. dollars in millions)

	USD	GBP	EUR	CAD	MXN	CHF	AUD	BRL	Other currencies
Foreign currencies									
USD	-	22.7	14.5	1.6	0.1	(0.5)	1.1	(1.0)	-
GBP	26.6	-	1.0	-	-	0.1	-	-	-
EUR	(4.0)	25.0	-	-	-	(0.1)	-	-	-
CAD	1.6	2.2	1.2	-	-	-	-	-	-
AUD	1.9	0.3	0.5	-	-	-	-	-	-
MXN	1.9	-	-	-	-	-	-	-	-
CHF	0.7	0.6	-	-	-	-	-	-	-
JPY	(0.6)	-	-	-	-	-	-	-	-
INR	(0.6)	-	-	-	-	-	-	-	-
SGD	(3.5)	-	0.2	-	-	-	-	-	-
HKD	(3.0)	-	-	-	-	-	-	-	-
ILS	0.4	-	-	-	-	-	-	-	-
Other currencies	-	0.3	-	-	-	-	0.2	-	(1.7)

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	6.24	0.08	6.32
1-3 years	9.99	0.04	10.03
3-5 years	9.99	-	9.99
Over 5 years	9.15	-	9.15
Total	35.37	0.12	35.49

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, U.S. Government agencies and U.S. treasuries. As of December 31, 2015, 89% 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, 2015, 11% 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, 2015, is 2.5 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 5% of the marketable securities portfolio are rated as AAA; securities representing 29% of the marketable securities portfolio are rated as AA; securities representing 61% of the marketable securities portfolio are rated as A; and securities representing 5% of the marketable securities portfolio are rated below A- after being downgraded during the last two years.

The table below presents 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	59.0	259.1	134.4	-	452.6	59.0	257.7	133.7	-	450.5
U.S. treasuries	-	-	-	7.0	7.0	-	-	-	6.8	6.8
U.S. government agencies	-	2.0	3.0	-	5.0	-	2.0	3.0	-	5.0
Total	59.0	261.1	137.4	7.0	464.6	59.0	259.7	136.7	6.8	462.3

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

On April 6, 2015, we engaged JPMorgan Chase Bank, N.A. to act as Depositary for our ADSs and ADRs. Prior to this time, The Bank of New York Mellon acted as the depositary.

Set forth below is a summary of certain provisions in relation to charges and other payments under the Deposit Agreement, as amended, among NICE, JPMorgan Chase Bank, N.A. 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 Registration Statement on Form F-6 (Registration No. 333-203623) filed with the SEC on April 24, 2015.

Charges of the Depositary

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADRs are cancelled or reduced for any other reason, \$0.05 for each ADS issued, delivered, reduced, cancelled or surrendered, as the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights or other distribution prior to such deposit to pay such charge.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADSs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of \$1.50 per ADR for transfers of certificated or direct registration ADRs;
- a fee of up to \$0.05 per ADS for any cash distribution made pursuant to the deposit agreement;
- a fee of up to \$0.05 per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- a fee for the reimbursement of such fees, charges and expenses as are incurred by the depositary or any of its agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the shares or other deposited securities, the sale of securities (including, without limitation, deposited securities), the delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable law, rule or regulation (which fees and charges shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);

- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at the request of an ADR holder in connection with the deposit or delivery of shares;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;
- in connection with the conversion of foreign currency into U.S. dollars, the fees, expenses and other charges charged by JPMorgan Chase Bank, N.A. or its agent (which may be a division, branch or affiliate) so appointed in connection with such conversion; and
- fees of any division, branch or affiliate of the depositary utilized by the depositary to direct, manage or execute any public or private sale of securities under the deposit agreement.

The depositary may generally refuse to provide services until it is reimbursed applicable amounts, including stock transfer or other taxes and other governmental charges, and is paid its fees for applicable services.

The fees and charges an ADR holder may be required to pay may vary over time and may be changed by us and by the depositary. Our ADR holders will receive prior notice of the increase in any such fees and charges.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time by agreement between us and the depositary.

Fees paid by the Depositary

Our depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADR program upon such terms and conditions as we and the depositary may agree from time to time. The depositary may make available to us a set amount or a portion of the depositary fees charged in respect of the ADR program or otherwise upon such terms and conditions as we and the depositary may agree from time to time.

From April 6, 2015 (the date that JPMorgan Chase Bank, N.A. was engaged as our depositary) to December 31, 2015, NICE received from the depositary \$362,675 as reimbursement for its expenses incurred in relation to the maintenance and administration of the ADR program. During 2015 NICE also received reimbursement from The Bank of New York Mellon on account of 2014 and the relative part of 2015 in which it acted as depositary. Such reimbursement is for NICE's expenses incurred in relation to the maintenance and administration of the ADR program during the relative part of 2014 and 2015 and totals approximately \$248,227.

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 the effectiveness of our internal control over financial reporting as of December 31, 2015. Our management based its assessment on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that, as of December 31, 2015, 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.

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	2014 Fees	2015 Fees
Audit (1)	\$ 691,000	\$ 676,865
Audit-related (2)	\$ 72,000	\$ 76,787
Tax (3)	\$ 399,000	\$ 146,645
Total	\$ 1,162,000	\$ 900,297

- (1) Audit fees are for audit services for each of the years shown in this table, including fees associated with the annual audit for 2015 (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 2015, we repurchased our ordinary shares as described in the table below.

Period	(a) Total number of shares purchased	(b) Average price paid per share <small>(In U.S. dollars, except share amounts)</small>	(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
January 1 – January 31	3,417	47.99	3,417	23,401,540
February 1 - February 28	-	-	-	23,401,540
March 1 - March 31	122,601	59.73	122,601	16,078,382
April 1 - April 30	183,071	-	183,071	5,187,292
May 1 - May 31	-	-	-	105,187,292
June 1 - June 30	-	-	-	105,187,292
July 1 - July 31	-	-	-	105,187,292
August 1 - August 31	195,096	62.31	195,096	93,030,803
September 1 - September 30	298,054	59.84	298,054	75,196,688
October 1 - October 31	-	-	-	75,196,688
November 1 - November 30	134,068	62.52	134,068	66,814,194
December 1 - December 31	198,208	58.58	198,208	55,203,027
Total	1,134,515	60.26	1,134,515	

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.

On May 7, 2015, 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-51 of this annual report attached hereto.

Item 19. Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
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 July 9, 2015.
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 Registration Statement on Form F-6 (Registration No. 333-203623) filed with the SEC on April 24, 2015, 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. 2016 Share Incentive Plan.
4.4	NICE Systems Ltd. 2008 Share Incentive Plan, as amended (filed as Exhibit 99.1 to NICE's Immediate Report on Form 6-K filed with the SEC on May 28, 2015, 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's Immediate Report on Form 6-K filed with the SEC on June 1, 2015 and incorporated herein by reference).

- 8.1 List of significant subsidiaries.
- 12.1 Certification by the Chief Executive Officer of NICE-Systems Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act 2002.
- 12.2 Certification by the Chief Financial Officer of NICE-Systems Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification by the Chief Executive Officer of NICE-Systems Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification by the Chief Financial Officer of NICE-Systems Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 15.1 Consent of Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global.
- 101 The following financial information from NICE-Systems Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2015 and 2014; (ii) Consolidated Statements of Income for the years ended December 31, 2015, 2014 and 2013; (iii) Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended December 31, 2015, 2014, and 2013; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014, and 2013; and (v) Notes to Consolidated Financial Statements.

NICE SYSTEMS LTD. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015
IN U.S. DOLLARS
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

NICE SYSTEMS LTD.

We have audited the accompanying consolidated balance sheets of NICE Systems Ltd. ("the Company") and its subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 23, 2016 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 23, 2016

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

NICE SYSTEMS LTD.

We have audited NICE Systems Ltd.'s ("the Company") internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) ("the COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015 and our report dated April 3, 2015 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 23, 2016

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 325,931	\$ 187,497
Short-term investments	99,195	65,744
Trade receivables (net of allowance for doubtful accounts of \$ 5,315 and \$ 4,900 at December 31, 2015 and 2014, respectively)	177,323	155,628
Prepaid expenses and other current assets	43,561	40,257
Current assets of discontinued operations	9,142	36,351
Total current assets	655,152	485,477
LONG-TERM ASSETS:		
Long-term investments	403,249	246,721
Other long-term assets	17,175	18,921
Property and equipment, net	39,213	40,170
Deferred tax assets	14,130	18,853
Other intangible assets, net	69,582	109,799
Goodwill	651,112	659,657
Long-term assets of discontinued operations	-	53,354
Total long-term assets	1,194,461	1,147,475
Total assets	\$ 1,849,613	\$ 1,632,952

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2015	2014
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 11,719	\$ 9,088
Deferred revenues and advances from customers	151,345	122,528
Accrued expenses and other liabilities	223,255	192,414
Current liabilities of discontinued operations	12,744	54,357
Total current liabilities	399,063	378,387
LONG-TERM LIABILITIES:		
Accrued severance pay	17,952	18,830
Deferred tax liabilities	15,040	14,176
Long-term liabilities of discontinued operations	2,409	8,103
Total long-term liabilities	35,401	41,109
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS' EQUITY:		
Share capital-		
Ordinary shares of NIS 1 par value:		
Authorized: 125,000,000 shares at December 31, 2015 and 2014; Issued: 71,158,401 and 69,749,722 shares at December 31, 2015 and 2014, respectively; Outstanding: 59,526,506 and 59,252,342 shares at December 31, 2015 and 2014, respectively		
	17,977	17,615
Additional paid-in capital	1,234,206	1,171,424
Treasury shares at cost - 11,633,783 and 10,499,268 Ordinary shares at December 31, 2015 and 2014, respectively	(445,021)	(376,637)
Accumulated other comprehensive loss	(24,205)	(10,546)
Retained earnings	632,192	411,600
Total shareholders' equity	1,415,149	1,213,456
Total liabilities and shareholders' equity	\$ 1,849,613	\$ 1,632,952

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

CONSOLIDATED STATEMENTS OF INCOME

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

	Year ended December 31,		
	2015	2014	2013
Revenues:			
Products	\$ 317,900	\$ 289,560	\$ 280,140
Services	608,967	582,435	541,375
Total revenues	<u>926,867</u>	<u>871,995</u>	<u>821,515</u>
Cost of revenues:			
Products	66,363	63,919	69,335
Services	237,219	239,592	230,279
Total cost of revenues	<u>303,582</u>	<u>303,511</u>	<u>299,614</u>
Gross profit	<u>623,285</u>	<u>568,484</u>	<u>521,901</u>
Operating expenses:			
Research and development, net	128,485	123,141	115,431
Selling and marketing	225,817	231,097	214,579
General and administrative	90,349	83,360	86,467
Amortization of acquired intangibles	12,528	19,157	29,438
Restructuring expenses	-	5,435	527
Total operating expenses	<u>457,179</u>	<u>462,190</u>	<u>446,442</u>
Operating income	166,106	106,294	75,459
Financial income and other, net	<u>5,304</u>	<u>3,765</u>	<u>3,927</u>
Income before taxes on income	171,410	110,059	79,386
Taxes on income	<u>(30,832)</u>	<u>(9,909)</u>	<u>(26,915)</u>
Net income from continuing operations	\$ 140,578	\$ 100,150	\$ 52,471
Discontinued operations:			
Gain on disposal and income (loss) from operations	152,459	4,965	4,294
Taxes on income	<u>(34,206)</u>	<u>(2,040)</u>	<u>(1,490)</u>
Net income on discontinued operations	<u>118,253</u>	<u>2,925</u>	<u>2,804</u>
Net income	<u>\$ 258,831</u>	<u>\$ 103,075</u>	<u>\$ 55,275</u>
Basic earnings per share from continuing operations	\$ 2.36	\$ 1.69	\$ 0.87
Basic earnings per share from discontinued operations	\$ 1.99	\$ 0.05	\$ 0.05
Basic earnings per share	<u>\$ 4.35</u>	<u>\$ 1.74</u>	<u>\$ 0.92</u>
Diluted earnings per share from continuing operations	\$ 2.29	\$ 1.64	\$ 0.85
Diluted earnings per share from discontinued operations	\$ 1.93	\$ 0.05	\$ 0.04
Diluted earnings per share	<u>\$ 4.22</u>	<u>\$ 1.69</u>	<u>\$ 0.89</u>
Weighted average number of shares used in computing:			
Basic earnings per share	<u>59,552</u>	<u>59,362</u>	<u>60,388</u>
Diluted earnings per share	<u>61,281</u>	<u>60,895</u>	<u>61,830</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Year ended December 31,		
	2015	2014	2013
Net income	\$ 258,831	\$ 103,075	\$ 55,275
Other comprehensive income (loss), net of tax:			
Change in foreign currency translation adjustment	(14,602)	(17,972)	4,906
Available- for- sale investments:			
Change in net unrealized gains (losses)	(2,081)	259	(3,503)
Less - reclassification adjustment for net gains realized and included in net income	(32)	(16)	-
Net change (net of tax effect of (\$338), \$117, and (\$ 519))	(2,113)	243	(3,503)
Cash flow hedges:			
Change in unrealized gains	(954)	(6,770)	985
Less - reclassification adjustment for net gains realized and included in net income	4,010	1,552	(2,181)
Net change	3,056	(5,218)	(1,196)
Total other comprehensive income (loss)	(13,659)	(22,947)	207
Comprehensive income	<u>\$ 245,172</u>	<u>\$ 80,128</u>	<u>\$ 55,482</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Treasury shares</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained earnings</u>	<u>Total shareholders' equity</u>
Balance as of January 1, 2015	\$ 17,615	\$ 1,171,424	\$ (376,637)	\$ (10,546)	\$ 411,600	\$ 1,213,456
Exercise of share options	362	26,736	-	-	-	27,098
Stock-based compensation	-	28,451	-	-	-	28,451
Excess tax benefit from share-based payment arrangements	-	7,595	-	-	-	7,595
Treasury shares purchased	-	-	(68,384)	-	-	(68,384)
Other comprehensive loss	-	-	-	(13,659)	-	(13,659)
Dividends paid (\$ 0.64 per share)	-	-	-	-	(38,239)	(38,239)
Net income	-	-	-	-	258,831	258,831
Balance as of December 31, 2015	<u>\$ 17,977</u>	<u>\$ 1,234,206</u>	<u>\$ (445,021)</u>	<u>\$ (24,205)</u>	<u>\$ 632,192</u>	<u>\$ 1,415,149</u>
	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Treasury shares</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained earnings</u>	<u>Total shareholders' equity</u>
Balance as of January 1, 2014	\$ 17,212	\$ 1,112,367	\$ (283,851)	\$ 12,401	\$ 346,667	\$ 1,204,796
Issuance of shares of ESPP	3	433	-	-	-	436
Exercise of share options	400	27,605	-	-	-	28,005
Stock-based compensation	-	29,814	-	-	-	29,814
Excess tax benefit from share-based payment arrangements	-	1,205	-	-	-	1,205
Treasury shares purchased	-	-	(92,786)	-	-	(92,786)
Other comprehensive loss	-	-	-	(22,947)	-	(22,947)
Dividends paid (\$ 0.64 per share)	-	-	-	-	(38,142)	(38,142)
Net income	-	-	-	-	103,075	103,075
Balance as of December 31, 2014	<u>\$ 17,615</u>	<u>\$ 1,171,424</u>	<u>\$ (376,637)</u>	<u>\$ (10,546)</u>	<u>\$ 411,600</u>	<u>\$ 1,213,456</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Treasury shares</u>	<u>Accumulated other comprehensive income</u>	<u>Retained earnings</u>	<u>Total shareholders' equity</u>
Balance as of January 1, 2013	\$ 16,666	\$ 1,045,733	\$ (203,907)	\$ 12,194	\$ 320,402	\$ 1,191,088
Issuance of shares of ESPP	6	777	-	-	-	783
Exercise of share options	523	38,395	-	-	-	38,918
Restricted shares vesting in respect of Merced acquisition	17	(17)	-	-	-	-
Stock-based compensation	-	26,307	-	-	-	26,307
Excess tax benefit from share-based payment arrangements	-	1,172	-	-	-	1,172
Treasury shares purchased	-	-	(79,944)	-	-	(79,944)
Other comprehensive income	-	-	-	207	-	207
Dividends paid (\$ 0.48 per share)	-	-	-	-	(29,010)	(29,010)
Net income	-	-	-	-	55,275	55,275
Balance as of December 31, 2013	<u>\$ 17,212</u>	<u>\$ 1,112,367</u>	<u>\$ (283,851)</u>	<u>\$ 12,401</u>	<u>\$ 346,667</u>	<u>\$ 1,204,796</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$ 258,831	\$ 103,075	\$ 55,275
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	57,964	73,349	91,355
Stock-based compensation	28,451	29,814	26,307
Equity in losses of affiliated company	537	565	-
Revaluation of earn out liability	-	(4,002)	-
Excess tax benefit from share-based payment arrangements	(7,595)	(1,205)	(1,172)
Accrued severance pay, net	104	(207)	(43)
Amortization of premium and discount and accrued interest on marketable securities	2,799	2,071	4,234
Deferred taxes, net	10,576	(27,785)	(17,275)
Changes in operating assets and liabilities:			
Trade receivables, net	(56,363)	4,807	(34,569)
Prepaid expenses and other current assets	(1,482)	1,956	(1,612)
Trade payables	2,166	(13,781)	5,057
Accrued expenses and other liabilities	40,896	10,319	1,782
Deferred revenues	54,914	3,424	(4,551)
Gain on disposal of discontinued operations	(147,334)	-	-
Other	269	(131)	(513)
Net cash provided by operating activities	<u>244,733</u>	<u>182,269</u>	<u>124,275</u>
Cash flows from investing activities:			
Purchase of property and equipment	(16,596)	(16,722)	(20,226)
Investment in marketable securities	(247,593)	(74,188)	(145,885)
Proceeds from maturity of marketable securities	65,123	43,411	162,521
Proceeds from sale and call of marketable securities	27,419	2,403	791
Proceeds from short-term bank deposits	-	107,327	54,422
Investment in short-term bank deposits	(40,000)	(69,500)	(60,500)
Payments for business acquisitions, net of cash acquired and investments in affiliates	(1,500)	(748)	(23,911)
Capitalization of software development costs	(1,380)	(908)	(1,038)
Proceeds upon the realization of investment in affiliate	-	-	683
Proceeds from sale of discontinued operations	186,134	-	-
Net cash used in investing activities	<u>(28,393)</u>	<u>(8,925)</u>	<u>(33,143)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2015	2014	2013
<u>Cash flows from financing activities:</u>			
Proceeds from issuance of shares upon exercise of options and ESPP	27,532	29,526	38,381
Purchase of treasury shares	(68,384)	(94,267)	(79,447)
Dividends paid	(38,239)	(38,142)	(29,010)
Excess tax benefit from share-based payment arrangements	7,595	1,205	1,172
Earn out payments related to acquisitions	(297)	(158)	(280)
Net cash used in financing activities	(71,793)	(101,836)	(69,184)
Effect of exchange rate changes on cash	(6,113)	(3,556)	(999)
Increase in cash and cash equivalents	138,434	67,952	20,949
Cash and cash equivalents at the beginning of the year	187,497	119,545	98,596
Cash and cash equivalents at the end of the year	\$ 325,931	\$ 187,497	\$ 119,545
<u>Supplemental disclosure of cash flows activities:</u>			
<u>Cash paid during the year for:</u>			
Income taxes	\$ 53,646	\$ 32,854	\$ 43,862
Interest	\$ 107	\$ 116	\$ 336
<u>Non-cash activities:</u>			
Net change in accrued liability with respect to treasury shares	\$ -	\$ (1,481)	\$ 497
Net change in other receivables with respect to exercise of share options	\$ 434	\$ 1,085	\$ (1,320)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

a. General:

NICE is a leading global enterprise software provider that enables organizations to improve customer experience, drive business performance, ensure compliance and fight financial crime. The Company helps companies understand their customers and predict their needs, optimize their workforce to drive greater efficiency, and identify suspicious behaviour to prevent financial crime. The Company does this by capturing customer interactions and transactions across multiple channels and sources. The Company then applies best-in-class analytics to this data to provide real-time insight and uncover intent. The Company solutions allow organizations to operationalize this insight and embed it within their workflows and daily business processes.

The Company operates in two areas: Customer Interactions Solutions and Financial Crime and Compliance Solutions.

b. Acquisitions in prior years:

On August 12, 2013, the Company completed the acquisition of Causata Inc. ("Causata"), a provider of real-time Big Data analytics. The Company acquired Causata for total consideration of \$22,666 comprised of \$21,352 in cash and \$1,314 representing the fair value of a potential earn out based on performance milestones amounting to a maximum additional payment of \$2,000. The Company recorded technology, customer relationship, goodwill and deferred tax asset related to carryforward losses in amounts of \$10,474, \$2,001, \$8,598 and \$6,765, respectively. Technology and customer relationship are amortized over a period of 5 years.

During 2014, the Company has revalued the fair value of liability for earn out related to certain prior years' acquisitions. As a result, an income of \$4,002 was recorded within general and administrative expenses in the statement of income.

During 2015 and 2014, the Company didn't record any acquisition related costs. During 2013 acquisition related costs amounted to \$508, and were included mainly in general and administrative expenses.

c. Discontinued operations

During 2015, the Company divested its Physical Security as well as its Cyber and Intelligence operations, which were a major part of the Security Solutions segment, to allow it to focus on its core markets as part of the execution of its long-term strategy.

On July 1, 2015 the Company completed the sale of the Cyber and Intelligence operation to Elbit Systems for a total consideration of \$151,583, comprised of \$111,583 in cash and \$40,000 earn out based on future business performance.

The Cyber and Intelligence operation offers solutions which provide law enforcement agencies, intelligence organizations and signal intelligence agencies with tools for generating intelligence from communications.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1- GENERAL

The sale resulted in a capital gain of \$101,847, which was presented as part of the net income on discontinued operations in the consolidated statements of income for the year ended December 31, 2015.

On September 18, 2015, the Company completed the sale of the Physical Security operation to Battery Ventures for a total consideration of \$92,475, comprised of \$74,551 in cash, note receivable of \$2,924 and up to \$15,000 earn out based on future business performance.

The Physical Security operation provides video surveillance technologies and capabilities to security-aware organizations.

The sale resulted in a gain of \$45,487, which was presented as part of the net income on discontinued operations in the consolidated statements of income for the year ended December 31, 2015.

The carrying amount used in determining the gain on disposal of the operations included goodwill in the amount of \$35,554. The amount of goodwill that was included in that carrying amount was based on the relative fair values of the disposed operations and the portion of the operation that was retained within the segment.

Following the sale, Physical Security's and Intelligence's results of operations and statement of financial position balances are disclosed as a discontinued operation, including the resulting gain from sales. All prior periods' comparable results of operation, assets and liabilities have been retroactively included in discontinued operations.

The results of the discontinued operations including prior periods' comparable results, assets and liabilities which have been retroactively included in discontinued operations as separate line items in the statements of income and balance sheets are presented below:

	Year ended December 31,		
	(* 2015	2014	2013
Revenue	\$ 68,672	\$ 139,644	\$ 127,769
Cost of sales	26,956	72,073	65,333
Operating expenses	<u>36,307</u>	<u>62,041</u>	<u>58,142</u>
Operating income	5,409	5,530	4,294
Other expenses, net	284	565	-
Gain on disposal of the discontinued operations	<u>147,334</u>	<u>-</u>	<u>-</u>
Income before taxes on income	152,459	4,965	4,294
Taxes on income	<u>34,206</u>	<u>2,040</u>	<u>1,490</u>
Total net income on discontinued operations	<u>\$ 118,253</u>	<u>\$ 2,925</u>	<u>\$ 2,804</u>

*) Represent the results of the discontinued operations until their disposal.

Depreciation expense totaled \$724, \$1,058 and \$1,244 for the years 2015, 2014 and 2013, respectively.

Amortization expense totaled \$4,362, \$1,804 and \$2,799 for the years 2015, 2014 and 2013, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (cont.)

The major classes of assets and liabilities that were classified as discontinued operations were:

	Year ended December 31,	
	2015	2014
Trade receivables	\$ 5,224	\$ 25,977
Prepaid expenses and other current assets	3,893	7,159
Long Term Investments	-	5,509
Severance pay fund	-	4,997
Deferred taxes	-	5,296
Goodwill	-	35,122
Other classes of assets	25	5,645
Total assets of discontinued operations	9,142	89,705
Trade payables	-	2,822
Accrued expenses and other liabilities	12,698	28,813
Deferred revenue	-	22,722
Accrued severance pay	-	5,463
Other classes of liabilities	2,455	2,640
Total liabilities of discontinued operations	\$ 15,153	\$ 62,460

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP").

a. Use of estimates:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in United States dollars:

The currency of the primary economic environment in which the operations of NICE and certain subsidiaries are conducted is the U.S. dollar ("dollar"); thus, the dollar is the functional currency of NICE and certain subsidiaries.

NICE and certain subsidiaries' transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars in accordance with ASC 830, "Foreign Currency Matters". All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statements of income as financial income or expenses, as appropriate.

For those subsidiaries whose functional currency has been determined to be a non-dollar currency, assets and liabilities are translated at year-end exchange rates and statement of income items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) in shareholders' equity.

c. Principles of consolidation:

Intercompany transactions and balances have been eliminated upon consolidation.

d. Cash equivalents:

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

e. Marketable securities:

The Company accounts for investments in debt securities in accordance with ASC 320, "Investments - Debt and Equity Securities". Management determines the appropriate classification of its investments in debt securities at the time of purchase and re-evaluates such determinations at each balance sheet date.

Marketable securities classified as "available-for-sale" are carried at fair value, based on quoted market prices. Unrealized gains and losses are reported in a separate component of shareholders' equity in accumulated other comprehensive income (loss). Gains and losses are recognized when realized, on a specific identification basis, in the Company's consolidated statements of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

f. Inventories:

Inventories are stated at the lower of cost or market value. The cost of raw materials is determined by the "standard cost" method, and the cost of finished goods on the basis of costs charged by third party manufacturer. The cost of work-in-progress related to long-term contracts includes materials, subcontractors and other direct costs.

Inventory write-downs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and discontinued products and for market prices lower than cost, if any. At the point of the loss recognition, a new lower cost basis for that inventory is established. In addition, the Company records a liability for firm non-cancelable and unconditional purchase commitments with contract manufacturers for quantities in excess of the Company's future demands forecast consistent with its valuation of excess and obsolete inventory. Inventory write-downs for 2015, 2014 and 2013 were \$1,896, \$603 and \$1,767, respectively, and have been included in cost of revenues.

g. Property and equipment, net:

Property and equipment are stated at cost, net of accumulated depreciation.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, at the following annual rates:

	%
Computers and peripheral equipment	20-33
Office furniture and equipment	6 - 20

Leasehold improvements are amortized by the straight-line method over the term of the lease or the estimated useful life of the improvements, whichever is shorter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Other intangible assets, net:

Intangible assets are amortized over their estimated useful lives using the straight-line method, at the following weighted average annual rates:

	%
Core technology	18
Customer relationships and distribution network	13
Capitalized software development costs (see m below)	33

i. Impairment of long-lived assets:

The Company's 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 the Company's 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. In 2015, 2014 and 2013, no impairment charge was recognized.

j. Goodwill:

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," ("ASC 350") goodwill is not amortized, but rather is subject to an annual impairment test.

ASC 350 requires goodwill to be tested for impairment at the reporting unit level at least annually or between annual tests in certain circumstances, and written down when impaired. Goodwill is tested for impairment by comparing the fair value of the reporting unit with its carrying value.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company operates in operation-based segments, which also comprise its reporting units: Customer Interactions Solutions and Financial Crime and Compliance Solutions. During the fourth quarter of 2015 and 2014 the Company performed a qualitative assessment for its reporting units and concluded that the qualitative assessment did not result in a more likely than not indication of impairment, and therefore no further impairment testing was required.

During the fourth quarter of 2013 the Company performed qualitative assessment for the Customer Interactions Solutions reporting unit and concluded that the qualitative assessment did not result in a more likely than not indication of impairment. For the Financial Crime and Compliance Solutions reporting unit, the Company elected to bypass the qualitative assessment and proceeded directly to performing the first step of the goodwill impairment test. The Company performed the first step of the quantitative goodwill impairment test and concluded that the fair value of the reporting unit exceeded its carrying value.

During the years 2015, 2014 and 2013, no impairment charge was recognized.

k. Revenue recognition:

The Company generates revenues from sales of software products, services, which include support and maintenance, implementation, configuration, project management, consulting, training, hosting and SaaS, as well as hardware sales. The Company sells its products directly through its 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 the Company's software revenue recognition is substantially governed by the accounting guidance contained in ASC 985-605, "Software-Revenue Recognition." Revenues from sales of 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, the Company defers revenue for the fair value of its undelivered elements and recognizes 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For arrangements that contain both software and non-software components that function together to deliver the products' essential functionality, the Company allocates 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. The Company establishes VSOE of fair value using the price charged for a deliverable when sold separately. When VSOE cannot be established, the Company attempts to establish fair value of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, the Company's go-to-market strategy differs from that of its peers and the Company's offerings contain a significant level of differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor products' selling prices are on a standalone basis. Therefore, the Company is 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 the Company offers its products. The determination of the BESP is subject to discretion.

The Company's 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 contract.

The Company also generates sales from SaaS offerings which provide its customers access to certain of its software within a cloud-based IT environment that the Company manages and offers to customers on a subscription basis. Revenues for the Company's 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, the Company has a credit policy that determines the credit limit that reflects an amount that is deemed probably collectible for each customer. These credit limits are reviewed and revised periodically on the basis of new customer financial statements information, credit insurance data and payment performance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company maintains a provision for product returns which is estimated based on the Company's past experience and is deducted from revenues. As of December 31, 2015 and 2014, the provision for product returns amounted to \$3,281 and \$1,990, respectively.

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

l. Research and development and software development costs:

Research and development costs (net of grants) incurred in the process of software production are charged to expenses as incurred. Certain software development costs are capitalized under ASC 985-20, Costs of Software to be Sold, Leased or Marketed, and under ASC350-40, Internal-Use Software.

Costs incurred to develop software to be sold are capitalized after technological feasibility is established. Based on the Company's product development process, technological feasibility is established upon completion of a detailed program design. During the years ended on December 31, 2015, 2014 and 2013 the Company capitalized costs incurred to develop software to be sold in the amounts of \$0, \$356 and \$445, respectively.

For SaaS offerings within a cloud-based IT environment, the Company capitalizes costs incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. During the years ended on December 31, 2015, 2014 and 2013 the Company capitalized costs related to SaaS offerings in the amounts of \$1,380, \$0 and \$0 respectively.

m. Income taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This topic prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized.

The Company implements 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% (cumulative basis) likely to be realized upon ultimate settlement.

The Company classifies interest and penalties on income taxes (which includes uncertain tax positions) as taxes on income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Non-royalty grants:

Non-royalty bearing grants from the Government of Israel and the European Union for funding research and development projects are recognized at the time the Company is entitled to such grants on the basis of the related costs incurred and recorded as a deduction from research and development expenses.

o. Concentrations of credit risk:

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

The Company's cash and cash equivalents are invested in deposits mainly in dollars with major international banks. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Generally, these deposits may be redeemed upon demand and therefore bear minimal risk.

The Company's trade receivables are derived from sales to customers located primarily in North America, EMEA and APAC. The Company performs ongoing credit evaluations of its customers and insures certain of its receivables with a credit insurance company. A general allowance for doubtful accounts is provided, based on the length of time the receivables are past due.

The Company's marketable securities include investment in corporate debentures, U.S. Treasuries and U.S. government agencies. The Company's investment policy limits the amount that the Company may invest in any one type of investment or issuer, thereby reducing credit risk concentrations.

The Company entered into forward contracts, and option contracts intended to protect cash flows resulting from payroll and facilities related expenses against the volatility in value of forecasted non-dollar currency. The derivative instruments hedge a portion of the Company's non-dollar currency exposure. See Note 10.

p. Severance pay:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to Israel's Severance Pay Law based on the most recent monthly salary of the employees multiplied by the number of years of employment as of the balance sheet date. Employees are entitled to one month's salary for each year of employment, or a portion thereof. The Company's liability is fully provided by monthly deposits with insurance policies and severance pay funds and by an accrual.

The deposited funds include profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's agreements with employees in Israel, who joined the Company since May 1, 2009, are in accordance with Section 14 of the Severance Pay Law, 1963, whereas, the Company's contributions for severance pay shall be instead of its severance liability. Upon contribution of the full amount of the employee's monthly salary, and release of the policy to the employee, no additional calculations shall be conducted between the parties regarding the matter of severance pay and no additional payments shall be made by the Company to the employee. Further, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as they are legally released from obligation to employees once the deposit amounts have been paid.

The Company also has other liabilities for severance pay in other jurisdictions.

Severance pay expense for 2015, 2014 and 2013 amounted to \$8,936, \$11,229 and \$9,131, respectively.

The Company has a 401(K) defined contribution plan covering certain employees in the U.S. All eligible employees may elect to contribute up to 6% of their eligible compensation, but generally not greater than annual payment of \$18 in 2015, \$17.5 in 2014 and 2013 (for certain employees over 50 years of age the maximum annual contribution is \$24 in 2015, and \$23 per year in 2014 and 2013) of their total annual compensation to the plan through salary deferrals, subject to IRS limits. The Company matches 50% of employee contributions to the plan up to a limit of 6% of their eligible compensation. In the years 2015, 2014 and 2013, the Company recorded an expense for matching contributions in the amount of \$4,310, \$3,922 and \$3,791, respectively.

q. Basic and diluted net earnings per share:

Basic net earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted net earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year plus dilutive potential equivalent ordinary shares considered outstanding during the year, in accordance with ASC 260, "Earnings per Share".

The weighted average number of shares related to outstanding anti-dilutive options excluded from the calculations of diluted net earnings per share was 561,621, 743,100 and 586,367 for the years 2015, 2014 and 2013, respectively.

r. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718, "Compensation - Stock Compensation" ("ASC 718"), which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors. ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company recognizes compensation expenses for the value of its awards, which have graded vesting, based on the accelerated attribution method over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option-pricing model, which requires a number of assumptions: the expected volatility is based upon actual historical stock price movements; the expected term of options granted is based upon historical experience and represents the period of time that options granted are expected to be outstanding; the risk-free interest rate is based on the yield from U.S. Federal Reserve zero-coupon bonds with an equivalent term; and the expected dividend rate (an annualized dividend yield) is based on the per share dividend declared by the Company's Board of Directors. For information on the Company's dividend payments, see Note 13e.

The Company measures the fair value of restricted stock based on the market value of the underlying shares at the date of grant.

s. Fair value of financial instruments:

The Company applies ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820"). Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has 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 inputs that are unobservable and significant to the overall fair value measurement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The availability of observable inputs can vary from investment to investment and is affected by a wide variety of factors, including, for example, the type of investment, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment and the investments are categorized as Level 3.

The Company's marketable securities and foreign currency derivative contracts are classified within Level 2 (see Notes 3 and 10).

The carrying amounts of financial instruments carried at cost, including cash and cash equivalents, short-term bank deposits, trade receivables and trade payables, approximate their fair value due to the short-term maturities of such instruments.

t. Legal contingencies:

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

u. Advertising expenses:

Advertising expenses are charged to expense as incurred. Advertising expenses for the years 2015, 2014 and 2013 were \$7,986 \$7,827 and \$8,778, respectively.

v. Treasury shares:

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

w. Comprehensive income:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following tables show the components of accumulated other comprehensive income, net of taxes, as of December 31, 2015 and 2014:

	Year ended December 31, 2015			Total
	Unrealized gains (losses) on marketable securities	Unrealized gains (losses) on cash flow hedges	Foreign currency translation adjustment	
Beginning balance	\$ 183	\$ (3,625)	\$ (7,104)	\$ (10,546)
Other comprehensive income (loss) before reclassifications	(2,081)	(954)	(14,602)	(17,637)
Amounts reclassified from accumulated other comprehensive income	(32)	4,010	-	3,978
Net current-period other comprehensive income (loss)	(2,113)	3,056	(14,602)	(13,659)
Ending balance	\$ (1,930)	\$ (569)	\$ (21,706)	\$ (24,205)
	Year ended December 31, 2014			Total
	Unrealized gains (losses) on marketable securities	Unrealized gains (losses) on cash flow hedges	Foreign currency translation adjustment	
Beginning balance	\$ (60)	\$ 1,593	\$ 10,868	\$ 12,401
Other comprehensive income (loss) before reclassifications	259	(6,770)	(17,972)	(24,483)
Amounts reclassified from accumulated other comprehensive income	(16)	1,552	-	1,536
Net current-period other comprehensive income (loss)	243	(5,218)	(17,972)	(22,947)
Ending balance	\$ 183	\$ (3,625)	\$ (7,104)	\$ (10,546)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Recently issued accounting standards:

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 states that only disposals representing strategic shifts in operations that have, or will have, a major effect on an entity's operations should be reported as discontinued operations when any of the following occurs: the component of an entity or group of components of an entity is classified as held for sale, the component of an entity or group of components of an entity is disposed of by sale, or the component of an entity or group of components of an entity is disposed of other than by sale. A strategic shift could include a disposal of (i) a separate major line of business, (ii) a separate major geographic area of operations, (iii) a major equity method investment, or (iv) other major parts of an entity. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014, which is effective for the Company for the year ended December 31, 2015. The Company has considered the sale of Cyber and Intelligence and Physical Security operations as a strategic shift and accordingly implemented this guidance on its consolidated financial position and results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 allows the Company to use either of two methods: (i) retrospective application of ASU 2014-09 to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective application of ASU 2014-09 with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606)," which defers the effective date of ASU 2014-09 by one year to fiscal years beginning after December 15, 2017 (our fiscal year 2018), including interim periods within that reporting period. The Company is currently in the process of evaluating the impact of the adoption of the update on its consolidated financial statements, implementing accounting system changes related to the adoption and considering additional disclosures requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, related to balance sheet classification of deferred taxes. The ASU requires that deferred tax assets and liabilities be classified as noncurrent in the statement of financial position, thereby simplifying the current guidance that requires an entity to separate deferred assets and liabilities into current and noncurrent amounts. The ASU will be effective beginning in the first quarter of fiscal year 2018, though early adoption is permitted. The Company has early-adopted the ASU as of December 31, 2015 and its statement of financial position as of this date reflects the revised classification of current deferred tax assets and liabilities as noncurrent. There is no other impact on the Company's financial statements of early-adopting the ASU. As a result of the adoption of ASU 2015-17, the Company made the following adjustments to the 2014 balance sheet: a \$20,958 decrease to current deferred tax assets, a \$11,819 increase to noncurrent deferred tax asset, a \$33 decrease to current deferred tax liability, and a decrease of \$9,106 million to noncurrent deferred tax liability.

NOTE 3:- SHORT-TERM AND LONG-TERM INVESTMENTS

Short-term and long-term investments include marketable securities in the amount of \$462,298 and \$312,465 as of December 31, 2015 and 2014, respectively and short-term bank deposits in the amounts of \$40,146 and \$0 as of December 31, 2015 and 2014, respectively.

The following table summarizes amortized costs, gross unrealized gains and losses and estimated fair values of available-for-sale marketable securities as of December 31, 2015 and 2014:

	Amortized cost		Gross unrealized gains		Gross unrealized losses		Estimated fair value	
	December 31,		December 31,		December 31,		December 31,	
	2015	2014	2015	2014	2015	2014	2015	2014
Level 2:								
Corporate debentures	\$ 452,556	\$ 305,046	\$ 267	\$ 1,326	\$ 2,338	\$ 711	\$ 450,485	\$ 305,661
U.S. Agencies	4,999	-	3	-	2	-	5,000	-
U.S. Treasuries	7,010	7,011	-	-	197	207	6,813	6,804
	<u>\$ 464,565</u>	<u>\$ 312,057</u>	<u>\$ 270</u>	<u>\$ 1,326</u>	<u>\$ 2,537</u>	<u>\$ 918</u>	<u>\$ 462,298</u>	<u>\$ 312,465</u>

The scheduled maturities of available-for-sale marketable securities as of December 31, 2015 were as follows:

	Amortized cost	Estimated fair value
Due within one year	58,998	59,049
Due after one year through five years	398,557	396,436
Due after six years through ten years	7,010	6,813
	<u>464,565</u>	<u>462,298</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3- SHORT-TERM AND LONG-TERM INVESTMENTS (Cont.)

Investments with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values as of December 31, 2015 and 2014 were as indicated in the following tables:

	December 31, 2015					
	Investments with continuous unrealized losses for less than 12 months		Investments with continuous unrealized losses for 12 months or greater		Total Investments with continuous unrealized losses	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate debentures	\$ 242,545	\$ (1,750)	\$ 113,581	\$ (588)	\$ 356,126	\$ (2,338)
U.S. Agencies	1,997	(3)	-	-	1,997	(3)
U.S. treasuries	-	-	6,813	(196)	6,813	(196)
	<u>\$ 244,542</u>	<u>\$ (1,753)</u>	<u>\$ 120,394</u>	<u>\$ (784)</u>	<u>\$ 364,936</u>	<u>\$ (2,537)</u>

	December 31, 2014					
	Investments with continuous unrealized losses for less than 12 months		Investments with continuous unrealized losses for 12 months or greater		Total Investments with continuous unrealized losses	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Corporate debentures	\$ 47,575	\$ (189)	86,950	\$ (522)	\$ 134,525	\$ (711)
U.S. treasuries	-	-	6,804	(207)	6,804	(207)
	<u>\$ 47,575</u>	<u>\$ (189)</u>	<u>\$ 93,754</u>	<u>\$ (729)</u>	<u>\$ 141,329</u>	<u>\$ (918)</u>

NOTE 4- PREPAID EXPENSES AND OTHER CURRENT ASSETS

	December 31,	
	2015	2014
Government authorities	\$ 21,821	\$ 18,082
Interest receivable	2,597	1,782
Prepaid expenses	10,385	11,084
Inventories	6,198	6,969
Other	2,560	2,340
	<u>\$ 43,561</u>	<u>\$ 40,257</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5- OTHER LONG-TERM ASSETS

	December 31,	
	2015	2014
Severance pay fund	\$ 15,857	\$ 17,246
Long-term deposits	1,318	1,675
	<u>\$ 17,175</u>	<u>\$ 18,921</u>

NOTE 6- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2015	2014
Cost:		
Computers and peripheral equipment	\$ 118,326	\$ 109,266
Office furniture and equipment	8,537	11,355
Leasehold improvements	29,106	28,809
	<u>155,969</u>	<u>149,430</u>
Accumulated depreciation:		
Computers and peripheral equipment	95,056	86,794
Office furniture and equipment	6,372	8,684
Leasehold improvements	15,328	13,782
	<u>116,756</u>	<u>109,260</u>
Depreciated cost	<u>\$ 39,213</u>	<u>\$ 40,170</u>

Depreciation expense totaled \$15,575, \$17,688 and \$16,619 for the years 2015, 2014 and 2013, respectively.

The Company recorded a reduction of \$9,615 and \$2,211 to the cost and accumulated depreciation of fully depreciated equipment and leasehold improvements no longer in use for the years ended December 31, 2015 and 2014, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:- OTHER INTANGIBLE ASSETS, NET

- a. Definite-lived other intangible assets:

	December 31,	
	2015	2014
Original amounts:		
Core technology	\$ 257,434	\$ 262,065
Customer relationships and distribution network	182,768	185,488
Capitalized software development costs	7,829	6,516
Trademarks	12,252	12,542
Covenant not to compete	9,981	10,119
	<u>470,264</u>	<u>476,730</u>
Accumulated amortization:		
Core technology	210,627	186,726
Customer relationships and distribution network	161,863	151,948
Capitalized software development costs	5,959	5,596
Trademarks	12,252	12,542
Covenant not to compete	9,981	10,119
	<u>400,682</u>	<u>366,931</u>
Other intangible assets, net	<u>\$ 69,582</u>	<u>\$ 109,799</u>

- b. Amortization expense amounted to \$40,055, \$50,738 and \$67,566 for the years ended December 31, 2015, 2014 and 2013, respectively.
- c. The Company recorded a reduction of \$0 and \$3,270 to the original amounts and accumulated amortization of fully amortized other intangible assets for the years ended December 31, 2015 and 2014, respectively.
- d. Estimated amortization expense:

For the year ended December 31,

2016	31,494
2017	26,059
2018	7,309
2019	4,384
2020	336
	<u>69,582</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- GOODWILL

Following the disposal of certain Security Solutions segment operations, as described on Note 1c, the changes in the carrying amount of goodwill allocated to reportable segments, for the years ended December 31, 2015 and 2014 are as follows:

	Year ended December 31, 2015		
	Customer Interactions Solutions	Financial Crime and Compliance Solutions	Total
As of January 1, 2015	\$ 392,228	\$ 267,429	\$ 659,657
Functional currency translation adjustments	(7,420)	(1,125)	(8,545)
As of December 31, 2015	\$ 384,808	\$ 266,304	\$ 651,112

	Year ended December 31, 2014		
	Customer Interactions Solutions	Financial Crime and Compliance Solutions	Total
As of January 1, 2014	\$ 401,345	\$ 268,821	\$ 670,166
Functional currency translation adjustments	(9,117)	(1,392)	(10,509)
As of December 31, 2014	\$ 392,228	\$ 267,429	\$ 659,657

NOTE 9:- ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2015	2014
Employees and payroll accruals	\$ 109,995	\$ 82,113
Accrued expenses	61,958	46,872
Government authorities	50,001	57,849
Other	1,301	5,580
	\$ 223,255	\$ 192,414

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- DERIVATIVE INSTRUMENTS

The Company's risk management strategy includes the use of derivative financial instruments to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates.

ASC 815, "Derivatives and Hedging" ("ASC 815"), requires the Company to recognize all of its derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) and reclassified into earnings in the line item associated with the hedged transaction in the period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item representing the ineffective portion of the derivative, if any, is recognized in financial income (expense) in the period of change.

The Company entered into option contracts to hedge a portion of anticipated New Israeli Shekel ("NIS") payroll and benefit payments as well as facilities related payments. These derivative instruments are designated as cash flow hedges, as defined by ASC 815 and accordingly are measured in fair value. These transactions are effective and, as a result, gain or loss on the derivative instruments are reported as a component of accumulated other comprehensive income (loss) and reclassified as payroll expenses or finance expenses, respectively, at the time that the hedged income/expense is recorded.

	Notional amount		Fair value	
	December 31,		December 31,	
	2015	2014	2015	2014
Level 2:				
Option contracts to hedge payroll expenses	\$ 110,000	\$ 102,450	\$ (566)	\$ (4,133)
Option contracts to hedge facilities expenses	5,018	5,837	1	19
	<u>\$ 115,018</u>	<u>\$ 108,287</u>	<u>\$ (565)</u>	<u>\$ (4,114)</u>

The Company currently hedges its exposure to the variability in future cash flows for a maximum period of one year. As of December 31, 2015, the Company expects to reclassify all of its unrealized gains and losses from accumulated other comprehensive income to earnings during the next twelve months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10:- DERIVATIVE INSTRUMENTS (Cont.)

The fair value of the Company's outstanding derivative instruments at December 31, 2015 and 2014 is summarized below:

	Balance sheet line item	Fair value of derivative instruments	
		December 31,	
		2015	2014
Derivative assets:			
Foreign exchange option contracts	Other receivables and prepaid expenses	\$ 1	\$ 19
Derivative liabilities:			
Foreign exchange option contracts	Accrued expenses and other liabilities	\$ (566)	\$ (4,133)

The effect of derivative instruments in cash flow hedging relationship on income and other comprehensive income for the years ended December 31, 2015, 2014 and 2013 is summarized below:

	Amount of gain (loss) recognized in OCI on derivative (effective portion)		
	Year ended December 31,		
	2015	2014	2013
Derivatives in cash flow hedging relationship:			
Foreign exchange option contracts	\$ 954	\$ 6,770	\$ (5,296)
Foreign exchange forward contracts	-	-	4,311
	\$ 954	\$ 6,770	\$ (985)

Derivative in foreign exchange cash flow hedging relationship:

	Statements of income line item	Amount of gain (loss) reclassified from OCI into income (expenses) (effective portion)		
		Year ended December 31,		
		2015	2014	2013
Option contracts	Cost of revenues, operating expenses and discontinued operations	\$ 4,010	\$ 1,552	\$ (6,491)
Forward contracts	Financial income	-	-	4,310
		\$ 4,010	\$ 1,552	\$ (2,181)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Company leases office space, office equipment and various motor vehicles under operating leases.

1. The Company's office space and office equipment are rented under several operating leases.

Future minimum lease commitments under non-cancelable operating leases for the years ended December 31, were as follows:

2016	\$	14,883
2017		12,438
2018		11,420
2019		9,034
2020		8,569
2021 and thereafter		11,201
	\$	<u>67,545</u>

Rent expenses for the years 2015, 2014 and 2013 were approximately \$ 15,880, \$ 18,594 and \$ 18,218, respectively.

2. The Company leases its motor vehicles under cancelable operating lease agreements.

The minimum payment under these operating leases, upon cancellation of these lease agreements was \$ 1,035 as of December 31, 2015.

Lease expenses for motor vehicles for the years 2015, 2014 and 2013 were \$ 5,103, \$ 3,774 and \$ 3,959, respectively.

b. Other commitments:

The Company is obligated under certain agreements with its suppliers to purchase goods and, under an agreement with its manufacturing subcontractor, to purchase projected inventory and excess inventory. Non-cancelable obligations, net of provisions, as of December 31, 2015, were \$555. These obligations are expected to be fulfilled during 2015.

The Company is also obligated under certain agreements with its suppliers to purchase licenses and hosting services. These non-cancelable obligations as of December 31, 2015, were \$18,148.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

c. Legal proceedings:

1. Following the divestiture of one of the Company business units, the buyer of such business unit made certain demands and allegations, claiming indemnification pursuant to the sale agreement between the Company and such buyer. The parties corresponded regarding these claims, and the Company has denied all demands and allegations made by the buyer. If the parties fail to reach a negotiated resolution, the buyer may initiate legal proceedings against the Company to enforce its indemnification claims. If such buyer is successful in such proceedings, it will result in a reduction of the consideration under the sale agreement within the discontinued operation. At this preliminary stage the Company cannot estimate the probability of a favorable or unfavorable outcome in this dispute.
2. From time to time the Company or its subsidiaries may be involved in legal proceedings and/or litigation arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, the Company does not believe it will have a material effect on its consolidated financial position, results of operations, or cash flows.

NOTE 12:- TAXES ON INCOME

a. Israeli taxation:

1. Corporate tax:

Commencing 2012, NICE and its Israeli subsidiary elected the Preferred Enterprise regime to apply under the Law for the Encouragement of Capital Investment (the "Investment Law"). The Company's entire preferred income is subject to the tax rates as follows: 2013 – 12.5%, 2014 and thereafter - 16%. The election is irrevocable.

Income not eligible for Preferred Enterprise benefits is taxed at a regular rate, which was 26.5% in 2015 and 2014 and 25% for 2013. In January 2016, the Amendment of the Income Tax Ordinance (No. 216), 2016, was published and set the reduction of the corporate tax, starting in 2016 and onward, from 26.5% to 25%.

Prior to 2012, most of the Company's and its Israeli subsidiary's income was exempt from tax or subject to reduced tax rates under the Investment Law. Upon distribution of exempt income, the distributing company was subject to corporate reduced tax rates ordinarily applicable to such income under the Investment Law. Reduced income under the Investment Law including the Preferred Enterprise Regime will be freely distributable as dividends, subject to a 15%-20% withholding tax (or lower, under an applicable tax treaty). However, upon the distribution of a dividend from Preferred Income to an Israeli company, no withholding tax will be remitted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

Pursuant to a temporary tax relief initiated by the Israeli government, a company that elected by November 11, 2013 to pay a reduced corporate tax rate as set forth in the temporary tax relief with respect to undistributed exempt income generated under the Investment Law accumulated by the company until December 31, 2011 is entitled to distribute a dividend from such income without being required to pay additional corporate tax with respect to such dividend. A company that has so elected must make certain qualified investments in Israel over five-year period. A company that has elected to apply the temporary tax relief cannot withdraw from its election. The election did not require the actual distribution of these previously tax-exempted earnings.

In September 2013, the Company made the election and duly released all of NICE and its Israeli subsidiary's tax-exempted income through 2011 related to their various pre 2012 programs under the Investment Law. As a result of the election and the related settlement of a routine multi-year tax audit, the Company recorded an expense of \$19,200 and paid an amount of approximately \$32,000. The Company has also committed to make certain investments in "industrial projects" (as defined in the Law) no later than December 31, 2017. The Company believes that this commitment has already been fulfilled during 2013 as part of its existing investment plans. Further to the election, NICE no longer has a tax liability upon future distributions of its tax-exempted earnings, while the Israeli subsidiary has a tax liability upon future distributions only with respect to its 2012 tax-exempted earnings.

2. Foreign Exchange Regulations:

Under the Foreign Exchange Regulations, NICE and its Israeli subsidiary calculate their tax liability in U.S. Dollars according to certain orders. The tax liability, as calculated in U.S. Dollars is translated into New Israeli Shekels according to the exchange rate as of December 31st of each year.

3. Tax benefits under the Israeli Law for the Encouragement of Industry (Taxation), 1969:

NICE is an "Industrial Company" as defined by the above law and, as such, is entitled to certain tax benefits including accelerated depreciation, deduction of public offering expenses in three equal annual installments and amortization of cost of purchased know-how and patents for tax purposes over 8 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

b. Income taxes on non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective country of residence. The Company's consolidated tax rate depends on the geographical mix of where its profits are earned. Primarily, the Company's U.S. subsidiaries are subject to federal and state income taxes of approximately 37% and its subsidiaries in the U.K. are subject to corporation tax at a rate of approximately 20%. Neither Israeli income taxes, foreign withholding taxes nor deferred income taxes were provided in relation to undistributed earnings of the Company's foreign subsidiaries. This is because the Company has the intent and ability to reinvest these earnings indefinitely in the foreign subsidiaries and therefore those earnings are continually redeployed in those jurisdictions. As of December 31, 2015, the amount of undistributed earnings of non-Israeli subsidiaries, which is considered indefinitely reinvested, was \$247,301 with a corresponding unrecognized deferred tax liability of \$51,709. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

c. Net operating loss carryforward:

As of December 31, 2015, certain subsidiaries had tax loss carry-forwards totaling approximately \$86,600 which can be carried forward and offset against taxable income with expiration dates ranging from 2016 and onwards. Approximately \$67,300 of these carry-forward tax losses have no expiration date. The balance expires between 2016 and 2032.

Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses increasing taxes before utilization.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

The Company has provided valuation allowances in respect of certain deferred tax assets resulting from tax loss carry forwards and other reserves and allowances due to uncertainty concerning realization of these deferred tax assets.

- e. A reconciliation of the Company's effective tax rate to the statutory tax rate in Israel is as follows:

	Year ended December 31,		
	2015	2014	2013
Income before taxes on income, as reported in the consolidated statements of income	\$ 171,410	\$ 110,059	\$ 79,386
Statutory tax rate in Israel	26.5%	26.5%	25%
Approved, Privileged and Preferred Enterprise benefits *)	(6.1)%	(4.1)%	11.8%
Changes in valuation allowance	(0.4)%	(2.2)%	(1.0)%
Earnings taxed under foreign law	(4.0)%	(4.8)%	(13.8)%
Tax Settlements and other adjustments	1.1%	(7.0)%	10.4%
Other	0.9%	0.6%	1.5%
Effective tax rate	18.0%	9.0%	33.9%

- *) The effect of the benefit resulting from the "Approved, Privileged and Preferred Enterprise" status (including the expense related to the election to release previously tax-exempted earnings under the Order described in Note 12(a)(1) above) on net earnings per ordinary share is as follows:

	Year ended December 31,		
	2015	2014	2013
Basic	\$ 0.18	\$ 0.08	\$ (0.16)
Diluted	\$ 0.17	\$ 0.07	\$ (0.15)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

f. Income before taxes on income is comprised as follows:

	Year ended December 31,		
	2015	2014	2013
Domestic	\$ 122,952	\$ 67,192	\$ 53,270
Foreign	48,458	42,867	26,116
	<u>\$ 171,410</u>	<u>\$ 110,059</u>	<u>\$ 79,386</u>

g. Taxes on income are comprised as follows:

	Year ended December 31,		
	2015	2014	2013
Current	\$ 23,978	\$ 37,694	\$ 44,200
Deferred	6,854	(27,785)	(17,285)
	<u>\$ 30,832</u>	<u>\$ 9,909</u>	<u>\$ 26,915</u>
Domestic	\$ 24,812	\$ 2,337	\$ 29,410
Foreign	6,020	7,572	(2,495)
	<u>\$ 30,832</u>	<u>\$ 9,909</u>	<u>\$ 26,915</u>

Of which:

	Year ended December 31,		
	2015	2014	2013
Domestic taxes:			
Current	\$ 14,860	\$ 16,351	\$ 30,530
Deferred	9,952	(14,014)	(1,120)
	<u>\$ 24,812</u>	<u>\$ 2,337</u>	<u>\$ 29,410</u>
Foreign taxes:			
Current	\$ 9,118	\$ 21,343	\$ 13,670
Deferred	(3,098)	(13,771)	(16,165)
	<u>\$ 6,020</u>	<u>\$ 7,572</u>	<u>\$ (2,495)</u>
Taxes on income	<u>\$ 30,832</u>	<u>\$ 9,909</u>	<u>\$ 26,915</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

h. Uncertain tax positions:

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows:

	December 31,	
	2015	2014
Uncertain tax positions, beginning of year	\$ 18,561	\$ 33,158
Increases in tax positions for prior years	110	2,521
Increases in tax positions for current year	5,085	5,277
Settlements	(2,173)	(20,887)
Expiry of the statute of limitations	(3,347)	(1,508)
Uncertain tax positions, end of year	<u>\$ 18,236</u>	<u>\$ 18,561</u>

All the Company's unrecognized tax benefits would, if recognized, reduce the Company's annual effective tax rate. The Company has further accrued \$239 due to interest related to uncertain tax positions as of December 31, 2015.

During 2015, prior tax years in the US and the United Kingdom were closed by way of the expiration of the statute of limitations and settlements reached with those tax authorities through routine tax audits. The Israeli subsidiary is currently in the process of routine Israeli income tax audits for the tax years 2012 through 2013. As of December 31, 2015, the Company is still subject to further Israeli income tax audits for the tax years of 2013 through 2015, to U.S. federal income tax audits for the tax years of 2012 through 2015 and to other income tax audits for the tax years of 2010 through 2015.

NOTE 13:- SHAREHOLDERS' EQUITY

- a. The ordinary shares of the Company are traded on the Tel-Aviv Stock Exchange and its American Depositary Shares ("ADS's") are traded on NASDAQ.
- b. Share option plans:

In June 2008, the Company adopted the 2008 Share Incentive Plan ("the 2008 Plan"), to provide incentives to employees, directors, consultants and/or contractors by rewarding performance and encouraging behavior that will improve the Company's profitability. Under the 2008 Plan, the Company's employees, directors, consultants and/or contractors may be granted any equity-related award, including any type of an option to acquire the Company's 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 2008 Plan (each an "Award").

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13- SHAREHOLDERS' EQUITY (Cont.)

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 options granted with an exercise price equal to the nominal value of an ordinary share ("par value options"), unless determined otherwise by the Board of Directors, 25% of the restricted share units granted and par value options granted become vested on each of the four consecutive annual anniversaries following the date of grant. Awards with a vesting period expire six years after the date of grant. Pursuant to a resolution of the Company's Board of Directors dated 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. The 2008 Plan provides that the maximum 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 the Company's issued and outstanding share capital as of December 31 of the preceding calendar year. Such amount is reset for each calendar year.

In December 2010, the Company amended the 2008 Plan, such that options are granted at an exercise price equal to the average of the closing prices of one ordinary share, 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 par value options). Prior to the amendment of the 2008 Plan that occurred in 2010, the 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 par value options. Further, when the Company distributes cash dividends, the exercise price for each option outstanding, for certain employees, prior to the distribution is reduced by an amount equal to the gross amount of the dividend per share distributed, provided that the exercise price shall not be reduced below the nominal value of the ordinary shares of the Company.

Pursuant to the terms of the acquisitions of Actimize Ltd., e-Glue Software Technologies Inc., Fizzback, Merced and Causata, the Company assumed or replaced unvested options, Restricted Stock Awards ("RSAs") and Restricted Stock Units ("RSUs") and converted them or replaced them with NICE options, RSAs and RSUs, as applicable, based on an agreed exchange ratio. Each assumed or replaced option, RSA and RSU is subject to the same terms and conditions, including vesting, exercisability and expiration, as originally applied to any such option, RSA and RSU immediately prior to the acquisition.

The fair value of the Company's stock options granted to employees and directors for the years ended December 31, 2015, 2014 and 2013 was estimated using the following assumptions:

	2015	2014	2013
Expected volatility	23.02%-27.55%	27.47%-28.08%	27.5%-30.0%
Weighted average volatility	25.17%	27.72%	28.8%
Risk free interest rate	0.76%-1.18%	0.8%-1.2%	0.4%-0.9%
Expected dividend	0%-1.29%	0%-1.61%	0%-1.7%
Expected term (in years)	3.5-3.5	3.4	3.3-3.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)

A summary of the Company's stock options activity and related information for the year ended December 31, 2015, is as follows:

	Number of options	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2015	3,580,793	23.54	4.39	97,061
Granted	865,801	28.47		
Exercised	(1,108,649)	24.38		
Forfeited	(575,224)	23.19		
Cancelled	(11,137)	15.47		
Outstanding at December 31, 2015	<u>2,751,584</u>	<u>24.59</u>	<u>4.19</u>	<u>90,058</u>
Exercisable at December 31, 2015	<u>849,528</u>	<u>25.50</u>	<u>3.25</u>	<u>27,030</u>

The weighted-average grant-date fair value of options granted during the years 2015, 2014 and 2013 was \$32.58, \$19.69 and \$18.24, respectively.

The total intrinsic value of options exercised during the years 2015, 2014 and 2013 was \$40,519, \$ 35,028 and \$24,949, respectively.

The options outstanding under the Company's stock option plans as of December 31, 2015 have been separated into ranges of exercise price as follows:

Ranges of exercise price	Options outstanding as of December 31, 2015	Weighted average remaining contractual term (Years)	Weighted average exercise price \$	Options exercisable as of December 31, 2015	Weighted average exercise price of options exercisable \$
\$ 0.26	1,080,208	4.42	0.26	237,165	0.26
\$ 0.69	6,361	3.69	0.69	6,361	0.69
\$ 4.24-6.00	3,381	0.48	5.16	3,381	5.16
\$ 6.87-9.64	736	2.57	9.08	736	9.08
\$ 10.69-15.96	14,422	2.98	16.61	14,422	13.61
\$ 17.72-26.09	9,552	2.53	20.88	9,552	20.88
\$ 28.21-40.32	1,188,524	3.63	36.72	562,911	35.88
\$ 49.08-65.41	448,400	5.26	52.00	15,000	65.41
	<u>2,751,584</u>	<u>4.19</u>	<u>24.59</u>	<u>849,528</u>	<u>25.50</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)

A summary of the Company's Restricted Stock Awards ("RSA") and the Company's Restricted Stock Units ("RSU") activities and related information for the year ended December 31, 2015, is as follows:

	<u>Number of RSU & RSA*</u>
Outstanding at January 1, 2015	771,565
Issued	376,367
Vested	(300,030)
Forfeited	<u>(94,697)</u>
Outstanding at December 31, 2015	<u>753,205</u>

*) NIS 1 par value which represents approximately \$0.26

As of December 31, 2015, there was approximately \$50,227 of unrecognized compensation expense related to non-vested stock options and restricted stock awards, expected to be recognized up to four years.

The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the years ended December 31, 2015, 2014 and 2013, was comprised as follows:

	<u>Year ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cost of revenues	\$ 3,712	\$ 4,472	\$ 4,421
Research and development, net	2,161	2,483	2,795
Selling and marketing	11,266	12,361	9,383
General and administrative	<u>10,521</u>	<u>9,224</u>	<u>8,449</u>
Total stock-based compensation expenses	<u>\$ 27,660</u>	<u>\$ 28,540</u>	<u>\$ 25,048</u>

c. Employee Stock Purchase Plan:

Under the Employee Stock Purchase Plan ("ESPP") Eligible employee were entitled to between 2% to 10% of their earnings being withheld (under certain limitations) for the purposes of purchasing ordinary shares. Under the ESPP, the price of ordinary shares purchased was equal to 95% of the fair market value of the ordinary shares. Pursuant to a resolution of the Company's Board of Directors, the Company's Employee Stock Purchase Plan has been terminated, and is no longer in effect as of January 1, 2014.

During 2014 and 2013, employees purchased 11,196 and 23,478 shares at average prices of \$0, \$38.91 and \$33.36 per share, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- SHAREHOLDERS' EQUITY (Cont.)

d. Treasury shares:

On February 15, 2011, November 2, 2011, October 31, 2012 and February 4, 2014 the Company's Board of Directors authorized a program to repurchase up to \$100,000 at each time (total of up to \$400,000) of the Company's 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 programs do not obligate the Company to acquire any particular amount of ordinary shares and ADRs and the program may be modified or discontinued at any time without prior notice.

e. Dividends:

On February 13, 2013, the Company announced that the Board of Directors had approved a dividend policy under which the Company intended to pay quarterly cash dividends to holders of its ordinary shares and ADRs subject to declaration by the Board. Under Israeli law, dividends may be paid only out of total accumulated retained profits and other surplus (as defined in the law) as of the most recent financial statements or as accrued over a period of the last two years, whichever is higher, provided that there is no reasonable concern that the dividend distribution will prevent the Company from meeting its existing and foreseeable obligations as they come due. Dividends are generally declared and paid in U.S. dollars, although the Company may pay such dividends in Israeli currency.

The total amount of annual dividend declared and paid in 2015 and 2014 was \$0.64 per share. Subsequent to the balance sheet date, the Company declared and paid an additional dividend of \$0.16 per share in respect of the fourth quarter of 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14- REPORTABLE SEGMENTS AND GEOGRAPHICAL INFORMATION

a. Reportable segments:

ASC 280, Segment Reporting, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer.

During 2015, the Company divested its Physical Security as well as its Cyber and Intelligence operations, which were a major part of the Security Solutions segment, to allow it to focus on its core markets as part of the execution of its long-term strategy. Following this divestiture, the Company operates in the following operation-based segments: Customer Interactions Solutions provide data driven insights that enable businesses to deliver consistent and personalized experience to customers, and Financial Crime and Compliance Solutions provide real time and cross-channel fraud prevention, anti-money laundering, brokerage compliance and enterprise-wide case management.

	Year ended December 31, 2015			
	Customer Interactions Solutions (1)	Financial Crime and Compliance solutions	Not allocated	Total
Revenues	\$ 688,060	\$ 238,807	\$ -	\$ 926,867
Operating income	\$ 206,994	\$ 73,131	\$ (114,019)	\$ 166,106
	Year ended December 31, 2014			
	Customer Interactions Solutions (1)	Financial Crime and Compliance solutions	Not allocated	Total
Revenues	\$ 674,797	\$ 197,198	\$ -	\$ 871,995
Operating income	\$ 151,051	\$ 46,878	\$ (91,635)	\$ 106,294
	Year ended December 31, 2013			
	Customer Interactions Solutions (1)	Financial Crime and Compliance solutions	Not allocated	Total
Revenues	\$ 658,467	\$ 163,048	\$ -	\$ 821,515
Operating income	\$ 135,465	\$ 29,449	\$ (89,455)	\$ 75,459

- (1) Includes the results of a certain operation which was formerly part of the Security Solutions segment which was retained following the above mentioned divestiture and integrated within the Customer Interactions Solutions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14- REPORTABLE SEGMENTS AND GEOGRAPHICAL INFORMATION (Cont.)

The following presents long-lived assets of December 31, 2015 and 2014, based on operational segments:

	December 31,	
	2015	2014
Customer Interactions Solutions	\$ 23,327	\$ 24,183
Financial Crime and Compliance Solutions	11,013	10,572
Non-allocated	4,873	5,415
	<u>\$ 39,213</u>	<u>\$ 40,170</u>

b. Geographical information:

Total revenues from external customers on the basis of the Company's geographical areas are as follows:

	Year ended December 31,		
	2015	2014	2013
Americas, principally the US	\$ 630,096	\$ 591,147	\$ 540,449
EMEA *)	192,640	184,092	183,187
Israel	4,231	5,092	5,089
Asia Pacific	99,900	91,664	92,790
	<u>\$ 926,867</u>	<u>\$ 871,995</u>	<u>\$ 821,515</u>

The following presents long-lived assets of December 31, 2015 and 2014, based on geographical areas:

	December 31,	
	2015	2014
Americas, principally the US	\$ 10,385	\$ 11,072
EMEA *)	4,458	4,101
Israel	20,813	23,137
Asia Pacific	3,557	1,860
	<u>\$ 39,213</u>	<u>\$ 40,170</u>

*) Includes Europe, the Middle East (excluding Israel) and Africa.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- SELECTED STATEMENTS OF INCOME DATA

- a. Research and development expenses, net:

	Year ended December 31,		
	2015	2014	2013
Total costs	\$ 132,039	\$ 125,952	\$ 117,939
Less - grants and participations	(2,174)	(2,455)	(2,063)
Less - capitalization of software development costs	(1,380)	(356)	(445)
	<u>\$ 128,485</u>	<u>\$ 123,141</u>	<u>\$ 115,431</u>

- b. Restructuring expense:

During 2013 and 2014, the Company initiated restructuring plans to reduce its operating costs and improve profitability. The plan included restructuring of the Company's workforce in certain geographies and consolidation of facilities which resulted in restructuring charges in the amount of \$527 and \$5,435 in the years ended December 2013 and 2014, respectively.

- c. Financial income and other, net:

	Year ended December 31,		
	2015	2014	2013
Financial income:			
Interest and amortization/accretion of premium/discount on marketable securities	\$ 6,844	\$ 5,268	\$ 4,802
Realized gain on marketable securities	32	16	-
Interest	430	349	1,505
	<u>7,306</u>	<u>5,633</u>	<u>6,307</u>
Financial expenses:			
Interest	(66)	(73)	(182)
Foreign currency translation	(731)	(685)	(822)
Other	(780)	(1,107)	(1,266)
	<u>(1,577)</u>	<u>(1,865)</u>	<u>(2,270)</u>
Other expenses, net	(425)	(3)	(110)
	<u>\$ 5,304</u>	<u>\$ 3,765</u>	<u>\$ 3,927</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

d. Net earnings per share:

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

1. Numerator:

	Year ended December 31,		
	2015	2014	2013
Net income from continuing operations available to ordinary shareholders	\$ 140,578	\$ 100,150	\$ 52,471
Net income from discontinued operations available to ordinary shareholders	118,253	2,925	2,804
Net income to ordinary shareholders	<u>\$ 258,831</u>	<u>\$ 103,075</u>	<u>\$ 55,275</u>

2. Denominator (in thousands):

	Year ended December 31,		
	2015	2014	2013
Denominator for basic net earnings per share - Weighted average number of shares	59,552	59,362	60,388
Effect of dilutive securities: Add - employee stock options and RSU	<u>1,729</u>	<u>1,533</u>	<u>1,442</u>
Denominator for diluted net earnings per share - adjusted weighted average shares	<u>61,281</u>	<u>60,895</u>	<u>61,830</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16:- SUBSEQUENT EVENTS

On March 22, 2016, the Company completed the acquisition of Nexidia Inc., a leading provider of advanced customer analytics. The Company acquired Nexidia for total consideration of approximately \$135.0 million in cash. The acquisition will allow the Company to offer a combined offering, featuring analytics capabilities with accuracy, scalability and performance, enabling organizations to expand their analytics usage in critical business use cases.

On March 11, 2016, NICE completed the acquisition of Voiceprint International, Inc., a provider of workforce optimization software and services for enterprises, contact centers, first responders and trading floors.

In accordance with the adoption of a dividend policy announced on February 13, 2013, as described on Note 13e, the Company announced on February 24, 2016 a declaration of a cash dividend of \$0.16 per share for the fourth quarter of 2015 that was paid on March 9, 2016.

SIGNATURES

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

NICE-SYSTEMS LTD.

By: /s/ Barak Eilam
Barak Eilam
Chief Executive Officer

Date: March 23, 2016

THE COMPANIES LAW, 5759-1999

A COMPANY LIMITED BY SHARES

AMENDED AND RESTATED

ARTICLES OF ASSOCIATION

OF

NICE-SYSTEMS LTD.

נייס-סיסטמס בע"מ

1. Definitions; Interpretation

(a) "Companies Law" - the Israeli Companies Law, 5759-1999 as the same shall be amended from time to time, or any other law which shall replace that Law, together with any amendments and regulations thereto.

(b) "Companies Ordinance" - those sections of the Israeli Companies Ordinance [New Version] 5743-1983 that shall remain in force after the date of the coming into force of the Companies Law, as the same shall be amended from time to time.

(c) Unless the subject or the context otherwise requires: words and expressions defined in the Companies Law and in the Companies Ordinance, as the case may be, shall have the same meanings herein; words and expressions importing the singular shall include the plural and vice versa; words and expressions importing the masculine gender shall include the feminine gender; and words and expressions importing persons shall include bodies corporate.

(d) The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the construction of any provision hereof.

2. Object and Purpose of the Company

The object and the purpose of the Company are as set forth in Section 2 of the Memorandum of Association of the Company.

3. Limitation of Liability

The liability of the shareholders of the Company is limited as set forth in Section 3 of the Memorandum of Association of the Company.

SHARE CAPITAL

4. Share Capital

The share capital of the Company is one hundred and twenty five million New Israeli Shekels (NIS 125,000,000) divided into one hundred and twenty five million (125,000,000) Ordinary Shares of nominal value of NIS 1.00 each ("Ordinary Shares").

5. Increase of Share Capital

(a) The Company may, from time to time, by resolution of the shareholders, whether or not all the shares then authorized have been issued, resolve to increase its share capital by the creation of new shares. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts, and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such resolution shall provide.

(b) Except to the extent otherwise provided in such resolution, such new shares shall be subject to all the provisions applicable to the shares of the original share capital.

6. The Rights of Ordinary Shares

The Ordinary Shares confer upon the holders thereof all rights accruing to a shareholder of the Company, as provided in these Articles, including, *inter alia*, the right to receive notices of (in the manner proscribed in Articles 20 and 50 of these Articles), and to attend, shareholder meetings of the shareholders; for each share held - the right to one vote at all shareholders' meetings for all purposes, and to share equally, on a per share basis, in such dividends as may be declared by the Board of Directors in accordance with the terms of these Articles and the Companies Law; 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, in accordance with the terms of these Articles and the law. All Ordinary Shares rank *pari passu* in all respects with each other.

7. Special Rights; Modifications of Rights

(a) Subject to the provisions of any law, the Company may, from time to time, by resolution of the shareholders, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such resolution.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles, may be modified or abrogated by the Company, by a shareholder resolution, subject to the consent of the holders of a majority of the voting power of such class by written consent or at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, *mutatis mutandis*, apply to any separate General Meeting of the holders of the shares of a particular class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed, for purposes of this Article 7(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

8. Consolidation, Subdivision, Cancellation and Reduction of Share Capital

- (a) The Company may (subject, however, to the provisions of Article 7(b) hereof and to applicable law), from time to time, by resolution of the Company's shareholders:
- (i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares,
 - (ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by these Articles (subject to the provisions of the Companies Law), and the shareholders resolution whereby any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred or deferred rights or rights of redemption or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares.
 - (iii) cancel any shares which, at the date of the adoption of such resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled, or
 - (iv) reduce its share capital in any manner, and with and subject to any incident authorized, and consent required, by law.
- (b) With respect to any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including, *inter alia*, resort to one or more of the following actions:
- (i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;
 - (ii) allot, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share holdings;
 - (iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share holdings;
 - (iv) cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred, and the Board of Directors is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this sub-Article 8(b)(iv).
- (c) The notice of a General Meeting with respect to the adoption of a resolution under Article 8(a) above, shall specify the actions to be adopted by the Board of Directors under Article 8(b) above.

SHARES

9. Issuance of Share Certificates; Replacement of Lost Certificates

- (a) Share certificates of issued shares shall, if issued, be issued under the seal or the rubber stamp of the Company or the Company printed name, and shall bear the signatures of two Directors, or of one Director and of the Secretary of the Company, or of any other person or persons authorized thereto by the Board of Directors.
- (b) Each shareholder, registered in the Register of Shareholders (as defined in the Companies law), shall be entitled to one numbered certificate for all the shares of any class registered in his name, or if the Board of Directors so approves, to several certificates, each for one or more of such shares, in the form as shall be determined by the Board of Directors and according to the law.
- (c) A share certificate registered in the names of two or more persons shall be delivered to the person first named in the Register of Shareholders in respect of such co-ownership.
- (d) If a share certificate is defaced, lost or destroyed, it may be replaced, provided that the original certificate is presented to and destroyed by the Board of Directors or it is proved to the satisfaction of the Board of Directors that the certificate has been lost or destroyed, and upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity or security, as the Board of Directors may think fit.

10. Allotment of Shares

The unissued shares shall be under the control of the Board of Directors, who shall have the power to allot shares or otherwise dispose of them to such persons, on such terms and conditions (including *inter alia* terms relating to calls as set forth in Article 11(f) hereof), and either at par or at a premium, and at such times, as the Board of Directors may think fit, and the power to grant to any person the option to acquire from the Company any shares, either at par or at a premium, during such time and for such consideration as the Board of Directors may think fit.

11. Calls on Shares; Forfeiture and Surrender

- (a) The 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, by the terms of allotment thereof or otherwise, 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), to the person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.

(b) Notice of any call shall be given in writing to the shareholder(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the person to whom such payment shall be made, provided, however, that before the time for any such payment, the Board of Directors may, by notice in writing to such shareholder(s), revoke such call in whole or in part, extend such time, or alter such person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

(c) If, by the terms of allotment of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Board of Directors and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

(d) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

(e) Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

(f) Upon the allotment of shares, the Board of Directors may provide for differences among the allottees of such shares as to the amount of calls and/or the times of payment thereof.

(g) If any shareholder fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, may at any time thereafter, so long as the said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, inter alia, attorneys' fees and costs of suit, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of the amount payable to the Company in respect of such call.

(h) Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such shareholder, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall not be less than fourteen (14) days and which may be extended by the Board of Directors), such shares shall be ipso facto forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall stop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(i) Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(j) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

(k) Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of as the Board of Directors thinks fit.

(l) Any shareholder whose shares have been forfeited or surrendered shall cease to be a shareholder in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 11(e) above, and the Board of Directors, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing by the shareholder in question (but not yet due) in respect of all shares owned by such shareholder, solely or jointly with another, and in respect of any other matter or transaction whatsoever.

(m) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it thinks fit, but no such nullification shall stop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 11.

(n) Except to the extent the same may be waived or subordinated in writing and to the extent permitted by applicable law, the Company shall have a first and paramount lien upon all the shares registered in the name of each shareholder (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for his debts, liabilities and engagements arising from any cause whatsoever, solely or jointly with another, to or with the Company, whether the period for the payment, fulfillment or discharge thereof shall have actually arrived or not. Such lien shall extend to all dividends from time to time declared in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

(o) The Board of Directors may cause the Company to sell any shares subject to such lien when any such debt, liability or engagement has matured, in such manner as the Board of Directors may think fit, but no such sale shall be made unless such debt, liability or engagement has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such shareholder, his executors or administrators.

(p) The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts, liabilities or engagements of such shareholder (whether or not the same have matured), or any specific part of the same (as the Company may determine), and the residue (if any) shall be paid to the shareholder, his executors, administrators or assigns.

TRANSFER OF SHARES

12. Effectiveness and Registration

No transfer of shares shall be registered in the Register of Shareholders unless a proper instrument of transfer (in form and substance satisfactory to the Secretary of the Company) has been submitted to the Company, together with such other evidence of title as the Board of Directors may reasonably require. Until the transferee has been registered in the Register of Shareholders in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof.

TRANSMISSION OF SHARES

13. Decedents' Shares

(a) In case of a share registered in the names of two or more holders established by law, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 13(b) have been effectively invoked.

(b) Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors may reasonably deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title), shall be registered as a shareholder in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

14. Receivers and Liquidators

(a) The Company may recognize the receiver, liquidator or similar official of any corporate shareholder in winding-up or dissolution, or the receiver, trustee or similar official in bankruptcy or in connection with the reorganization of any shareholder, as being entitled to the shares registered in the name of such shareholder.

(b) The receiver, liquidator or similar official of a corporate shareholder in winding-up or dissolution, or the receiver, trustee or similar official in bankruptcy or in connection with the reorganization of any shareholder, upon producing such evidence as the Board of Directors may deem sufficient that he sustains the character in respect of which he proposes to act under this Article or of his title, shall with the consent of the Board of Directors (which the Board of Directors may grant or refuse in its absolute discretion), be registered as a shareholder in respect of such shares in the Register of Shareholders, or may, subject to the regulations as to transfer herein contained, transfer such shares.

RECORD DATE WITH RESPECT TO OWNERSHIP OF SHARES

15. Record Date for General Meetings

The shareholders entitled to receive notice of, to participate in and to vote thereon at a General Meeting, or to express consent to or dissent from any corporate action in writing, shall be the shareholders on the date set in the resolution of the Board of Directors to convene the General Meeting, provided that, such date shall not be earlier than forty (40) days prior to the date of the General Meeting and not later than four (4) days prior to the date of such General Meeting, or different periods as shall be permitted by law. A determination of shareholders of record with respect to a General Meeting shall apply to any adjournment of such meeting.

16. Record Date for Distribution of Dividends

The shareholders entitled to receive dividends shall be the shareholders on the date upon which it was resolved to distribute the dividend or at such later date as shall be provided in the resolution in question.

GENERAL MEETINGS

17. General Meetings

(a) An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors.

(b) All General Meetings other than Annual General Meetings shall be called "**Special General Meetings**." The 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 requisition in accordance with the Companies Law.

18. Shareholder Proposals

(a) A shareholder (including two or more shareholders that are acting in concert, a "**Proposing Shareholder**") holding one percent or more of the outstanding voting rights in the Company may request, subject to Section 66(b) of the Companies Law, that the Board of Directors include a proposal on the agenda of a General Meeting to be held in the future, provided that the Proposing Shareholder gives timely notice of such request in writing (a "**Proposal Request**") to the Secretary of the Company and the Proposal Request complies with all the requirements of this Article 18, these Articles and applicable law and stock exchange rules. To be considered timely, a Proposal Request must be delivered, either in person or by certified mail, postage prepaid, and received at the principal executive office of the Company, by the applicable deadline under the Companies Law.

(b) The Proposal Request shall set forth (i) the name, business address, telephone number and fax number or email address of the Proposing Shareholder (or each member of the group constituting the Proposing Shareholder, as the case may be) and, if an entity, the name(s) of the person(s) that controls or manages such entity, (ii) the number of Ordinary Shares held by the Proposing Shareholder, directly or indirectly, and, if any of such Ordinary Shares are held indirectly, an explanation of how they are held and by whom, and, if such Proposing Shareholder is not the holder of record of any such Ordinary Shares, a written statement from the holder of record or authorized bank, broker, depository or other nominee, as the case may be, indicating the number of Ordinary Shares the Proposing Shareholder is entitled to vote as of a date that no more than ten (10) days prior to the date of delivery of the Proposal Request, (iii) any agreements, arrangements, understandings or relationships between the Proposing Shareholder and any other person with respect to any securities of the Company or the subject matter of the Proposal Request, (iv) the Proposing Shareholder's purpose in making the Proposal Request, (v) the complete text in the English language of the resolution that the Proposing Shareholder proposes to be voted upon at the General Meeting and, if the Proposing Shareholder wishes to have a statement in support of the Proposing Shareholder's proposal included in the Company's proxy statement, a copy of such statement, which shall be in the English language and shall not exceed 500 words, (vi) a statement of whether the Proposing Shareholder has a personal interest in the proposal and, if so, a description in reasonable detail of such personal interest, and (vii) if the proposal of the Proposing Shareholder is to nominate a candidate for election to the Board of Directors, (A) a declaration signed by the nominee and the other information required under Section 224B of the Companies Law, (B) to the extent not otherwise provided in the Request Proposal, the information in respect of the nominee as would be provided in response to the disclosure requirements of Item 6A (*directors and senior management*), Item 6E (*share ownership*) and Item 7B (*related party transactions*) of Form 20-F of the U.S. Securities and Exchange Commission, (C) a representation of whether the nominee meets the objective criteria for an independent director of the Company under the listing rules of the NASDAQ Stock Market (or such other stock exchange on which the Ordinary Shares are then listed) and if not, then an explanation of why not, and (D) a statement signed by the nominee that he consents to be named in the Company's notices and proxy materials relating to the General Meeting and, if elected, to serve on the Board of Directors. In addition, the Proposing Shareholder shall promptly provide any other information reasonably requested by the Company. The Company shall be entitled to publish information provided by a Proposing Shareholder pursuant to Article 18, and the Proposing Shareholder shall be responsible for the accuracy thereof. The parenthetical regulation headings contained in this Article 18(b) are for convenience only and shall not be deemed a part hereof or used to limit the scope of disclosure required by this Article 18(b). References in this Article 18(b) to particular laws, regulations or rules shall be deemed to apply to such amended or successor laws, regulations or rules as shall be in effect from time to time.

(c) A Proposing Shareholder holding five percent or more of the outstanding voting rights in the Company (or five percent or more of the outstanding share capital and one percent or more of the voting rights in the Company) may request, subject to Section 63(b)(2) of the Companies Law, that the Board of Directors convene a Special General Meeting, provided that the request complies with all the applicable requirements of a "Proposal Request" set forth in Article 18(b), these Articles and applicable law and stock exchange rules.

19. Powers of the General Meeting

Subject to the provisions of the Companies Law and of these Articles, the resolutions in respect to the following matters shall be adopted by the General Meeting:

- (a) Amendments to the Articles, as set forth in Section 20 of the Companies Law.
- (b) Exercise of the authorities of the Board of Directors in accordance with the provisions of Section 52(a) of the Companies Law.
- (c) Appointment of the outside auditor(s) of the Company, the determination of its/their terms of engagement with the Company and termination of its/their engagement with the Company, all in accordance with the provisions of Sections 154-167 of the Companies Law.
- (d) Appointment of independent ("external") Directors in accordance with the provisions of Section 239 of the Companies Law ("**External Directors**").
- (e) Approval of actions and transactions that require the approval of the General Meeting pursuant to Sections 255 and 268-275 of the Companies Law.
- (f) An increase and a decrease of the authorized share capital of the Company, pursuant to Sections 286 and 287 of the Companies Law.
- (g) A merger, as set forth in Section 320(a) of the Companies Law.

20. Notice of General Meetings

(a) Not less than twenty-one (21) days' prior notice shall be given of every General Meeting (the "Notice"). The Notice shall be published in two (2) newspapers in Israel and as shall be required by law or rules and regulations of the stock exchanges on which the Company's shares are listed. The Notice shall specify the place, date and hour of the General Meeting, its agenda, a summary of proposed resolutions and the procedure for voting in such General Meeting by proxy statement and any other matter as shall be required by law. Notices shall not be sent to each of the shareholders registered in the Company's Register of Shareholders.

(b) The validity of any resolutions carried at a General Meeting shall not be affected if the Company, by oversight, has not sent a notice of the convening of the meeting, or has sent an incomplete or incorrect notice regarding the convening of the meeting or its agenda, or has not served a notice as aforesaid or has delayed in sending or delivering the said notice.

PROCEEDINGS AT GENERAL MEETINGS

21. Quorum

(a) Two or more shareholders (not in default in payment of any sum referred to in Article 26(a) hereof), present in person or by proxy or by written ballot, as shall be permitted, and holding shares conferring in the aggregate twenty-five percent (25%) or more of the voting power of the Company, shall constitute a quorum at General Meetings.

(b) If within half an hour from the time appointed for the meeting a quorum is not present, if convened upon requisition under sections 63, 64 or 65 of the Companies Law, the meeting shall be dissolved, but in any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such day and at such time and place as specified in the Notice of such meeting or as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy or by written ballot, as shall be permitted, and voting on the question of adjournment. At such adjourned meeting, any two (2) shareholders (not in default as aforesaid) present in person or by proxy or by written ballot, as shall be permitted, shall constitute a quorum.

(c) No business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

22. Chairman

Any member of the Board of Directors shall preside as Chairman at any General Meeting of the Company. If there is no such member, or if at any meeting such member is not present within fifteen (15) minutes after the time fixed for holding the meeting or is unwilling to act as Chairman, the shareholders present shall choose someone of their member to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a shareholder or proxy of a shareholder if, in fact, he is also a shareholder or such proxy).

23. Adoption of Resolutions at General Meetings

(a) Unless otherwise specifically provided in these Articles or under any applicable law, all resolutions submitted to the shareholders shall be deemed adopted if approved by the holders of a simple majority of the voting power represented at the meeting in person or by proxy or by written ballot, as shall be permitted, and voting thereon.

(b) Every question submitted to a General Meeting shall be decided by a count of votes.

(c) A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minute book of the Company, shall be prima facie evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

24. Power to Adjourn

(a) The Chairman of a General Meeting, in which the required quorum is present, may resolve to adjourn the meeting, for no more than thirty(30) days, to such time and place as shall be determined but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

(b) It shall not be necessary to give any notice of an adjournment under Article 24(a), unless the meeting is adjourned for more than twenty-one (21) days in which event notice thereof shall be given in the manner required for the meeting as originally called.

25. Voting Power

Subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every shareholder shall have one vote for each share held by him of record, on every resolution.

26. Voting Rights

- (a) The shareholders entitled to vote at a General Meeting shall be the shareholders listed in the Company's Register of Shareholders on the record date, as specified in Article 15.
- (b) A company or other corporate body being a shareholder of the Company may, by resolution of its directors or any other managing body thereof, authorize any person to be its representative at any meeting of the Company. Any person so authorized shall be entitled to exercise on behalf of such shareholder all the power which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman) shall be delivered to him.
- (c) Any shareholder entitled to vote may vote either personally or by proxy (who need not be a shareholder of the Company), or, if the shareholder is a company or other corporate body, by a representative authorized pursuant to Article 26(b) or by a written ballot, as permitted by law and according to these Articles.
- (d) If two or more persons are registered as joint holders of any share, the vote of the senior who tenders a vote, in person or by proxy or by written ballot, as shall be permitted, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in the Register of Shareholders.
- (e) No shareholders shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls and other sums then payable by him in respect of his shares in the Company have been paid.
- (f) The Board of Directors may determine, in its discretion, the matters that may be voted upon a written ballot to the Company (without attendance in person or by proxy), as shall be permitted, at a General Meeting, in addition to the matters listed in Section 87(c) of the Companies law.

PROXIES

27. Instrument of Appointment

- (a) The instrument appointing a proxy shall be in writing and shall be in any usual or common form or in such other form as may be approved by the Board of Directors. It shall be duly signed by the appointor or, if such appointor is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).
- (b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall be delivered to the Company (at its Registered Office, or at its principal place of business or at the offices of its transfer agent or at such other place as the Board of Directors may specify) not less than forty-eight (48) hours (or such shorter period as may be determined by the Board of Directors) before the time fixed for the meeting at which the person named in the instrument proposes to vote.

28. Effect of Death of Appointor or Revocation of Appointment

A vote cast pursuant to an instrument appointing a proxy shall be valid notwithstanding the previous death of the appointing shareholder (or of his attorney-in-fact, if any, who signed such instrument), or the revocation of the appointment or the transfer of the share in respect of which the vote is cast, provided no written notification of such death, revocation or transfer shall have been received by the Company or by the Chairman of the meeting before such vote is cast, and provided, further, that the appointing shareholder, if present in person at said meeting, may revoke the appointment by means of a writing, oral notification to the Chairman, or otherwise.

BOARD OF DIRECTORS

29. Powers of Board of Directors

(a) The Board of Directors shall have all powers vested in it according to the Companies Law and these Articles, shall have any and all authorities not vested in any other organ of the Company according to the Companies Law and these Articles, shall be authorized to determine the policy of the Company, shall supervise the performance and actions of the General Manager, and, without derogating from the above, shall have all the following powers:

- (i) determine the Company's plans of action, the principles of their financing and the order of priority among them;
- (ii) examine the financial status of the Company, and set the frame of credit that the Company shall be entitled to acquire;
- (iii) determine the organizational structure of the Company and its compensation policies;
- (iv) may resolve to issue series of debentures;
- (v) shall be responsible for the preparation and approval of the financial statements of the Company, as set forth in Section 171 of the Companies Law;
- (vi) report to the Annual General Meeting of the status of the Company's affairs and of their financial outcomes, as set forth in Section 173 of the Companies Law.
- (vii) appoint the General Manager and may terminate such appointment, in accordance with Section 250 of the Companies Law;
- (viii) resolve in the matters on actions and transactions that require its approval according to Sections 255 and 268-275 of the Companies Law and of the provisions of these Articles;
- (ix) issue shares and convertible securities up to the total amount of the authorized share capital of the Company, in accordance with Section 288 of the Companies Law;
- (x) decide on a "distribution" as set forth in Sections 307-308 of the Companies Law;

(xi) express its opinion on a special tender offer, as set forth in Section 329 of the Companies Law;

(b) The powers of the Board of Directors described in Articles 29(a)(i)-29(a)(xi) above shall not be delegated to the General Manager(s) of the Company.

30. Exercise of Powers of Directors

(a) A meeting of the Board of Directors at which a quorum is present shall be competent to exercise all the authorities, powers and discretion vested in or exercisable by the Board of Directors.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a simple majority of the Directors then in office who are lawfully entitled to participate in the meeting and vote thereon and present when such resolution is put to a vote and voting thereon.

(c) A resolution may be adopted by the Board of Directors without convening a meeting if all Directors then in office and lawfully entitled to vote thereon (as conclusively determined by the Chairman of the Audit Committee, and in the absence of such determination - by the Chairman of the Board of Directors) have given their consent (in any manner whatsoever) not to convene a meeting. Such a resolution shall be adopted if approved by a simple majority of the Directors entitled to vote thereon (as determined as aforesaid). The Chairman of the Board shall sign any resolutions so adopted, including the decision to adopt said resolutions without a meeting.

31. Delegation of Powers

The Board of Directors may, subject to the provisions of the Companies Law, delegate its powers to committees, each consisting of two or more persons (all of whose members must be Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any such Committee authorized to exercise the powers of the Board of Directors shall include at least one (1) External Director. Any Committee so formed (in these Articles referred to as a "Committee of the Board of Directors"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, mutatis mutandis, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by the Companies Law or any regulations adopted by the Board of Directors under this Article. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers.

32. Number of Directors; Board Composition

(a) Until otherwise determined by resolution of the Company's shareholders, the Board of Directors shall consist of not less than three (3) nor more than thirteen (13) Directors, including at least two (2) External Directors.

(b) If the Company does not have a shareholder that "holds" 25% or more of its issued and outstanding share capital, then a majority of the Directors shall be "independent directors", as such terms are defined from time to time by the Companies Law and the regulations promulgated thereunder. If the Company has a shareholder that holds 25% or more of its issued and outstanding share capital, then at least one third (1/3) of the Directors shall be "independent directors". Any failure to satisfy the requirement of this Article 32(b) shall be corrected no later than the next Annual General Meeting following such failure; until such time, any such failure shall not affect the authority of the Board of Directors. In the event that such failure shall not have been corrected at such Annual General Meeting, then the Directors will not be entitled to act except in an emergency, and they may fill vacant positions on the Board of Directors pursuant to Article 34(a) herein or call a General Meeting of the Company for the purpose of electing or removing Directors to satisfy the requirement of this Article 32(b).

33. Election and Removal of Directors

Directors shall be elected at the Annual General Meeting by the vote of the holders of a simple majority of the voting power represented at such meeting in person or by proxy or by written ballot, as shall be permitted, and voting on the election of directors. The Directors so elected shall hold office until the next Annual General Meeting. The holders of a simple majority of the voting power represented at the Annual General Meeting and voting thereon shall be entitled to remove any Director(s) from office, to elect directors in place of the Director(s) so removed or to fill any vacancy, however created, on the Board of Directors. Notwithstanding anything to the contrary herein, the term of a Director may commence as of a date later than the date of the shareholder resolution electing said Director, if so specified in said shareholder resolution.

34. Continuing Directors in the Event of Vacancies

(a) Any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement of the Board, may be filled by a vote of a majority of the Directors then in office, even if less than quorum. A Director elected to fill a vacancy shall be elected to hold office until the next annual General Meeting.

(b) If the position of one or more Directors is vacated, the continuing Directors shall be entitled to act in every matter so long as their number is not less than the statutory minimum number required at the time. If, at any time, their number decreases below said statutory minimum number, they will not be entitled to act except in an emergency, and they may fill vacant positions on the Board of Directors pursuant to Article 34(a) herein or call a General Meeting of the Company for the purpose of electing Directors to fill any vacancies.

35. Vacation of Office

(a) The office of a Director shall be vacated, ipso facto, upon the occurrence of any of the following: (i) such Director's death, (ii) such Director is convicted of a crime as described in Section 232 of the Companies Law, (iii) such Director is removed by a court or law in accordance with Section 233 or 247 of the Companies Law, (iv) such Director becomes legally incompetent, (v) if such Director is an individual, such Director is declared bankrupt, (vi) if such Director is a corporate entity, upon its winding-up, liquidation, whether voluntary or involuntary or (vii) upon a resolution of the Company's shareholders pursuant to Article 33(a) above.

(b) The office of a Director shall be vacated by his written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

36. Remuneration of Directors

Each Director shall be paid remuneration by the Company for his services as Director as such remuneration shall have been approved pursuant to the provisions of the Companies Law.

37. No Alternate Directors

A Director may not appoint an alternate for himself.

PROCEEDINGS OF THE BOARD OF DIRECTORS

38. Meetings

(a) The Board of Directors may meet and adjourn its meetings according to the Company's needs but at least once in every three (3) months, and otherwise regulate such meetings and proceedings as the Directors think fit. Meetings of the Board of Directors may be held telephonically or by any other means of communication provided that each Director participating in such meeting can hear and be heard by all other Directors participating in such meeting.

(b) Any two Directors may at any time convene a meeting of the Board of Directors. Notice (oral or written) shall be given of any meeting a reasonable time in advance. The failure to give notice to a Director in the manner required hereby may be waived by such Director. Upon the unanimous approval of the Directors, a meeting of the Board of Directors can be convened without any prior notice. In urgent situations, a meeting of the Board of Directors can be convened without any prior notice with the consent of a majority of the Directors, including a majority of those who are lawfully entitled to participate in and vote at such meeting (as conclusively determined by the Chairman of the Audit Committee, and in the absence of such determination - by the Chairman of the Board of Directors). The notice of a meeting shall include the agenda of the meeting.

39. Quorum

A quorum at a meeting of the Board of Directors shall be constituted by the presence, in person or by any other means of communication by which the Directors may hear each other simultaneously, of a majority of the Directors then in office who are lawfully entitled to participate in the meeting and vote thereon (as conclusively determined by the Chairman of the Board of Directors). No business shall be transacted at a meeting of the Board of Directors unless the requisite quorum is present as aforesaid when the meeting proceeds to business.

40. Chairman of the Board of Directors

The Board of Directors shall from time to time elect one of its members to be the Chairman of the Board of Directors, and it may from time to time remove such Chairman from office and appoint another in its place. The Chairman of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes of the time fixed for the meeting, or if he is unwilling to take the chair, the Directors present shall choose one of their number to be the chairman of such meeting.

The General Manager of the Company shall not serve as the Chairman of the Board of Directors, and the Chairman of the Board of Directors shall not be granted authorities of the General Manager, unless such appointment, or grant, as the case may be, is approved by the shareholders in a General Meeting in accordance with Section 121(c) of the Companies Law. The office of Chairman shall not entitle the holder to a second or casting vote.

41. Validity of Acts Despite Defects

Subject to the provisions of the Companies Law, all acts done bona fide at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the appointment of the participants in such meetings or any of them or any person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

GENERAL MANAGER

42. General Manager

- (a) The Board of Directors shall appoint from time to time one or more persons as General Manager(s) of the Company.
- (b) The General Manager shall be responsible for the day-to-day management of the affairs of the Company within the framework of the policies determined by the Board of Directors from time to time and subject to the discretion of the Board of Directors.
- (c) The General Manager shall have full managerial and operational authority to carry out all the activities which the Company may carry on by law and under these Articles and which have not been vested by law or by these Articles in any other organ of the Company. The General Manager shall be subject to the supervision of the Board of Directors.
- (d) The General Manager may, subject to the provisions of the Companies Law, from time to time, appoint a Secretary to the Company, as well as officers, agents, employees and independent contractors, as the General Manager may think fit, and may terminate the service of any such person. The General Manager may, subject to the provisions of the Companies Law, determine the powers and duties, as well as the salaries and emoluments, of all such persons.

MINUTES

43. Minutes

- (a) Minutes of each General Meeting and of each meeting of the Board of Directors shall be recorded and duly entered in books provided for that purpose. The minutes of each meeting of the Board of Directors shall, in all events, set forth the names of the persons present at the meeting and all resolutions adopted thereat.

(b) Any minutes as aforesaid, if purporting to be signed by the chairman of the meeting or by the chairman of the next succeeding meeting, shall constitute prima facie evidence of the matters recorded therein.

(c) Subject to the provisions of the Companies Law, each shareholder shall have the right to inspect the minutes of the General Meetings.

DIVIDENDS

44. Declaration of Dividends

Subject to the Companies Law, the Board of Directors may from time to time declare, and cause the Company to pay dividends out of the profits of the Company. Subject to the Companies Law, the Board of Directors shall determine the time for payment of such dividends and the record date for determining the shareholders entitled thereto.

45. Amount Payable by Way of Dividends

(a) Subject to the rights of the holders of shares with special rights as to dividends, if any, any dividend paid by the Company shall be allocated among the shareholders entitled thereto in proportion to the nominal value of their respective holdings of the shares in respect of which such dividend is being paid.

(b) Shares which are fully paid up or which are credited as fully or partly paid within any period which in respect thereof dividends are paid shall entitle the holders thereof to a dividend in proportion to the amount paid up or credited as paid up in respect of the nominal value of such shares and to the date of payment thereof (pro rata temporis).

46. Interest

No dividend shall carry interest as against the Company.

47. Unclaimed Dividends

All unclaimed dividends payable in respect of a share may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed. The payment by the Directors of any unclaimed dividend into a separate account shall not constitute the Company a trustee in respect thereof, and any dividend unclaimed after a period of seven (7) years from the date of declaration of such dividend unclaimed after a like period from the date the same were payable, shall be forfeited and shall revert to the Company, provided, however, that the Board of Directors may, at its discretion, cause the Company to pay any such dividend, or any part thereof, to a person who would have been entitled thereto had the same not reverted to the Company.

ACCOUNTS

48. Auditors

The outside auditor(s) of the Company shall be appointed by resolution of the Company's shareholders at the General Meeting and shall serve until its/their re-election, removal or replacement by subsequent resolution, provided that each term of service shall not extend beyond the third Annual Meeting after the Annual Meeting at which such auditor was appointed. The authorities, rights and duties of the outside auditor(s) of the Company, shall be regulated by applicable law. The Board of Directors shall have the power and authority to fix the remuneration of the auditor(s).

RIGHTS OF SIGNATURE

49. Rights of Signature

The Board of Directors shall be entitled to authorize any person or persons (who need not be Directors) to act and sign on behalf of the Company, and the acts and signature of such person(s) on behalf of the Company shall bind the Company insofar as such person(s) acted and signed within the scope of his or their authority.

NOTICES

50. Notices

Without derogating from the provisions of Article 20:

(a) In the event the Company elects to send any written notice or other document to any of its shareholders such notice may be served either personally or by sending it by prepaid registered mail (airmail if sent to a place outside Israel) addressed to such shareholder at his address as described in the Register of Shareholders or such other address as he may have designated in writing for the receipt of notices and other documents. In the event a shareholder elects to send the Company any written notice or other document such notice may be served by tendering the same in person to the Secretary or the General Manager of the Company at the principal office of the Company or by sending it by prepaid registered mail (airmail if posted outside Israel) to the Company at its Registered Address. Any such notice or other document shall be deemed to have been served forty-eight (48) hours after it has been posted (seven (7) business days if sent internationally), or when actually received by the addressee if sooner than two days or seven days, as the case may be, after it has been posted, or when actually tendered in person, to such shareholder (or to the Secretary or the General Manager), provided, however, that notice may be sent by cablegram, telex, telecopier (facsimile) or other electronic means (to an address provided to the Company by any shareholder) and confirmed by registered mail as aforesaid, and such notice shall be deemed to have been given twenty-four (24) hours after such cablegram, telex, telecopy or other electronic communication has been sent (provided, that electronic confirmation of the successful sending of such notice was received) or when actually received by such shareholder (or by the Company), whichever is earlier. If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some respect, to comply with the provisions of this Article 50(a).

(b) All notices to be given to the shareholders shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Register of Shareholders, and any notice so given shall be sufficient notice to the holders of such share.

(c) Any shareholder whose address is not described in the Register of Shareholders, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

INSURANCE AND INDEMNITY

51. Indemnity and Insurance

(a) Indemnification

(i) Subject to the provisions of the Companies Law, including the receipt of all approvals as required therein or under any applicable law, the Company 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 the Company:

(1) 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; the term "person" in this Article 51 shall include, without limitation, a natural person, firm, partnership, joint venture, trust, company, corporation, limited liability entity, unincorporated organization, estate, government, municipality, or any political, governmental, regulatory or similar agency or body;

(2) reasonable Litigation Expenses (as defined below), 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. In this Article, "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," shall have the meaning as ascribed under the Companies Law. The term "Litigation Expenses" in this Article 51, 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 hereunder may be provided;

(3) 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*);

(4) 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, 5728-1968, as amended (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

(5) any other event, occurrence or circumstance in respect of which the Company may lawfully indemnify an Office Holder.

(ii) The foregoing indemnification may be procured by the Company (a) retroactively and (b) as a commitment in advance to indemnify an Office Holder, provided that, in respect of Article 51(a)(i)(1), such commitment shall be limited to (A) such events that in the opinion of the Board of Directors are foreseeable in light of the Company's 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) twenty five percent (25%) of the Company's shareholder's equity at the time of the indemnification, or (ii) twenty five percent (25%) of the Company's shareholder's equity at the end of fiscal year of 2010.

(b) Insurance

(i) Subject to the provisions of the Companies Law, including the receipt of all approvals as required therein or under any applicable law, the Company 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 the Company, with respect to each of the following:

(1) violation of the duty of care of the Office Holder towards the Company or towards another person;

(2) breach of the duty of loyalty towards the Company, provided that the Office Holder acted in good faith and with reasonable grounds to assume that the such action would not prejudice the benefit of the Company;

(3) a financial obligation imposed on the Office Holder for the benefit of another person;

(4) 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

(5) any other event, occurrence or circumstance in respect of which the Company may lawfully insure an Office Holder.

(ii) Articles 51(a) and 51(b)(i) shall not apply under any of the following circumstances:

- (1) a breach of an Office Holder's duty of loyalty, except as specified in Article 51(b)(i)(2);
- (2) a reckless or intentional violation of an Office Holder's duty of care (other than if solely done in negligence);
- (3) an action intended to reap a personal gain illegally; and
- (4) a fine, civil fine or ransom levied on an Office Holder, or a financial sanction imposed upon an Office Holder under Israeli Law.

(iii) The Company may procure insurance for or indemnify any person who is not an Office Holder, including without limitation, any employee, agent, consultant or contractor, provided, however, that any such insurance or indemnification is in accordance with the provisions of these Articles and the Companies Law.

(c) Any amendment to the Companies Law, the Securities Law or any other applicable law adversely affecting the right of any Office Holder to be indemnified or insured pursuant to this Article 51 shall be prospective in effect, and shall not affect the Company's obligation or ability to indemnify or insure an Office Holder for any act or omission occurring prior to such amendment, unless otherwise provided by the Companies Law, the Securities Law or such other applicable law.

MERGER

52. Merger

A merger (as defined in the Companies Law) of the Company shall require the approval of the holders of a majority of seventy five percent (75%) of the voting power represented at the 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 Companies Law.

WINDING UP

53. Winding Up

If the Company be wound up, then, subject to applicable law, after satisfaction of the Company's liabilities to creditors, the Company's liquidation proceeds shall be distributed to the shareholders of the Company in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made. A voluntary winding up of the Company shall require the approval of the holders of a majority of at least seventy five percent (75%) of the voting power represented at a General Meeting in person or by proxy or by written ballot, as shall be permitted, and voting thereon.

AMENDMENT OF THESE ARTICLES

54. Any amendment of these Articles shall require the approval of the holders of a simple majority of the voting power represented at the General Meeting in person or by proxy or by written ballot, as shall be permitted, and voting thereon.

NICE-Systems LTD.

2016 SHARE INCENTIVE PLAN

A. NAME AND PURPOSE

1. **Name:** This plan, as amended from time to time, shall be known as the "NICE Systems Ltd. 2016 Share Incentive Plan".
2. **Purpose:** The purpose and intent of the Plan is to provide incentives to employees, directors, consultants and/or contractors of the Company, by providing them with opportunities to purchase Shares, pursuant to a plan approved by the Board which is designed to enable the Company to issue equity related awards.

Incentives under the Plan will only be issued to Grantees (as defined below) subject to the applicable law in their respective country of residence for Tax or other purposes.

B. DEFINITIONS

"Administrator" means (i) the Board, or (ii) the Company's Compensation Committee or a committee of the Board appointed by the Board for the purpose of the administration of the Plan, if appointed, to the extent acting in accordance with specific authorization and guidelines provided by the Board for such purpose and subject to any restriction under applicable law.

"Adoption Date" means the Date of Grant, or any other date of commencement of vesting of an Award, for the purposes of the Plan, that is determined by the Administrator for a given grant of an Award.

"Affiliate" means any company in which NICE-Systems Ltd. holds, directly or indirectly, at least 10% of the issued share capital or voting power.

"Award" means any equity related award, including any type of an Option 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, including any such equity related award that is a Performance Based Award.

"Board" means the Board of Directors of the Company.

"Cause" means, unless otherwise defined in the Notice of Grant, (i) breach of the Grantee's duty of loyalty towards the Company, or (ii) breach of the Grantee's duty of care towards the Company, or (iii) the commission of any flagrant criminal offense by the Grantee, or (iv) the commission of any act of fraud, embezzlement or dishonesty towards the Company by the Grantee, or (v) any unauthorized use or disclosure by the Grantee of confidential information or trade secrets of the Company, or (vi) any other intentional misconduct by the Grantee (by act or omission) adversely affecting the business or affairs of the Company in a material manner, or (vii) any act or omission by the Grantee which would allow for the termination of the Grantee's employment without severance pay, according to the Israeli Severance Pay Law, 1963, or any similar provision of law in the jurisdiction in which the Grantee is employed.

“**Cessation of Service**” means (i) the cessation of the employee-employer relationship between the Grantee, who was an employee of the Company on the Date of Grant of any Awards to him or her, and the Company, for any reason; or (ii) the cessation of service of a Grantee, who was a director of the Company on the Date of Grant of any Awards to him or her, as a director of the Company, for any reason; or (iii) the termination or expiration of an agreement between the Company and a Grantee who was a consultant or contactor of the Company on the Date of Grant of any Awards to him or her, for any reason.

“**Change of Control**” means the first to occur of the following:

(i) any Person (within the meaning of Section 3(a)(9) of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), except that such term shall not include (A) the Company, (B) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, (C) an underwriter temporarily holding securities pursuant to an offering of such securities, or (D) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of Ordinary Shares of the Company), is or becomes the “beneficial owner” (determined in accordance with Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company (not including securities beneficially owned by such Person that were acquired directly from the Company) representing either: (A) 50% or more of the combined voting power of the Company’s then outstanding securities, or (B) 25% or more of the combined voting power of the Company’s then outstanding securities, provided such Person appoints, recommends or designates at least two nominees to serve on the Board, and such nominees are elected or appointed to serve on the Board, whether in addition to the individuals defined in paragraph (ii) below or in their place; and excluding any Person who becomes such a beneficial owner in connection with a transaction described in clause (A) of paragraph (iii) below; or

(ii) the following individuals cease for any reason (other than their death) to constitute a majority of the number of directors of the Company then serving: individuals who, on the date hereof, constitute the members of the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination by the Board for election by the Company’s shareholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or

(iii) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or

(iv) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 25% of the combined voting power of the voting securities of which are owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

“**Companies Law**” means the Israeli Companies Law, 1999, as amended from time to time.

“**Company**” means NICE-Systems Ltd., a company organized under the laws of the State of Israel, or any Affiliate thereof.

“**Corporate Transaction**” means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

- (i) a sale or other disposition of all or substantially all, as determined by the Board in its discretion, of the consolidated assets of the Company and its subsidiaries;
- (ii) a sale or other disposition of at least fifty percent (50%) of the outstanding securities of the Company;
- (iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation;

(iv) a merger, consolidation or reorganization following which the Company is the surviving corporation but the Ordinary Shares of the Company outstanding immediately preceding the merger, consolidation or reorganization are converted or exchanged by virtue of the merger, consolidation or reorganization into other property, whether in the form of securities, cash or otherwise; or

(v) With respect to an executive officer of the Company, who is directly subordinate to the CEO, in any of the above events (in subsections i-iv) the word "Company" may be replaced therein by "Business Unit". A "Business Unit" shall mean a business unit of the Company, whether organized as a wholly owned entity or in any other form of unit in the Company if and to the extent so determined and deemed suitable and appropriate under the circumstances by the Administrator.

Notwithstanding the aforesaid, with respect to acceleration of vesting, the definitions of Corporate Transaction in sub sections (ii)-(iv) above, shall not include events that would not also be deemed to be a "Change of Control". Whether a transaction is a "Corporate Transaction" as defined above, shall be finally and conclusively determined by the Administrator in its absolute discretion.

"Date of Grant" means the effective date of grant of an Award, as detailed in Section 5.1 below.

"Date of Cessation" means the effective date of a Cessation of Service (i.e.: (i) if the Grantee is an employee of the Company - the date on which the employee-employer relationship between the Grantee and the Company ceases to exist; (ii) if the Grantee is a contractor or consultant - the date on which the consulting or contractor agreement between the Grantee and the Company expires; or (iii) if the Grantee is a director - the date on which the Grantee ceases to serve as a director of the Company. "Disability" means, unless otherwise defined in the Notice of Grant, the inability to engage in any substantial gainful occupation for which the Grantee is suited by education, training or experience, by reason of any medically determinable physical or mental impairment that is expected to result in such person's death or to continue for a period of six (6) consecutive months or more. "Exercise Conditions" means a Vesting Period and/or Performance Conditions.

"Exercise Price" means (i) the purchase price per Share subject to an Award, or (ii) the nominal value per Share to be paid upon the vesting of an Award that does not require exercise by the Grantee, to the extent the Grantee is required to pay such nominal value hereunder, as applicable.

"Exercised Share" means a Share issued upon exercise of an Award or vesting of an Award, as applicable, or, if applicable, a freely transferable Share issued to a Grantee not resulting from another type of Award.

"Grantee" means the person to whom an Award shall be granted under the Plan.

"Notice of Exercise" means a written notice of exercise of an Award, delivered by a Grantee to the Company.

“**Notice of Grant**” means a written notice of the grant of an Award, accompanied by an applicable agreement between the Company and the Grantee relating to the terms of grant of said Award.

“**Option**” means an option to purchase a Share or Shares.

“**Performance Based Award**” means a performance based Award as defined in Section 10.1 below.

“**Performance Conditions**” as defined in Section 10.1 below.

“**Plan**” means this “NICE-Systems Ltd. 2016 Share Incentive Plan”, as amended from time to time.

“**Representative**” means any third party designated by the Company for the purpose of the exercise of Awards, as provided in Section 8.2 below.

“**Restricted Share**” means a Share issued under the Plan to a Grantee for such consideration, if any, and subject to such restrictions as established by the Company, as detailed in Section 9A below.

“**RSU**” means Restricted Share Unit, as defined in Section 9 below.

“**Sale**” means the sale of all or substantially all of the issued and outstanding share capital of the Company.

“**Share**” means an Ordinary Share, nominal value of NIS 1.00 each of the Company.

“**Share Appreciation Right (SAR)**” means a right entitling the Grantee to Shares, measured by appreciation in value of a Share during the period from the Adoption Date or Date of Grant to date of exercise of such right, as detailed in Section 9B below.

“**Stock Market**” means a stock exchange or an electronic securities trading system (such as NASDAQ).

“**Successor Entity Award**” means securities of any successor entity, as provided in Section 11.4 below.

“**Tax**” means any and all federal, provincial, state and local taxes of any applicable jurisdiction, and other governmental fees, charges, duties, impositions and liabilities of any kind whatsoever, including social security, national health insurance or similar compulsory payments, together with all interest, linkage for inflation, penalties and additions imposed with respect to such amounts.

“**Vesting Period**” of an Award means, for the purpose of the Plan and its related instruments, the period between the Adoption Date and the date on which (i) the Grantee may exercise the Award into Exercised Shares; or (ii) if said Award does not require the Grantee to exercise it, the date on which the Award vests into an Exercised Share; or (iii) the date on which a Share (not resulting from another type of Award) may be freely transferred by the Grantee (subject to any other restrictions prescribed herein or by law).

C. GENERAL TERMS AND CONDITIONS OF THE PLAN

3. Administration:

3.1 The Plan will be administered by the Administrator, subject to applicable law, including but not limited to the instructions of the Companies Law.

3.2 Subject to the general terms and conditions of the Plan, the Administrator shall have the full authority in its discretion, from time to time and at any time, to determine (i) the Grantees under the Plan, (ii) the number of Shares subject to each Award, the type of Award, and the Exercise Price per Share, (iii) the time or times at which the same shall be granted, (iv) the schedule and conditions, including Performance Conditions (as defined in Section 10 below), if applicable, on which Awards may vest or be exercised and on which Shares shall be paid for, (v) the method of payment for Shares purchased pursuant to any Award, (vi) the method for satisfaction of any tax withholding obligation arising in connection with an Award, including by the withholding, delivery or sale of Shares, (vii) rules and provisions, as may be necessary or appropriate to permit eligible Grantees resident or employed in any specific jurisdiction to participate in the Plan and/or to receive preferential tax treatment in their country of residence, with respect to Awards granted hereunder, and/or (viii) any other matter which is necessary or desirable for, or incidental to, the administration of the Plan.

3.3 The Administrator may, from time to time, adopt such rules and regulations for carrying out the Plan, as it may deem necessary. No member of the Administrator shall be liable for any act or determination made in good faith with respect to the Plan or any Award granted.

3.4 The interpretation and construction by the Administrator of any provision of the Plan or of any Award thereunder shall be final and conclusive and binding on all parties who have an interest in the Plan or any Award or Exercised Share, unless otherwise determined by the Board.

3.5 Notwithstanding anything to the contrary herein, any Award granted under the Plan to an Office Holder (as such term is defined under the Companies Law) shall be subject to the terms of the Company's Executives & Directors Compensation Policy, unless otherwise determined by the Administrator and approved in accordance with the provisions of the Companies Law.

4. Eligible Grantees:

4.1 The Administrator, at its discretion, may grant Awards to any employee, director, consultant and/or contractor of the Company. Anything in the Plan to the contrary notwithstanding, all grants of Awards shall be authorized and implemented only in accordance with the provisions of applicable law.

4.2 The grant of an Award to a Grantee hereunder, shall neither entitle such Grantee to participate, nor disqualify him from participating, in any other grant of Awards pursuant to the Plan or any other incentive plan of the Company.

5. Date of Grant and Shareholder Rights:

5.1 Date of Grant. Subject to Sections 7.1 and 7.2 hereof and to any applicable law, the Date of Grant shall be the date the Administrator resolves to grant such Award, or any later date, if so specified by the Administrator in its determination relating to the grant of such Award. It is clarified, that the event that a specific grant of an Award requires an additional corporate approval under any applicable laws or regulations, the Administrator is authorized to determine that for the purposes of vesting of such award and the determination of the exercise price, the Date of Grant shall be deemed to be the date of the Administrator's resolution). The Company shall promptly give the Grantee a Notice of Grant following the Date of Grant.

5.2 Shareholder Rights. A Grantee holding of an Award shall have no shareholder rights with respect to the Shares subject to such Award until such Grantee (i) shall have exercised such Award or such Award has vested, as applicable, and (ii) shall have all restrictions applicable to any Shares issued to him removed, if applicable; and (iii) has paid the applicable Exercise Price, if any; and (iv) has become the record holder of the Exercised Shares.

6. Reserved Shares:

6.1 The maximum number of Shares that may be subject to Awards granted under the Plan shall be an amount per calendar year, commencing on the 2016 calendar year, equal to 3.5% of the Company's total issued and outstanding Share capital as of the 31st of December of the preceding calendar year (but for the sake of clarity, excluding treasury shares), subject to adjustments as provided in Section 11 hereof. The amount stated above shall be re-set for each calendar year. It is clarified, that any balance of such amount not utilized in a certain calendar year cannot be utilized in any following calendar year.

Notwithstanding the above, for the 2016 calendar year the aforementioned amount will be reduced by the number of Shares subject to Awards granted by the Company during the 2016 calendar year under the "NICE-Systems Ltd. 2008 Share Incentive Plan".

Notwithstanding the above, equity-based awards assumed, substituted or granted by the Company as part of or in connection with a corporate transaction (including, without limitation, awards assumed or substituted from an entity merged into or with the Company or any of its Affiliates, acquired by the Company or any of its Affiliates, or otherwise involved in a similar corporate transaction) shall not count against the number of shares reserved and available for issuance pursuant to the Plan.

6.2 Without derogating from the foregoing in Section 6.1, in the event that Shares under the Plan, in respect of which the right of a Grantee to hold or purchase or be issued the same, shall for any reason, terminate, expire or otherwise cease to exist, such Shares shall again be available for grant through Awards during the calendar year on which they've terminated, expired or otherwise ceased to exist under the Plan, and under any sub-plans of the Plan, as the Administrator may determine at its own discretion, from time to time. Notwithstanding the above, Shares withheld or reacquired by the Company in satisfaction of tax withholding obligations pursuant to Section 14.2 below shall not be taken into account for the purposes of calculating the maximum number of Shares that may be subject to Awards pursuant to Section 6.1 above.

6.3 Without derogating from the foregoing, the Committee shall have full authority in its discretion to determine that the Company may issue, for the purposes of the Plan, previously issued Shares that are held by the Company, from time to time, as Dormant Shares (as such term is defined in the Companies Law).

6.4 Notwithstanding the foregoing, (i) a Grantee may elect, or (ii) the Company may determine at its sole and absolute discretion, at the time of exercise (or vesting) of an Award, that the Company shall issue, in lieu of Ordinary Shares, an equal number of the Company's American Depositary Receipts ("ADRs"), each of which represents one American Depositary Share which, in turn, represents one Share. It is clarified, that Awards may not be exercised for a combination of Shares and ADRs.

7. Required Approvals; Notice of Grant; Vesting:

7.1 The implementation of the Plan and the granting of any Award under the Plan shall be subject to the Company's procurement of all approvals and permits required by applicable laws or regulatory authorities having jurisdiction over the Plan, the Awards granted under it, and the Shares issued pursuant to it.

7.2 The Notice of Grant shall state, *inter alia*, the number of Shares subject to each Award, the type of Award, the vesting schedule, the dates when the Award may be exercised and/or will vest (as applicable), any restrictions upon transfer or sale of Shares (if applicable), the Exercise Price, the tax treatment to which the Award is subject and such other terms and conditions as the Administrator at its discretion may prescribe, provided that they are consistent with the Plan.

7.3 Vesting of Awards. Unless determined otherwise by the Administrator, the Vesting Period shall be such that all Awards shall be fully vested on the first business day following the passing of four (4) years from the Adoption Date, such that twenty five percent (25%) of the Shares subject to the Awards shall vest on each of the four consecutive annual anniversaries following the Adoption Date, provided however, that the Administrator may also determine longer or shorter vesting periods, and that a certain portion of such Awards may also be subject to vesting Performance Conditions. Specifically with respect to Options (other than Options granted at an exercise price equal to their nominal value) and, unless determined otherwise by the Administrator, the Vesting Period shall be such that that all Awards shall be fully vested on the first business day following the passing of four (4) years from the Adoption Date, such that twenty five percent (25%) of the Shares subject to the Awards shall vest on the first anniversary of the Adoption Date, and 6.25% of the Shares subject to the Awards shall vest on the last day of each consecutive calendar quarter following the first anniversary of the Adoption Date (a total of 12 calendar quarters).

Notwithstanding the foregoing, if the term of an Option or SAR, as applicable, would expire when trading in the Shares is prohibited by law or the Company's internal policies applicable thereto (such as an insider trading policy), except in connection with a Grantee's cessation by the Company for Cause, then the term of such Option or SAR, as applicable, shall expire upon the later of: (i) the thirtieth (30) day after the expiration of such prohibition; and (ii) the applicable Option or SAR, as applicable, expiration date.

Unless determined otherwise by the Administrator, a period in which the Grantee shall not be employed by the Company, or in which the Grantee shall have taken an unpaid leave of absence that is longer than 30 consecutive days (excluding a leave for military reserves duty or the mandatory maternity leave determined by law), or in which the Grantee shall not serve as a director, consultant or contractor of the Company, shall not be included in the Vesting Period. Notwithstanding the aforesaid, it is hereby clarified that the Vesting Period shall continue in any of the foregoing events that is the result of a Grantee's Disability, subject to the provisions of the Plan relating to Disability.

7.4 Acceleration of Vesting.

(a) Anything herein to the contrary in the Plan notwithstanding, the Administrator shall have full authority to determine at any time any provisions regarding the acceleration of the Vesting Period of any Award (including, without limitation, accelerating the vesting schedule of any outstanding unvested Award upon an event of a Change of Control or Corporate Transaction), or the cancellation of all or any portion of any outstanding restrictions or Exercise Conditions with respect to any Award or Share upon certain events or occurrences, and to include such provisions in the Notice of Grant on such terms and conditions as the Administrator shall deem appropriate.

(b) Without deviating from the generality of the foregoing, the Board shall have full authority to determine with respect to Awards granted to certain executive officers of the Company, that in the event of the occurrence of both (i) a Change of Control or a Corporate Transaction, and (ii) either (A) the receipt of a notice of the Cessation of Services of the Grantee by the Company (i.e., not voluntarily by the Grantee), other than for Cause, within 12 months following the closing of said Change of Control or Corporate Transaction (regardless of the effective Date of Cessation), or (B) a demotion (or a notice thereof) in such Grantee's position or any other material adverse change in such Grantee's functions, duties or responsibilities, initiated by the Company or the Board within 12 months following the closing of said Change of Control or Corporate Transaction; then all or a portion of the Awards granted to said Grantee and not yet exercised or expired will immediately become fully vested and/or exercisable (as applicable), and, that upon the occurrence thereof, any Performance Conditions with respect to such Awards shall be deemed to be wholly satisfied. It is clarified, that in the event of Cessation of Services, acceleration of vesting, as aforementioned, shall occur on the date that Cessation of Services becomes effective. The Administrator may discriminate among Grantees and among Awards made to a Grantee in exercising its discretion pursuant to this Section 7.4(b).

(c) With respect to Awards that the Administrator determines are subject to acceleration of vesting as aforementioned in this Section 7.4, in no event shall such acceleration rights be amended or altered in any way as a result of a Change of Control or any Corporate Transaction, and such rights shall continue to apply in any event of assumption or substitution of such Awards by any successor entity.

8. Options:

8.1 Exercise Price. The Exercise Price per Share subject to each Option shall be determined by the Administrator in its sole and absolute discretion, subject to applicable law and to guidelines adopted by the Board, from time to time. In the event the Exercise Price is not determined by the Administrator, and provided the Company's shares are listed on any Stock Market, the Exercise Price of an Option shall be equal to the average of the closing prices of one ADR of the Company, as quoted on the NASDAQ market, during the 30 consecutive calendar days preceding the Date of Grant.

If the Shares are not listed on a Stock Market, or representative quotes are not otherwise available, the Exercise Price shall mean the amount determined by the Administrator in good faith, to be the fair market value per Share.

8.2 Exercise of Options. Options shall be exercisable pursuant to the terms under which they were awarded and subject to the terms and conditions of the Plan. The exercise of an Option shall be made by a written Notice of Exercise delivered by the Grantee to the Company at its principal executive office, and/or to a Representative, in such form and method as may be determined by the Company, specifying the number of Shares to be purchased and accompanied by the payment of the Exercise Price, at the Company's or the Representative's principal office, and containing such other terms and conditions as the Administrator shall prescribe from time to time.

Each payment for Exercised Shares shall be in respect of a whole number of Shares, and shall be effected in cash or by a bank's check payable to the order of the Company, or such other method of payment acceptable to the Company.

8.3 Net Exercise. Notwithstanding the provisions of Section 8.2 above, the Board may determine that instead of issuing one Exercised Share as a result of the exercise of each one Option (subject to adjustments under Section 11 herein), any Options shall be exercised using the following method (the "**Net Exercise**"):

- (a) The Company shall issue to the Grantee a number of Shares having an aggregate Market Value (as defined below) equal to the Benefit Amount (the "**Net Exercise Shares**");

For the purposes of this section:

- (i) The "**Benefit Amount**" shall mean the difference between:

- (A) the product of (x) the Market Value and (y) the number of Shares subject to the Options for which a Notice of Exercise has been delivered to the Company; and
(B) the product of (x) the Exercise Price and (y) the number of Shares subject to the Options for which a Notice of Exercise has been delivered to the Company.

(ii) "**Market Value**" shall mean the closing price for a Share on the last trading day prior to the date of exercise, as reported or quoted on NASDAQ (or on any other Stock Market on which Shares are traded, if so determined by the Administrator).

(b) The Grantee shall not be required to pay to the Company any sum with respect to the exercise of such Options, other than a sum equal to the aggregate nominal value of the Net Exercise Shares (which shall be paid in a manner provided in Section 8.2 above) (the "**Nominal Value Sum**"). The Board, in its sole discretion, shall determine procedures from time to time for payment of such nominal value by the Grantee or for collection of such amount from the Grantee by the Company. However, the Company shall have the full authority in its discretion to determine at any time that the Nominal Value Sum shall not be paid and that the Company shall capitalize applicable profits or take any other action to ensure that it meets any requirement of applicable law regarding issuance of Shares for consideration that is lower than the nominal value of such Shares;

(c) In any event, no fractional Shares will be issued to the Grantee and the number of Shares granted to the Grantee under the Plan shall be rounded off (upward or downward, as the Administrator shall determine) to the nearest whole number.

8.4 Term of Options. Unless otherwise determined by the Administrator, anything herein to the contrary notwithstanding, but without derogating from the provisions of Section 8.6 below, if any Option has not been exercised and the Shares subject thereto not paid for within six (6) years after the Date of Grant (or any shorter or longer period set forth in the Notice of Grant), such Option and the right to acquire such Shares shall terminate, all interests and rights of the Grantee in and to the same shall *ipso facto* expire, and the Shares subject to such Options shall again be available for grant through Options under the Plan, any sub-plans of the Plan, as provided for in Section 6 herein.

8.5 The exercise of the Options shall be subject to any applicable law, including when applicable, the limitations in connection with the use of nonpublic information.

8.6 Cessation of Service.

(a) Employees. In the event of a Cessation of Service, all Options theretofore granted to such Grantee when such Grantee was an employee of the Company, unless determined otherwise by the Administrator, shall terminate as follows:

(i) All such Options that are not vested on the Date of Cessation shall terminate immediately, except as detailed in sub-section (iii) below.

(ii) If the Grantee's Cessation of Service is by reason of such Grantee's Disability, such Options (to the extent vested at the Date of Cessation) shall be exercisable by the Grantee or the Grantee's guardian, legal representative, estate or other person to whom the Grantee's rights are transferred by will or by laws of descent or distribution, at any time until the lapse of twelve (12) months from the Date of Cessation (but in no event after the expiration date of such Options), and shall thereafter terminate.

(iii) If the Grantee's Cessation of Service is by reason of such Grantee's death, then: (A) the vesting of the Grantee's Options which are not vested and exercisable as of the Date of Cessation shall be accelerated and such Options shall become immediately vested (and all Performance Conditions shall be deemed to have been achieved) and exercisable as of the Date of Cessation; and (B) such Options (to the extent vested at the Date of Cessation due to sub-section (A) or otherwise) shall be exercisable by the Grantee or the Grantee's guardian, legal representative, estate or other person to whom the Grantee's rights are transferred by will or by laws of descent or distribution, at any time until the lapse of twelve (12) months from the Date of Cessation (but in no event after the expiration date of such Options), and shall thereafter terminate.

(iv) If the Grantee's Cessation of Service is due to any reason other than those stated in Sections 8.6(a)(ii), 8.6(a)(iii) and 8.6(a)(v) herein, such Options (to the extent vested on the Date of Cessation) shall be exercisable at any time until the lapse of three (3) months from the Date of Cessation (but in no event after the expiration date of such Options), and shall thereafter terminate; provided, however, that if the Grantee dies within such period, such Options (to the extent vested on the Date of Cessation) shall be exercisable by the Grantee's legal representative, estate or other person to whom the Grantee's rights are transferred by will or by laws of descent or distribution at any time until the lapse of twelve (12) months from the Date of Cessation (but in no event after the expiration date of such Options), and shall thereafter terminate.

(v) Notwithstanding the aforesaid, if the Grantee's Cessation of Service is for Cause, all of the Options whether vested or not shall *ipso facto* expire immediately and be of no legal effect.

(vi) Whether the Cessation of Service of a particular Grantee is by reason of "Disability" for the purposes of paragraph 8.6(a) hereof, or is for Cause as set forth in paragraph 8.6(a)(v) hereof, shall be finally and conclusively determined by the Administrator in its absolute discretion.

(vii) Notwithstanding the aforesaid, under no circumstances shall any Option be exercisable after the specified expiration of the term of such Option.

(b) Directors, Consultants and Contractors. In the event of Cessation of Service of a Grantee, who is a director, consultant or contractor of the Company, the provisions of Section 8.6(a) above shall apply, *mutatis mutandis*.

(c) Notwithstanding the foregoing provisions of this Section 8.6, the Administrator shall have the discretion, exercisable either at the time an Option is granted or thereafter, to:

(i) Extend the period of time for which the Option is to remain exercisable following the Date of Cessation to such greater period of time, as the Administrator shall deem appropriate, but in no event beyond the specified expiration of the term of the Option; and/or

(ii) Permit the Option to be exercised, during the applicable exercise period following the Date of Cessation, not only with respect to the number of Shares for which such Option is exercisable at the Date of Cessation but also with respect to one or more additional installments which would have vested under the Option had the Grantee continued his or her employment or engagement with the Company.

(d) Notwithstanding the foregoing provisions of this Section 8.6, unless determined otherwise by the Administrator, "Cessation of Service" shall not include: (i) a change in status from an employee, director, consultant and/or contractor to another such status, provided that the individual remains in the service of the Company in any one of such capacities as an employee, director, consultant and/or contractor; and (ii) the transfer of a Grantee from the employment or service of the Company to the employment or service of an Affiliate, or from the employment or service of an Affiliate to the employment or service of the Company or another Affiliate.

8.7 Re-pricing of Options. Subject to applicable law, the Administrator shall have full authority to, at any time and from time to time, (i) grant in its discretion to the holder of an outstanding Option, in exchange for the surrender and cancellation of such Option, a new Option having an Exercise Price lower than provided in the Option so surrendered and canceled and containing such other terms and conditions as the Administrator may prescribe in accordance with the provisions of the Plan, or (ii) effectuate a decrease in the Exercise Price (see Section 8.1 above) of outstanding Options.

9. Restricted Share Units:

9.1 Subject to the sole and absolute discretion and determination of the Administrator, the Administrator may decide to grant under the Plan, Restricted Share Unit(s) (“RSU(s)”). A RSU is a right to receive a Share of the Company, under certain terms and conditions, for a consideration of no more than the underlying Share’s nominal value. Upon the lapse of the Exercise Conditions of a RSU, such RSU shall automatically vest into an Exercised Share of the Company (subject to adjustments under Section 11 herein) and the Grantee shall pay to the Company its nominal value. The Board, in its sole discretion, shall determine procedures from time to time for payment of such nominal value by the Grantee or for collection of such amount from the Grantee by the Company. However, the Company shall have the full authority in its discretion to determine at any time that said nominal value shall not be paid and that the Company shall capitalize applicable profits or take any other action to ensure that it meets any requirement of applicable law regarding issuance of Shares for consideration that is lower than the nominal value of such Shares.

9.2 Unless determined otherwise by the Administrator, in the event of a Cessation of Service, all RSUs theretofore granted to such Grantee when such Grantee was an employee, director, consultant or contractor of the Company, as the case may be, that are not vested on the Date of Cessation, shall terminate immediately and have no legal effect.

9.3 Unless other provided herein, all other terms and conditions of the Plan applicable to Options, shall apply to RSUs, *mutatis mutandis*. It is clarified, that without deviating from the foregoing in Sub-Section 9.2, the provisions of Section 8.6 herein shall, *mutatis mutandis*, apply to RSUs in any event of Cessation of Service.

9A. Restricted Shares.

9A.1 Restricted Share Awards may be granted upon such terms and conditions, as the Administrator shall determine.

9A.2 Purchase Price. No monetary payment (other than payments made for applicable Taxes) shall be required as a condition of receiving Shares pursuant to a grant of Restricted Shares. Notwithstanding the foregoing, the Grantee shall furnish consideration in the form of cash having a value not less than the nominal value of the Shares subject to an award of Restricted Shares. The Board, in its sole discretion, shall determine procedures from time to time for payment of such nominal value by the Grantee or for collection of such amount from the Grantee by the Company. However, the Company shall have the full authority in its discretion to determine at any time that said nominal value shall not be paid and that the Company shall capitalize applicable profits or take any other action to ensure that it meets any requirement of applicable law regarding issuance of Shares for consideration that is lower than the nominal value of such Shares.

9A.3 Vesting and Restrictions on Transfer. Shares issued pursuant to any Restricted Shares may (but need not) be made subject to Exercise Conditions as described herein, as shall be established by the Administrator and set forth in the applicable Notice of Grant evidencing such Award. During any restriction period in which Shares acquired pursuant to an award of Restricted Shares remain subject to Exercise Conditions, such Shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of unless otherwise provided in the Plan. Upon request by the Company, each Grantee shall execute any agreement evidencing such transfer restrictions prior to the receipt of Shares hereunder and shall promptly present to the Company any and all certificates representing Shares acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

9A.4 Voting Rights; Dividends and Distributions. Except as provided in this section and any Notice of Grant, during any restriction period applicable to Shares subject to an award of Restricted Shares, the Grantee shall have all of the rights of a shareholder of the Company holding Shares, including the right to vote such Shares and to receive all dividends and other distributions paid with respect to such Shares. However, in the event of a dividend or distribution paid in Shares or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 11.1, any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Grantee is entitled by reason of the Grantee's award of Restricted Shares shall be immediately subject to the same Exercise Conditions as the Shares subject to the award of Restricted Shares with respect to which such dividends or distributions were paid or adjustments were made.

9A.5 Cessation of Service. Unless otherwise provided by the Administrator, in the event of Cessation of Service of a Grantee, for any reason, whether voluntary or involuntary (including the Grantee's death or disability), then the Grantee shall forfeit to the Company any Shares acquired by the Grantee pursuant to an award of Restricted Shares which remain subject to Exercise Conditions as of the Date of Cessation.

9A.6 All other terms and conditions of the Plan applicable to Options, shall apply to Restricted Shares, *mutatis mutandis*. It is clarified, that without deviating from the foregoing in Section 9A.5, the provisions of Section 8.6 herein shall, *mutatis mutandis*, apply to Restricted Shares in any event of Cessation of Service.

9B. Share Appreciation Rights.

9B.1 SARs may be granted upon such terms and conditions, as the Administrator shall determine.

9B.2 Exercise Price. The exercise price for each SAR shall be established in the discretion of the Administrator.

9B.3 Exercisability and Term of SARs. SARs shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Administrator and set forth in the Notice of Grant evidencing such SAR; provided, however, that no SAR shall be exercisable after the expiration of six (6) years after the effective date of grant of such SAR.

9B.4 Exercise of SARs. Upon the exercise of a SAR, the Grantee shall be entitled to receive payment of an amount for each Share with respect to which the SAR is exercised equal to the excess, if any, of (i) the closing price for a Share on the last trading day prior to the date of exercise, as reported or quoted on NASDAQ, over (ii) the exercise price. Payment of such amount shall be made solely in Shares, based on the said closing price, in a lump sum following the date of exercise of the SAR. It is clarified, that a SAR shall be deemed exercised on the date on which the Company receives Notice of Exercise from the Grantee.

9B.5 All other terms and conditions of the Plan applicable to Options, shall apply to SARs, *mutatis mutandis*.

10. Performance Based Awards:

10.1 Subject to the sole and absolute discretion and determination of the Administrator, the Administrator may decide to grant Awards under the Plan, the exercise or vesting of which, as applicable, shall be conditional upon the performance of the Company and/or an Affiliate and/or a division or other business unit of the Company or of an Affiliate and/or upon the performance of the Grantee, over such period and measured against such objective criteria as shall be determined by the Administrator and notified to the Grantee ("**Performance Based Award(s)**"). In granting each Performance Based Award, the Administrator shall establish in writing the applicable performance period ("**Performance Period**"), performance formula ("**Performance Formula**") and one or more performance goals ("**Performance Goal(s)**") which, when measured at the end of the Performance Period, shall determine on the basis of said Performance Formula the extent to which the Performance Based Award has vested and/or become exercisable (collectively, the "**Performance Conditions**"). It is clarified, that Performance Conditions may be determined for an Award either in addition to, or in substitution for, a Vesting Period.

10.2 After a Performance Based Award has been granted, the Administrator may, in appropriate circumstances, amend any Performance Condition, at its sole and absolute discretion. Without derogating from the above, if the Administrator determines that a change in the business, operations, corporate structure or capital structure of the Company or the manner in which the Company or an Affiliate conducts its business, or other events or circumstances render a Performance Condition to be unsuitable, the Administrator may modify such Performance Condition in whole or in part, as the Administrator deems appropriate. If a Grantee is promoted, demoted or transferred to a different business unit or function during a Performance Period, the Administrator may determine that the Performance Condition or Performance Period are no longer appropriate and may: (i) adjust, change or eliminate the Performance Condition or the applicable Performance Period as it deems appropriate to make such conditions and period comparable to the initial conditions and period; or (ii) make a cash payment to the Grantee in an amount determined by the Administrator.

10.3 If, in consequence of the applicable Performance Conditions being met a Performance Based Award becomes vested and/or exercisable in respect of some, but not all of the number of Shares underlying such Award it shall thereupon lapse and cease to be exercisable in respect of the balance of the Shares over which it was held.

10.4 Performance Conditions shall not be automatically waived merely due to an event of (i) a Cessation of Service, (ii) a Corporate Transaction, (iii) any other adjustment under Section 11 below, or (iv) a Sale under Section 11.5 below.

10.5 **Measurement of Performance Goals.** Performance Goals shall be established by the Administrator on the basis of targets to be attained with respect to one or more measures of business or financial performance that shall have the same meanings as used in the Company's financial statements, or, if such terms are not used in the Company's financial statements, they shall have the meaning applied pursuant to generally accepted accounting principles, or as used generally in the Company's industry ("**Performance Measures**"). For purposes of the Plan, the Performance Measures applicable to a Performance Based Award shall be calculated in accordance with generally accepted accounting principles, excluding the effect (whether positive or negative) of any change in accounting standards or any extraordinary, unusual or nonrecurring item, as determined by the Administrator, occurring after the establishment of the Performance Goals applicable to the Performance Based Award including by way of example but without limitation the following: (a) asset write-downs or impairment charges; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax laws, accounting principles or other laws or provisions affecting reported results; (d) accruals for reorganization and restructuring programs; (e) acquisitions or divestitures; and (f) foreign exchange gains and losses. Each such adjustment, if any, shall be made solely for the purpose of providing a consistent basis from period to period for the calculation of Performance Measures in order to prevent the dilution or enlargement of the Grantee's rights with respect to a Performance Based Award. Performance Measures may be one or more of the following, as determined by the Administrator: revenue; sales; expenses; operating income; gross margin; operating margin; earnings before any one or more of: share-based compensation expense, interest, taxes, depreciation and amortization; pre-tax profit; net operating income; net income; economic value added; free cash flow; operating cash flow; share price; earnings per share; return on shareholder equity; return on capital; return on assets; return on investment; employee satisfaction; employee retention; balance of cash, cash equivalents and marketable securities; market share; customer satisfaction; product development; research and development expenses; completion of an identified special project; completion of a joint venture or other Corporate Transaction and any other performance goals as determined by the Administrator.

10.6 Term of Performance Based Options. Unless otherwise determined by the Administrator, anything herein to the contrary notwithstanding, and without derogating from the generality of the provisions of Section 8.4 and the provisions of Section 8.6 above, if any Performance Based Options granted have not been exercised and the Shares subject thereto not paid for within seven (7) years after the Date of Grant, such Performance Based Awards and the right to acquire such Shares shall terminate, all interests and rights of the Grantee in and to the same shall *ipso facto* expire, and the Shares subject to such Performance Based Awards shall again be available for grant under the Plan, any sub-plans of the Plan, as provided for in Section 6 herein.

10.7 All other terms and conditions of the Plan applicable to Awards, shall apply to Performance Based Awards, *mutatis mutandis*.

11. Adjustments, Liquidation and Corporate Transaction:

11.1 Adjustments. Subject to any required action under any applicable law, the number of Shares subject to each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award, as well as the price per share of Shares subject to each outstanding Award, shall be proportionately adjusted, as the Board deems necessary or appropriate, for any increase or decrease in the number of issued Shares resulting from a share split, reverse share split, stock dividend, combination or reclassification of the Shares, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of a Grantee under the Plan.; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Except as expressly provided in this Section 11, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Award.

Except as expressly provided in this Section 11, the grant of Awards under the Plan shall in no way affect the right of the Company to distribute bonus shares, to offer rights to purchase its securities, or to distribute dividends.

11.2 Adjustments to Options' Exercise Price due to Distribution of Dividends. If the Company distributes cash dividends with respect to all Shares issued to its shareholders, and the record date for determining the right to receive such dividends (the "Determining Date") is earlier than the Exercise Date of any Options granted hereunder, then the Exercise Price for each Option granted but not exercised prior to the Determining Date, shall be reduced by an amount equal to the gross amount of the dividend per Share distributed. If such distribution is in a currency different than the currency in which the Exercise Price is stated, said amount of reduction will be calculated in the same currency as the Exercise Price according to the representative rate of exchange as of the Determining Date, if applicable. Unless determined otherwise by the Board, the Exercise Price shall not be reduced to less than the nominal value of a Share. It is clarified that, no adjustment shall be made due to the distribution of cash dividends, with respect to RSUs and Options granted with an Exercise Price of up to the nominal value of a Share.

11.3 Liquidation. Unless otherwise provided by the Board, in the event of the proposed dissolution or liquidation of the Company, all outstanding Awards will terminate immediately prior to the consummation of such proposed action. In such case, the Board may declare that any Award shall terminate as of a date fixed by the Board and give each Grantee the right to exercise his Award or have it vested, including Award that would not otherwise vest or be exercisable.

11.4 Corporate Transaction.

(a) In the event of a Corporate Transaction (as defined under sub-Section (i-iv) of the Corporate Transaction definition above), immediately prior to the effective date of such Corporate Transaction, each Award may, among other things, at the sole and absolute discretion of the Board, either:

(i) Be substituted for a Successor Entity Award such that the Grantee may exercise the Successor Entity Award or have it become vested, as the case may be, for such number and class of securities of the successor entity which would have been issuable to the Grantee in consummation of such Corporate Transaction, had the Award vested or been exercised (as applicable), immediately prior to the effective date of such Corporate Transaction, given the exchange ratio or consideration paid in the Corporate Transaction, the Vesting Period and Performance Conditions (if any) of the Awards and such other terms and factors that the Administrator determines to be relevant for purposes of calculating the number of Successor Entity Awards granted to each Grantee; or

(ii) Be assumed by any successor entity such that the Grantee may exercise the Award or have his/her Award vest (as applicable), for such number and class of securities of the successor entity which would have been issuable to the Grantee in consummation of such Corporate Transaction, had the Award vested or been exercised immediately prior to the effective date of such Corporate Transaction, given the exchange ratio or consideration paid in the Corporate Transaction, the Vesting Period and Performance Conditions (if any) of the Awards and such other terms and factors that the Board determines to be relevant for this purpose.

(iii) Determine that the Awards shall be cashed out for a consideration equal to the difference between the price per share received by the shareholders of the Company in the Corporate Transaction and the Exercise Price, purchase price, or nominal value, as the case may be, of such Award.

In the event of a clause (i) or clause (ii) action, appropriate adjustments shall be made to the Exercise Price per Share to reflect such action.

(b) Immediately following the consummation of the Corporate Transaction and subject to the Board exercising one of the alternatives under sub-Section (a) above, all outstanding Awards shall terminate and cease to be outstanding, except to the extent assumed by a successor entity.

(c) Notwithstanding the foregoing, and without derogating from the power of the Board or Administrator pursuant to the provisions of the Plan, the Board shall have full authority and sole discretion to determine that any of the provisions of Sections 11.4(a)(i) or 11.4(a)(ii) above shall apply in the event of a Corporate Transaction in which the consideration received by the shareholders of the Company is not solely comprised of securities of a successor entity, or in which such consideration is solely cash or assets other than securities of a successor entity.

11.5 Sale. Subject to any provision in the Articles of Association of the Company and to the Board's sole and absolute discretion, in the event of a Sale, each Grantee shall be obligated to participate in the Sale and sell his or her Shares and/or Awards in the Company, provided, however, that each such Share or Award shall be sold at a price equal to that of any other Ordinary Share sold under the Sale (and, unless determined otherwise by the Board, less the applicable Exercise Price), while accounting for changes in such price due to the respective terms of any such Award, and subject to the absolute discretion of the Board.

For purposes of a Sale, whether "all or substantially all of the issued and outstanding share capital of the Company is to be sold", shall be finally and conclusively determined by the Board in its absolute discretion.

11.6 The grant of Awards under the Plan shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

12. Limitations on Transfer:

12.1 Unless determined otherwise by the Administrator, no Award shall be assignable or transferable by the Grantee to whom granted otherwise than by will or the laws of descent and distribution, and an Award shall vest or may be exercised (as applicable) during the lifetime of the Grantee only by such Grantee or by such Grantee's guardian or legal representative. The terms of such Award shall be binding upon the beneficiaries, executors, administrators, heirs and successors of such Grantee. Any ADRs or Shares acquired upon exercise or vesting of Awards shall be transferable only in accordance with applicable securities and other local laws, and may be subject to substantial statutory or regulatory restrictions on transfer, except to the extent exemptions (whether by registration or otherwise) are available.

12.2 Underwriter's Lock-up and Limitations on the Use of Nonpublic Information. The Grantee's rights to sell Exercised Shares may be subject to certain limitations (including a lock-up period), as will be requested by the Company or its underwriters, from time to time, or upon a specific occurrence, and the Grantee unconditionally agrees and accepts any such limitations. Furthermore, the Grantee's right to sell Exercised Shares is subject to applicable law, including in connection with limitation relating to the use of non-public information, if and when applicable.

13. Term and Amendment of the Plan:

13.1 Unless determined otherwise by the Administrator, The Plan shall continue until the expiration of ten (10) years from the date the Plan was adopted by the Board. All Awards outstanding at the time of termination, as aforementioned, shall continue to have full force and effect in accordance with the provisions of the Plan and the documents evidencing such Awards.

13.2 Subject to applicable laws and regulations, the Board in its discretion may, at any time and from time to time, amend, alter, extend or terminate the Plan, as it deems advisable, including without limitation, change the vesting and exercise periods. In addition, the Administrator may adopt, as part of the Plan and based on it, sub-plans, in order to comply with all relevant and applicable laws and regulations of the country of residence of any Grantees.

13.3 Amendment of Awards. The Administrator, at any time, and from time to time, may amend the terms of any one or more Awards; provided, however, that the rights under any Award shall not be impaired by any such amendment unless the Grantee consents in writing (it being understood that no action taken by the Administrator that is expressly permitted under the Plan, shall constitute an amendment of an Award for the purpose hereof). Notwithstanding the foregoing, subject to the limitations of applicable law, if any, and without an affected Grantee's consent, the Administrator may amend the terms of any one or more Awards if necessary to bring the Award into compliance with any applicable tax legislation, rule, regulation or guidance.

14. Withholding and Tax Consequences:

14.1 All Tax consequences and obligations arising from the grant, vesting, or exercise of any Award (as applicable), or the subsequent disposition of, Shares subject thereto or from any other event or act (of the Company or of the Grantee) hereunder, shall be borne solely by the Grantee, and the Grantee shall indemnify the Company and hold it harmless against and from any and all liability for any such Tax, including without limitation, monetary liabilities relating to the necessity to withhold, or to have withheld, any such Tax payment from any payment made to the Grantee. Notwithstanding the above, the Company's obligation to deliver Shares upon the exercise or vesting of any Awards granted under the Plan shall be subject to the satisfaction of all applicable Tax withholding requirements as governed by applicable law or practice.

14.2 Withholding in Shares. The Company shall have the right, but not the obligation, to deduct from the Shares issuable to a Grantee upon the exercise or vesting of an Award, or to accept from the Grantee the tender of, a number of whole Shares having a fair market value, as determined by the Company, that will enable the Company to satisfy any Tax withholding obligations of the Company.

14.3 The Company shall not be required to release any Shares (or Share certificate) to a Grantee until all required payments have been fully made or secured.

14.4 The Grantee shall, if requested at any time by the Company, provide to the Company within 10 calendar days of such request, any information regarding the transfer or other disposition of Shares reasonably required by the Company in order for the Company to comply with applicable local laws and regulations or to obtain any benefits thereunder.

15. Miscellaneous:

15.1 Continuance of Employment. Neither the Plan nor the grant of an Award thereunder shall impose any obligation on the Company to continue the employment or service of any Grantee. Nothing in the Plan or in any Award granted thereunder shall confer upon any Grantee any right to continue in the employ or service of the Company for any period of specific duration, or interfere with or otherwise restrict in any way the right of the Company to terminate such employment or service at any time, for any reason, with or without cause.

15.2 Notwithstanding anything to the contrary in the Plan, it is hereby clarified, that any income attributed (or deemed to be attributed) to the Grantee as a result of the Plan, the grant, vesting or exercise of Awards thereunder, or the sale of Exercised Shares, shall not be taken into account for the purpose of calculating the Grantee's eligibility for any rights deriving from the employee-employer or service provider-client relationship between the Grantee and the Company.

15.3 Governing Law. The Plan and all instruments issued thereunder or in connection therewith, shall be governed by, and interpreted in accordance with, the laws of the State of Israel, excluding the choice of law rules thereof.

15.4 Application of Funds. Any proceeds received by the Company from the sale of Shares pursuant to the exercise or vesting of Awards granted under the Plan, as applicable, shall be used for general corporate purposes of the Company.

15.5 Multiple Agreements. The terms of each Award may differ from other Awards granted under the Plan at the same time, or at any other time. The Administrator may also grant more than one grant of Awards to a given Grantee during the term of the Plan, either in addition to, or in substitution for, one or more Awards previously granted to that Grantee. The grant of multiple Awards may be evidenced by a single Notice of Grant or multiple Notices of Grant, as determined by the Administrator.

15.6 Non-Exclusivity of the Plan. The adoption of the Plan by the Board shall not be construed as amending, modifying or rescinding any previously approved incentive arrangement or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of share-based Awards otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

15.7 Claw-back/Recovery. All Awards granted under the Plan will be subject to recoupment in accordance with the Executives & Directors Compensation Policy, as amended from time to time. In addition, the Board may impose such other claw-back, recovery or recoupment provisions in the Notice of Grant or in a claw-back policy as the Board determines necessary or appropriate. Any such policy adoption or amendment shall in no event require the prior consent of any Grantee. In the event that an Award is subject to more than one such policy, the policy with the most restrictive claw-back or recoupment provisions shall govern such Award, subject to applicable law.

15.8 Data Privacy. As a condition of receipt of any Award, each Grantee explicitly and unambiguously consents to the collection, use, and transfer, in electronic or other form, of personal data as described in this section by and among, as applicable, the Company for the exclusive purpose of implementing, administering, and managing the Plan and Awards and the Grantee's participation in the Plan, including the transfer of such data from such employee's country of residence to other countries, all at the Company's discretion.

16. The provisions of the Plan shall not be construed as deviating from any applicable laws, rules and regulations.

NICE-Systems LTD.

ADDENDUM TO THE 2016 SHARE INCENTIVE PLAN
FOR ISRAELI GRANTEES

1. General

1.1 This addendum (the "**Addendum**") shall apply only to Grantees who are residents of the State of Israel or those who are deemed to be residents of the State of Israel for tax purpose and are subject to taxation by the Israeli Income Tax s (collectively, "**Israeli Grantees**"). The provisions specified hereunder shall form an integral part of the Nice-Systems Ltd. 2016 Share Incentive Plan (the "**Plan**"), which applies to the grant of Awards.

1.2 This Addendum is to be read as a continuation of the Plan and only modifies the terms of Awards granted to Israeli Grantees so that they comply with the requirements set by the Israeli law in general, and in particular with the provisions of the Israeli Tax Ordinance (as defined below), as may be amended or replaced from time to time. It is clarified, that this Addendum does not add to or modify the Plan in respect of any other category of Grantees.

1.3 The Plan and this Addendum are complimentary to each other and shall be deemed as one. In any case of contradiction with respect to Awards granted to Israeli Grantees, whether explicit or implied, between the provisions of this Addendum and the Plan, the provisions set out in this Addendum shall prevail.

1.4 Any capitalized term not specifically defined in this Addendum shall be construed according to the definition or interpretation given to it in the Plan.

2. Definitions

"**102 Award**" means a grant of an Award to an Israeli employee, director or other office holder of the Company, other than to a Controlling Shareholder, pursuant to the provisions of Section 102 of the Tax Ordinance, the 102 Rules, and any other regulations, rulings, procedures or clarifications promulgated thereunder, or under any other section of the Tax Ordinance that will be relevant for such issuance in the future.

"**102(c) Award**" means a 102 Award that will not be subject to a Taxation Route, as detailed in Section 102(c) of the Tax Ordinance.

"**3(i) Award**" means a grant of an Option or RSU to an Israeli consultant, contractor or a Controlling Shareholder of the Company pursuant to the provisions of Section 3(i) of the Tax Ordinance and the rules and regulations promulgated thereunder, or any other section of the Tax Ordinance that will be relevant for such issuance in the future.

“**Beneficial Grantee**” means the Grantee for the benefit of whom the Trustee holds an Award in Trust.

“**Capital Gains Route**” means the capital gains tax route under Section 102(b)(2) of the Tax Ordinance.

“**Controlling Shareholder**” means a “controlling shareholder” of the Company, as such term is defined in Section 32(9)(a) of the Tax Ordinance.

“**Minimum Trust Period**” means the minimum period of time required under a Taxation Route for Awards and/or Exercised Shares to be held in Trust in order for the Beneficial Grantee to enjoy to the fullest extent the tax benefits afforded under such Taxation Route, as prescribed at any time by Section 102 of the Tax Ordinance.

“**Ordinary Income Route**” means the ordinary income route under Section 102(b)(1) of the Tax Ordinance.

“**Rights**” means rights issued in respect of Exercised Shares, including bonus shares.

“**102 Rules**” means the Israeli Income Tax Rules (Tax Relief in Issuance of Shares to Employees), 2003.

“**Taxation Route**” means each of the Ordinary Income Route or the Capital Gains Route.

“**Tax Ordinance**” means the Israeli Income Tax Ordinance [New Version], 1961, as amended.

“**Trust**” means the holding of an Award or Exercised Share by the Trustee in Trust for the benefit of the Beneficial Grantee, pursuant to the instructions of a Taxation Route.

“**Trustee**” means a trustee designated by the Administrator in accordance with the provisions of Section 3 below and, with respect to 102 Awards, approved by the Israeli Tax Authorities.

3. Administration:

3.1 Subject to the general terms and conditions of the Plan, the Tax Ordinance, and any other applicable laws and regulations, the Administrator shall have the full authority in its discretion, from time to time and at any time, to determine:

(a) With respect to grants of 102 Awards - whether the Company shall elect the Ordinary Income Route or the Capital Gains Route for grants of 102 Awards, and the identity of the trustee who shall be granted such 102 Awards in accordance with the provisions of the Plan and the then prevailing Taxation Route.

In the event the Administrator determines that the Company shall elect one of the Taxation Routes for grants of 102 Awards, all grants of 102 Awards made following such election, shall be subject to the elected Taxation Route and the Company shall be entitled to change such election only following the lapse of one year from the end of the tax year in which 102 Awards are first granted under the then prevailing Taxation Route or following the lapse of any shorter or longer period, if provided by law; and

(b) With respect to the grant of 3(i) Awards - whether or not 3(i) Awards shall be granted to a trustee in accordance with the terms and conditions of the Plan, and the identity of the trustee who shall be granted such 3(i) Awards in accordance with the provisions of the Plan.

3.2 Notwithstanding the aforesaid, the Administrator may, from time to time and at any time, grant 102(c) Awards.

4. Grant of Awards and Issuance of Shares:

Subject to the provisions of the Tax Ordinance and applicable law:

- (a) All grants of Awards to Israeli employees, directors and office holders of the Company, other than to a Controlling Shareholder, shall be of 102 Awards; and
- (b) All grants of Awards to Israeli consultants, contractors or Controlling Shareholders of the Company shall be of 3(i) Awards.

5. Trust:

5.1 General.

(a) In the event Awards are deposited with a Trustee, the Trustee shall hold each such Award and any Exercised Shares in Trust for the benefit of the Beneficial Grantee.

(b) In accordance with Section 102, the tax benefits afforded to 102 Awards (and any Exercised Shares) in accordance with the Ordinary Income Route or Capital Gains Route, as applicable, shall be contingent upon the Trustee holding such 102 Awards for the applicable Minimum Trust Period.

(c) With respect to 102 Awards granted to the Trustee, the following shall apply:

(i) A Grantee granted 102 Awards shall not be entitled to sell the Exercised Shares or to transfer such Exercised Shares (or such 102 Awards) from the Trust prior to the lapse of the Minimum Trust Period; and

(ii) Any and all Rights shall be issued to the Trustee and held thereby until the lapse of the Minimum Trust Period, and such Rights shall be subject to the Taxation Route which is applicable to such Exercised Shares.

(d) Notwithstanding the aforesaid, Exercised Shares or Rights may be sold or transferred, and the Trustee may release such Exercised Shares or Rights from Trust, prior to the lapse of the Minimum Trust Period, provided however, that tax is paid or withheld in accordance with Section 102 of the Tax Ordinance and Section 7 of the 102 Rules, and any other provision in any other section of the Tax Ordinance and any regulation, ruling, procedure and clarification promulgated thereunder, that will be relevant, from time to time.

(e) The Company shall register the Exercised Shares issued to the Trustee pursuant to the Plan, in the name of the Trustee for the benefit of the Israeli Grantees, in accordance with any applicable laws, rules and regulations, until such time that such Shares are released from the Trust as herein provided.

If the Company shall issue any certificates representing Exercised Shares deposited with the Trustee under the Plan, then such certificates shall be deposited with the Trustee, and shall be held by the Trustee until such time that such Exercised Shares are released from the Trust as herein provided.

(f) Subject to the terms hereof, at any time after the Awards are exercised or vested, with respect to any Exercised Shares the following shall apply:

(i) Upon the written request of any Beneficial Grantee, the Trustee shall release from the Trust the Exercised Shares issued, on behalf of such Beneficial Grantee, by executing and delivering to the Company such instrument(s) as the Company may require, giving due notice of such release to such Beneficial Grantee, provided, however, that the Trustee shall not so release any such Exercised Shares to such Beneficial Grantee unless the latter, prior to, or concurrently with, such release, provides the Trustee with evidence, satisfactory in form and substance to the Trustee, that payment of all taxes, if any, required to be paid upon such release has been secured.

(ii) Alternatively, subject to the terms hereof, provided the Shares are listed on a Stock Market, upon the written instructions of the Beneficial Grantee to sell any Exercise Shares, the Company and/or the Trustee shall use their reasonable efforts to effect such sale and shall transfer such Shares to the purchaser thereof concurrently with the receipt of, or after having made suitable arrangements to secure, the payment of the proceeds of the purchase price in such transaction. The Company and/or the Trustee, as applicable, shall withhold from such proceeds any and all taxes required to be paid in respect of such sale, shall remit the amount so withheld to the appropriate tax authorities and shall pay the balance thereof directly to the Beneficial Grantee, reporting to such Beneficial Grantee the amount so withheld and paid to said tax authorities.

5.2 Voting Rights. Unless determined otherwise by the Administrator, as long as the Trustee holds the Exercised Shares, the voting rights at the Company's general meeting attached to such Exercised Shares will remain with the Trustee. However, the Trustee shall not be obligated to exercise such voting rights at general meetings nor notify the Grantee of any Shares held in the Trust, of any meeting of the Company's shareholders.

Without derogating from the above, with respect to 102 Awards, such shares shall be voted in accordance with the provisions of Section 102 and any rules, regulations or orders promulgated thereunder.

5.3 Dividends. Subject to any applicable law, tax ruling or guidelines of the Israeli Tax Authority, as applicable, for so long as Shares deposited with the Trustee on behalf of a Beneficial Grantee are held in Trust, the cash dividends paid or distributed with respect thereto shall be distributed directly to such Beneficial Grantee, subject further to any applicable taxation on distribution of dividends, and when applicable subject to the provisions of Section 102 of the Tax Ordinance, the 102 Rules and the regulations or orders promulgated thereunder.

5.4 Notice of Exercise. With respect to a 102 Award held in the Trust, a copy of any Notice of Exercise shall be provided to the Trustee, in such form and method as may be determined by the Trustee in accordance with the requirements of Section 102 of the Tax Ordinance.

6. Notice of grant:

6.1 The Notice of Grant shall state, *inter alia*, whether the Awards granted to Israeli Grantees are 102 Awards (and in particular whether the 102 Awards are granted under the Ordinary Income Route, the Capital Gains Route or as 102(c) Awards), or 3(i) Awards. Each Notice of Grant evidencing a 102 Award shall be subject to the provisions of the Tax Ordinance applicable to such awards.

6.2 Furthermore, each Grantee of a 102 Award under a Taxation Route shall be required: (i) to execute a declaration stating that he or she is familiar with the provisions of Section 102 of the Tax Ordinance and the applicable Taxation Route; and (ii) to undertake not to sell or transfer the Awards and/or the Exercised Shares prior to the lapse of the applicable Minimum Trust Period, unless he or she pays all taxes that may arise in connection with such sale and/or transfer.

7. Sale:

In the event of a Sale described in Section 11.5 of the Plan, with respect to Shares held in Trust the following procedure will be applied: The Trustee will transfer the Shares held in Trust and sign any document in order to effectuate the transfer of Shares, including share transfer deeds, provided, however, that the Trustee receives a notice from the Board, specifying that: (i) all or substantially all of the issued outstanding share capital of the Company is to be sold, and therefore the Trustee is obligated to transfer the Shares held in Trust under the provisions of Section 11.5 of the Plan; and (ii) the Company is obligated to withhold at the source all taxes required to be paid upon release of the Shares from the Trust and to provide the Trustee with evidence, satisfactory to the Trustee, that such taxes indeed have been paid; and (iii) the Company is obligated to transfer the consideration for the Shares (less applicable tax and compulsory payments) directly to the Grantees.

8. Limitations of Transfer:

In addition to the provisions of Section 12 of the Plan, as long as Awards and/or Shares are held by the Trustee on behalf of the Grantee, all rights of the Grantee over the Shares are personal, can not be transferred, assigned, pledged or mortgaged, other than by will or pursuant to the laws of descent and distribution.

9. Taxation:

9.1 Without derogating from the provisions of Section 14 of the Plan, the provisions of Section 14.1 of the Plan shall apply also to actions taken by the Trustee. Accordingly, without derogating from the provisions of Section 14.1 of the Plan, the Grantee shall indemnify the Trustee and hold it harmless against and from any and all liability for any such Tax, including without limitation, monetary liabilities relating to the necessity to withhold, or to have withheld, any such Tax from any payment made to the Grantee.

9.2 The Trustee shall not be required to release any Share (or Share certificate) to a Grantee until all required Tax payments have been fully made or secured.

9.3 With regards to 102 Awards, any provision of Section 102 of the Tax Ordinance, the 102 Rules and the regulations or orders promulgated thereunder, which is necessary in order to receive and/or to preserve any Tax treatment pursuant to Section 102 of the Tax Ordinance, which is not expressly specified in the Plan or in this Addendum, shall be considered binding upon the Company and the Israeli Grantee.

9.4 Guarantee. In the event a 102(c) Award is granted to a Grantee, if the Grantee's employment or service is terminated, for any reason, such Grantee shall provide the Company, to its full satisfaction, with a guarantee or collateral securing the future payment of all Taxes required to be paid upon the sale of the Exercised Shares received upon exercise of such 102(c) Award, all in accordance with the provisions of Section 102 of the Tax Ordinance, the 102 Rules and the regulations or orders promulgated thereunder.

APPENDIX "A"

NICE-Systems LTD.

**ADDENDUM TO THE 2016 SHARE INCENTIVE PLAN
FOR GRANTEES WHO ARE CITIZENS OF THE UNITED STATES OR RESIDENT ALIENS**

Notwithstanding anything to the contrary contained in the Plan, for an Award granted to a Grantee who is subject to federal income tax under the laws of the United States, the following requirements shall apply:

1. The Exercise Price of an Option shall be equal to the average of the closing prices of one ADR of the Company, as quoted on the NASDAQ market, during the 30 consecutive calendar days preceding the Date of Grant, or, in the sole discretion of the Administrator, based on any other method of valuation that is consistently applied and is in compliance with Section 1.409A-1(b)(5) of the US Treasury Regulations.

2. Such Award shall be made, construed and administered in all respects to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "US Code"). Without limiting the generality of the foregoing, and notwithstanding Section 11.2 of the Plan to the contrary, or otherwise, the exercise price per share under any Option shall not be reduced after such Option is granted if such reduction would cause noncompliance with the requirements of Section 409A.

3. Such Award shall be made, construed and administered in all respects to comply with the performance based compensation requirements of Section 162(m) of the US Code, including compliance with any shareholder approval rules (if any). Without limiting the generality of the foregoing, and notwithstanding certain provisions of the Plan to the contrary, including, without limitation, sections 8.6(a)(iii) and 10.2 of the Plan, no modification of, or deemed compliance with, the Performance Based Awards requirements shall be made if such modification or deemed compliance would cause noncompliance with the performance based compensation rules of Section 162(m) of the US Code.

4. Such Award shall be made, construed and administered in all respects to comply with the change in control golden parachute payment requirements and limitations of Section 280G of the US Code. Without limiting the generality of the foregoing, and notwithstanding certain provisions of the Plan to the contrary, including, without limitation, Section 7.4 of the Plan, no acceleration of vesting (or other change in the Award) shall be permitted to the extent the acceleration (or other change in the Award) would cause noncompliance with the requirements of Section 280G of the US Code, unless otherwise determined by the Administrator.

Significant Subsidiaries

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.

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 Limited	United Kingdom
Actimize Inc.	United States
Nice Systems Inc.	United States
Nice Systems Latin America, Inc.	United States
Nice Systems Technologies Inc.	United States

Certification of Principal Executive Officer pursuant to 17 CFR 240.13a-14(a),
as adopted pursuant to §302 of the Sarbanes-Oxley Act

I, Barak Eilam, certify that:

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

Date: March 23, 2016

By: /s/ Barak Eilam
Barak Eilam
Chief Executive Officer

Certification of Principal Financial Officer pursuant to 17 CFR 240.13a-14(a),
as adopted pursuant to §302 of the Sarbanes-Oxley Act

I, Sarit Sagiv, certify that:

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

Date: March 23, 2016

By: /s/ Sarit Sagiv
Sarit Sagiv
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of NICE-Systems Ltd. (the "Company") for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Barak Eilam, President and Chief Executive Officer of the Company, certifies, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 23, 2016

By: /s/ Barak Eilam
Barak Eilam
President and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of NICE-Systems Ltd. (the "Company") for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Sarit Sagiv, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. sec. 1350, as adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 23, 2016

By: /s/ Sarit Sagiv
Sarit Sagiv
Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-166364, 333-168100, 333-171165, 333-162795, 333-162110, 333-06784, 333-08146, 333-11842, 333-09350, 333-11154, 333-111112, 333-111113, 333-134355, 333-144589, 333-145981, 333-153230, 333-177510, 333-179408, 333-181375, 333-191176 and 333-199904) of our reports dated March 24, 2016, with respect to the consolidated financial statements of NICE-Systems Ltd. and its subsidiaries and the effectiveness of internal control over financial reporting of NICE-Systems Ltd. included in this Annual Report on Form 20-F for the year ended December 31, 2015.

Tel Aviv, Israel
March 23, 2016

/s/ KOST, FORER, GABBAY & KASIERER
KOST, FORER, GABBAY & KASIERER
A Member of Ernst & Young Global
