

NICE Ltd.
Form 20-F
March 30, 2018

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, 2017

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 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)

Tali Mirsky, +972-9-7753151, tali.mirsky@nice.com,
13 Zarchin Street, P.O. Box 690, Ra'anana 4310602, Israel

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

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

<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: 60,925,954 Ordinary Shares, par value NIS 1.00 per share (which excludes 12,529,213 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, a non-accelerated filer, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting

Standards Board to its Accounting Standards Codification after April 5, 2012.

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," "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, success and growth of cloud Software-as-a-Service business, cyber security attacks or other security breaches, privacy concerns and legislation, dependency on third-party cloud computing platform providers, hosting facilities and service partners, changes in general economic and business conditions, rapidly changing technology, changes in currency exchange rates and interest rates, difficulties in making additional acquisitions or effectively integrating acquired operations, products, technologies and personnel, whether we are successful in executing our growth strategy, the effects of the recent comprehensive tax reform in the United States 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 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 55 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, all references to "NIS" are to New Israeli Shekels and all references to "INR" are to Indian Rupee. 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, 2016 and 2017 and the selected consolidated statements of income data for the years ended December 31, 2015, 2016 and 2017 have been derived from our audited Consolidated Financial Statements included in this annual report. 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 EY Global. The selected consolidated statements of income data for the years ended December 31, 2013 and 2014 and the selected consolidated balance sheet data as of December 31, 2013, 2014 and 2015 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 EY 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", the Consolidated Financial Statements and notes thereto and other financial information included elsewhere in this annual report.

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Year Ended December 31,
2013 2014 2015 2016 2017
(U.S. dollars in thousands, except per share data)

OPERATING DATA:

Revenues					
Products	\$280,140	\$289,560	\$317,900	\$306,252	\$318,946
Services	507,636	543,548	573,033	623,783	652,040
Cloud	33,739	38,887	35,934	85,507	361,166
Total revenues	821,515	871,995	926,867	1,015,542	1,332,152
Cost of revenues					
Products	69,335	63,919	66,363	53,032	51,065
Services	222,430	226,499	222,783	250,022	225,020
Cloud	7,849	13,093	14,436	34,679	192,588
Total cost of revenues	299,614	303,511	303,582	337,733	468,673
Gross profit	521,901	568,484	623,285	677,809	863,479
Operating expenses:					
Research and development, net	115,431	123,141	128,485	141,528	181,107
Selling and marketing	214,579	231,097	225,817	268,349	361,328
General and administrative	86,467	83,360	90,349	116,569	129,071
Amortization of acquired intangible assets	29,438	19,157	12,528	17,187	41,902
Restructuring expenses	527	5,435	-	-	-
Total operating expenses	446,442	462,190	457,179	543,633	713,408
Operating income	75,459	106,294	166,106	134,176	150,071
Financial and other income (expense), net	3,927	3,765	5,304	10,305	(20,411)
Income before taxes on income	79,386	110,059	171,410	144,481	129,660
Taxes on income (tax benefits)	26,915	9,909	30,832	21,412	(13,631)
Net income from continuing operations	52,471	100,150	140,578	123,069	143,291
Discontinued operations:					
Gain on disposal and income (loss) from discontinued operations	4,294	4,965	152,459	(8,235)	-
Taxes on income (tax benefits)	1,490	2,040	34,206	(2,086)	-
Net income from discontinued operations	2,804	2,925	118,253	(6,149)	-
Net income	55,275	103,075	258,831	116,920	143,291
Basic earnings per share from continuing operations	\$0.87	\$1.69	\$2.36	\$2.06	\$2.37
Basic earnings per share from discontinued operations	\$0.05	\$0.05	\$1.99	\$(0.10)	\$-
Basic earnings per share	\$0.92	\$1.74	\$4.35	\$1.96	\$2.37
Weighted average number of shares used in computing basic earnings per share (in thousands)	60,388	59,362	59,552	59,667	60,444
Diluted earnings per share from continuing operations	\$0.85	\$1.64	\$2.29	\$2.02	\$2.31
Diluted earnings per share from discontinued operations	\$0.04	\$0.05	\$1.93	\$(0.10)	\$-
Diluted earnings per share	\$0.89	\$1.69	\$4.22	\$1.92	\$2.31
Weighted average number of shares used in computing diluted earnings per share (in thousands)	61,380	60,895	61,281	61,035	62,119

*Including assets and liabilities that are accounted for as discontinued operations.

**Including deferred revenues and advances from customers that are classified as long-term liabilities.

	At December 31,				
	2013	2014	2015	2016	2017
	(U.S. dollars in thousands)				
BALANCE SHEET DATA*:					
Working capital**	\$61,023	\$107,090	\$256,089	\$13,713	\$132,154
Total assets	1,646,030	1,632,952	1,849,613	2,631,876	2,845,086
Shareholders' equity	1,204,796	1,213,456	1,415,149	1,511,332	1,749,561

Risk Factors

Our business faces significant risks. You should carefully consider all of the information set forth in this annual report and in our other filings with the SEC, including the following risk factors which we face and which are faced by our industry. The risks and uncertainties described below are not the only ones facing us. Other events, circumstances or factors that we do not currently anticipate or that we currently do not deem to be material risks may also affect our business, results of operations and financial condition. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks.

Risks Relating to our Business, 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 and economic instability. To the extent that our business suffers as a result of such unfavorable economic and market conditions, our operating results may be materially adversely affected. In particular, enterprises may reduce spending in connection with their contact centers, financial institutions may reduce spending in relation to trading floors and operational risk management (as IT-related capital expenditures are typically lower priority in times of economic slowdowns), and our customers may prioritize other expenditures over our solutions. In addition, enterprises' ordering and payment patterns are influenced by market conditions and could cause fluctuations in our quarterly results. If any of the above occurs, and our customers or partners significantly reduce their spending or significantly delay or fail to make payments to us, our business, results of operations, and financial condition would be materially adversely affected.

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

In addition, a majority 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 or fail to make payments to us. 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 our plans for future business development.

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. Our future results could be materially adversely affected by a variety of factors relating to international transactions, including:

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

compliance with applicable 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;

fluctuations in currency exchange rates;

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

potential adverse tax consequences, including the complexities of foreign value added tax systems;

political instability, terrorism or the threat of terrorism and general security concerns;

political unrest, armed conflicts or natural disasters around the world

reduced or differing protection for intellectual property rights in some countries; and

general difficulties in managing our global operations.

On June 23, 2016, the United Kingdom (the “U.K.”) held a referendum in which voters approved an exit from the E.U., commonly referred to as “Brexit”, and on March 29, 2017 the U.K. delivered to the E.U. the official separation notice in accordance with Article 50 of the Lisbon Treaty. Although it is unknown what the exact terms of separation will be and what the interactions between the U.K. and E.U. countries will be following such separation, it is likely that there will be greater restrictions on imports and exports between the U.K. and E.U. countries and increased regulatory complexities. In addition, as a result of such separation, traditional financial centers may shift to different locations within the E.U., in which we have little or no presence. These changes may impact our business in the U.K. and E.U. and therefore may adversely affect our operations and financial results.

In addition, it remains difficult to predict the legislative and regulatory changes that will be enacted following the political changes in the U.S. administration at the beginning of 2017, including possible changes and impact on U.S. trade relationships and agreements. The U.S. administration has taken a position with respect to international trade agreements, indicating a strong interest in renegotiating existing trade agreements, which could result in the increase of our costs and decrease of our margins. Just recently, the U.S. administration made an announcement regarding a new trade policy. We do not know at this time what additional changes, if any, the U.S. administration will make, and what the impact on us of any of those changes may be. However any such changes may have a significant impact on our business and operation, which may adversely affect our financial results.

Changes in the political or economic environments, business spending, and the availability and cost of capital in the countries in which we operate, including the impact of such changes on foreign currency rates and interest rates, and 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 flow.

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 that provide reduced legal protection, including poor protection of intellectual property, inadequate protection against crime (including bribery, corruption and fraud) and breaches of local laws or regulations, as well as challenges relating to competition from companies that already have a local presence in the market, difficulties in recruiting sufficient personnel with appropriate skills and experience, unstable governments and economies, and governmental actions that may affect the flow of goods and currency.

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.

Furthermore, the increased presence of our global operations in lower-cost locations, including outsourcing of certain operations to service providers in such lower-cost locations (such as India), could impact the control over our operations, as well as create dependency on such external service providers. Such mode of operation may impact our business and adversely affect our results of operation.

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 better adapt 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 have increased their presence in our markets 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 or Customer Relationship Management (or "CRM"), 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.

In light of the intense competition in our markets, successful development, positioning and sales execution of our products is a critical factor in our ability to successfully compete and maintain growth. Therefore we must continue making significant expenditures on research and development, marketing and sales to compete effectively. 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 a broad range of product offerings, 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. Additionally, prices of most of our solutions have decreased throughout the market in recent years, primarily due to competitive pressures, and may continue to decrease. Further, in relation to our cloud offering, we may be affected by the pricing of certain infrastructure services, such as in the area of Platform as a Service and network connectivity, which would in turn affect the rates we offer to customers. This could have a negative effect on our gross profit and results of operations.

Our Cloud Software-as-a-Service business model may not be successful or profitable.

Our cloud-based business has grown significantly as a result of the acquisition of inContact and our internal development efforts, and therefore we are more dependent now on the success and profitability of this area of our business. If we are not able to compete effectively, generate significant revenues or maintain the profitability of our cloud offerings, or if we do not successfully execute our cloud strategy or anticipate the cloud needs of our customers, our reputation as a cloud services provider could be harmed and our revenues and profitability could decline.

In addition, the increasing prevalence of cloud and SaaS delivery models offered by us and our competitors may unfavorably impact pricing in both our on-premise enterprise software business and our cloud business, as well as overall demand for our on-premise software product and service offerings, which could reduce our revenues and profitability. With our move to cloud-based solutions, we cannot guarantee that revenues generated from our cloud offerings will compensate for a loss of business in our on-premise enterprise software business.

Further, 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.

The business model of our cloud offerings differs from the business model for the sale of products and services. Our cloud offerings are generally purchased by customers on a subscription basis and revenues from these offerings are generally recognized ratably over the term of the subscriptions (based on actual usage). 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.

Moreover, the deferred revenue that results from sales of our cloud offerings may prevent any deterioration in sales activity associated with our cloud offerings from becoming immediately observable in our consolidated statement of operations. This is in contrast to revenues associated with our software licenses arrangements, in which new software licenses revenues are generally recognized in full at the time of delivery of the related software licenses. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription period.

The stability and growth of our cloud related revenues depends on our ability to attract and retain on-going customers.

The revenue model for companies selling software services under the cloud model is to attract customers, retain such customers through the renewal of their periodic subscription contracts and encourage such customers to add additional agent seats and functionality.

Although the majority of our sales are generated through large enterprise customers, our cloud offerings are targeted also at small to medium businesses, which requires us to invest more sales efforts in that market segment, diverting our sales resources to a greater number of smaller transactions. In this market segment, we may also encounter greater unpredictability, resulting from the financial stability of customers that may be more vulnerable at times of economic downturn, all of which could negatively impact our results of operation.

As our industry matures, if our clients experience seasonal trends in their businesses or our competitors introduce lower costs and/or differentiated products or services that are perceived to compete favorably with our services, our ability to add new clients and renew, maintain or up-sell existing clients based on pricing, technology and functionality could be impaired.

We also have relationships with third-party channel partners to attract new customers. Such third-party channel partner relationships may be terminated by either party, and as a result reduce the number of new customers we can attract to our product offering and cause disruptions with existing customer relationships, which could adversely impact our results of operations. The termination of a reseller partner relationship may cause existing customers of that third-party reseller to become more likely to discontinue their services, which could have a significant adverse effect on our results of operations. In addition, acquisitions of our customers or of our third-party channel partners could lead to cancellation of our contracts with those customers or by the acquiring companies.

We are dependent on third-party cloud computing platform providers, hosting facilities and service partners that may be difficult to replace.

We rely on computer hardware leased and software licensed from, as well as cloud computing platforms provided by, third parties in order to offer our services, including Platform as a Service provided by strategic partners, such as Amazon. These hardware, software and cloud computing platforms may not continue to provide competitive features and functionality, or may not be available at reasonable prices, on commercially reasonable terms or at all. Any loss of the right to use any of these hardware, software or cloud computing platforms could significantly impact our business, increase our expenses and otherwise result in delays in providing our services until equivalent technology is either developed by us, or, if available, is identified, obtained through purchase or license and integrated into our services. As we grow our business, we will continue to depend on both existing and new strategic relationships with such vendors. Our inability to establish and foster these relationships could adversely affect the development of our business, our growth and our results of operations.

If our security measures or those of our third party hosting facility providers, cloud computing platform providers, or third-party service partners are breached and unauthorized access is obtained to customers' data, our data or our IT systems, our services may be perceived as not being secure, customers may stop using our services, and we may incur significant legal and financial exposure and liabilities.

Our services involve the storage and transmission of customers' and their end users' proprietary and other sensitive information, including financial information and other personally identifiable information. Security breaches could expose us to a risk of loss of this information, litigation and possible liability. While we have security measures in place, they may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise and result in someone obtaining unauthorized access to our IT systems, our customers' data or our data, including our intellectual property and other confidential business information.

In addition, 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 and services, 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. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data, our data or our systems. Furthermore, our customers may authorize third party technology providers to access their customer data, and some of our customers may not have adequate security measures in place to protect their data that is stored on our services. Because we do not control our customers or third-party technology providers, or the processing of such data by third-party technology providers, we cannot ensure the integrity or security of such transmissions or processing. Malicious third parties may also conduct attacks designed to temporarily deny customers access to our services. Any security breach could result in a loss of confidence in the security of our services, damage our reputation, negatively impact our future sales, disrupt our business and lead to legal liability.

While we maintain insurance coverage to protect us against a broad range of risks, including in relation to security breaches and cyber security attacks, we could still be subject to risks of losses that might be beyond the limits, or outside the scope, of coverage of our insurance and that may limit or prevent indemnification under our insurance policies. This potential insufficiency of insurance coverage could result in an adverse effect on our business, financial position, profit, and cash flows.

Defects or disruptions in our cloud-based services could impact demand for our services and subject us to substantial liability.

Cloud-based services may have errors or defects that could result in unanticipated downtime for our subscribers and harm to our reputation and our business. We have from time to time found defects in, and experienced disruptions to, our services, and new defects or disruptions may occur in the future. In addition, our customers may use our services in unanticipated ways that may cause a disruption in services for other customers attempting to access their data. As our customers use our services for important aspects of their business, any errors, defects, disruptions in service or other performance problems could harm our reputation and may damage our customers' businesses. As a result, customers could elect to not renew our services or delay or withhold payment to us. We could also lose future sales or customers may make warranty or other claims against us, which may harm our business and adversely affect our results.

We currently serve our customers from third-party data center hosting facilities and cloud computing platform providers. Any damage to, or failure of, our systems generally could result in interruptions in our services. We have from time to time experienced interruptions in our services and such interruptions may occur again in the future. While we have security measures in place, they may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise and result in someone obtaining unauthorized access to our or our third party vendors' systems and infrastructure. This could result in interruptions in our services, which may cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our attrition rates and our ability to attract new customers, all of which would reduce our revenues. Also, we may not be entitled to indemnification or to recuperate any such loss or damage from third party service providers, which may result in us bearing alone the burden of any such liability or losses.

Facilities at which customer data is stored or through which we render our services may be vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct, as well as local administrative actions, changes to legal or permitting requirements and litigation to stop, limit or delay operation. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our services. Even with disaster recovery and business continuity arrangements in place, our services could be interrupted.

We are also dependent on our computer databases, billing systems and accounting computer programs, network and computer hardware that houses these systems to effectively operate our business and market our services. Our clients may become dissatisfied by any system failures that interrupt our ability to provide our service to them. Substantial or repeated system failures would significantly reduce the attractiveness of our services. Significant disruption in the operation of these systems would adversely affect our business and results of operations.

Privacy concerns and legislation, evolving regulation of cloud computing, cross-border data transfer restrictions and other regulations may limit the use and adoption of our services and adversely affect our business.

Governments are adopting new laws and regulations addressing data privacy and the collection, processing, storage and use of personal information. In some cases, foreign data privacy laws and regulations, such as the European Union's Data Protection Directive, and the country-specific laws and regulations that implement that directive, also govern the processing of personal information. These and other requirements could reduce demand for our services or restrict our ability to store and process data or, in some cases, impact our ability to offer some of our solutions and services in certain locations or our customers' ability to deploy our solutions globally.

In addition, regulatory issues relating to the Internet, in general, could affect our ability to provide our services. In the United States, legislation has been adopted that regulates certain aspects of the Internet, including online content, user privacy, taxation, liability for third-party activities and jurisdiction.

Furthermore, our customers expect us to meet voluntary certification or other standards established by third parties. If we are unable to maintain these certifications or meet these standards, it could adversely affect our ability to provide our solutions to certain customers and could harm our business. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our products or services, and could limit adoption of our cloud-based solutions.

Industry-specific regulation and other requirements and standards are evolving and unfavorable industry-specific laws, regulations, interpretive positions or standards could harm our business.

Our customers and potential customers conduct business in a variety of industries, including financial services and telecommunications. Regulators in certain industries have adopted and may in the future adopt regulations or interpretive positions regarding the use of cloud computing and other outsourced services. The costs of compliance with, and other burdens imposed by, industry-specific laws, regulations and interpretive positions may limit our customers' use and adoption of our services and reduce overall demand for our services. Compliance with these regulations may also require us to devote greater resources to support certain customers, which may increase costs and lengthen sales cycles. For example, some financial services regulators have imposed guidelines for use of cloud computing services that mandate specific controls or require financial services enterprises to obtain regulatory approval prior to outsourcing certain functions. If we are unable to comply with these guidelines or controls, or if our customers are unable to obtain regulatory approval to use our services where required, our business may be harmed. If in the future we are unable to achieve or maintain industry specific certifications or other requirements or standards relevant to our customers, it may harm our business and adversely affect our results.

In some cases, industry-specific laws, regulations or interpretive positions may also apply directly to us as a service provider. Any failure or perceived failure by us to comply with such requirements could have an adverse impact on our business.

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. Growth of our revenue depends on the success of all these factors, including our ability to capture market share, attract new clients, develop our strategic partnerships, introduce our solutions and services to new global markets, strengthen and improve our solutions through significant investments in research and developments and successfully consummate and integrate acquisitions. 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, our profits may be reduced over the short-term with the objective of achieving long-term expansion or growth, which may involve risks. Additionally, the terms of the credit agreement (the "Credit Agreement") that we entered into in connection with our senior secured credit facility (the "Credit Facility") contains restrictions that could restrict our ability to make strategic acquisitions or investments.

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 guarantee 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.

Other risks commonly encountered with acquisitions include the effect of acquisitions 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.

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.

We may require significant financing to complete an acquisition or investment, whether through bank loans, raising of debt or otherwise. In connection with our November 2016 acquisition of inContact, we incurred additional indebtedness pursuant to the Credit Facility and, through our wholly owned subsidiary Nice Systems, Inc. (“Nice Systems”), through the issuance of exchangeable senior notes (the “Notes”). In the future, 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. Our shareholders may also suffer substantial dilution if we issue ADSs upon the conversion of the Notes.

Future acquisitions or investments may also require us to incur 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.

We depend on a small number of significant customers.

We have a number of significant customers in each sector of our business, each of which could be material to a particular area of our business, including one customer that accounts for approximately five percent of our aggregate revenues in 2017.

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 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, as well as any change in rules and regulations that apply to this sector (such as deregulation in the area of compliance), customers in this sector, including our top tier customers, could fail to make payments to us, 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.

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 across all geographies in which we operate. 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, including through the implementation of our partnership programs, is an important factor in the successful marketing of our products and execution of our growth strategy. 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.

We leverage strategic relationships with third parties such as system integrators and technology and telephony providers. We also license technology from certain third parties. Certain of these license agreements permit either party to terminate all or a portion of the agreement without cause at any time.

As our market opportunities change and as we grow our business, our dependency 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. We may not be successful in maintaining, creating or expanding these channels and partnerships, which may negatively impact the development of our business, our growth, gross margins and results of operations. We may also develop dependency on certain strategic partners and vendors, and should we have to find alternatives in the market, our development efforts and business may be negatively impacted.

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 and maintain those relationships. Even if we are able to enter into such alliances, it may be under terms that are not favorable to us, or we may not be able to realize the benefits that are anticipated through such alliances. If we are not successful at these efforts, we may lose sales opportunities, customers and market share, which may have a material adverse effect on our business and results of operations.

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

We operate in several markets, each characterized by rapidly changing technology, new product introductions and evolving industry standards. The introduction of products embodying new technology and the emergence of new industry standards might exert price pressures on our existing products or render them obsolete. Our markets are also characterized by consistent demand for state of the art technology and products. Existing and potential competitors might introduce new and enhanced products that could adversely affect the competitive position of our products. Our markets are 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. Also, new products and technologies are being used by our customers to communicate with their customers, e.g., use of chatbots. Such introduction of new products and technologies may change the usage patterns of our products and applications by our customers, which may result in some of our products and applications becoming obsolete. We may not be able to timely and effectively address such market trends and needs.

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 telephone, security, 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 portion of our new and recurring sales.

We sell some of 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 impact our ability to attract new customers that use such infrastructure products or continue rendering maintenance services and other services and generate recurring sales to existing 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.

Some of our enhanced services are dependent on leased network connectivity lines, and a significant disruption or change in these services could adversely affect our business.

A significant portion of our cloud software solutions are provided to customers through a dedicated network of equipment we own that is connected through leased network connectivity lines based on Internet protocol with capacity dedicated to us. We also move a portion of our voice long distance service over this dedicated network.

We lease network connectivity lines and space at co-location facilities for our equipment from third-party suppliers. These co-location facilities represent the backbone of our dedicated network. If any of these suppliers is unable or unwilling to provide or, if we desire, expand their current levels of service to us, the services we offer to customers may be adversely affected. We may not be able to obtain substitute services from other providers at reasonable or comparable prices or in a timely fashion. Any resulting disruptions in the services we offer that are provided over our dedicated network would likely result in customer dissatisfaction and adversely affect our operations. Furthermore, pricing increases by any of the suppliers we rely on for our dedicated network could adversely affect our results of operations if we are unable to pass through pricing increases.

We rely on third party network service providers to originate and terminate public switched telephone network calls, and thus significant failures in these networks could harm our operations.

For our business in the unified communications market, we leverage the infrastructure of third party network service providers to provide telephone numbers, public switched telephone network call termination and origination services, and local number portability for our customers rather than deploying our own network throughout the United States. If any of these network service providers ceases operations or otherwise terminate the services that we depend on, the delay in switching our technology to another network service provider, if available, could have an adverse effect on our business, financial condition or operating results.

Interruptions or delays in our services through third-party error, our own error or the occurrence of unforeseeable events, could harm our ability to deliver our services, which could harm our relationships with customers and subject us to liability.

We provide some of our services through computer hardware that we own and that is currently located in third-party web hosting co-location facilities maintained and operated in various locations globally. Our hosting providers do not guarantee that our customers' access to our solutions will be uninterrupted, error-free or secure. Our operations depend on our providers' ability to protect their and our systems in their facilities against damage or interruption from natural disasters, power or network connectivity failures, criminal acts and similar events. Our back-up computer hardware and systems may not have sufficient capacity to recover all data and services in the event of an outage occurring simultaneously at all facilities. In the event that our hosting facility arrangements were terminated, or there was a lapse of service or accidental or willful damage to such facilities, we could experience lengthy interruptions in our service as well as delays and/or additional expense in arranging new facilities and services. Any or all of these events could cause our customers to lose access to the services they are purchasing from us. In addition, the failure by our third-party hosting facilities to meet our capacity requirements could result in interruptions in our service or impede our ability to scale our operations.

Design and mechanical errors, spikes in usage volume and failure to follow system protocols and procedures could cause our systems to fail, resulting in interruptions in our customers' service to their customers. Any interruptions or delays in our services, whether as a result of third-party error, our own error, natural disasters or security breaches, and whether accidental or willful, could harm our relationships with customers and our reputation. This in turn could cause a reduction in our revenue, subject us to liability, and cause us to issue credits or pay penalties or cause customers to fail to continue service, any of which could adversely affect our business, financial condition and results of operations. In the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur.

We provide certain service level commitments to our customers, which could cause us to provide credits for future services if the stated service levels are not met for a given period and could adversely impact our revenue.

Our customer agreements for cloud offerings provide service level commitments. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our service, we may be contractually obligated to provide these customers with credits for future services. Our revenue could be adversely impacted if we suffer unscheduled downtime that exceeds the allowed downtimes under our agreements with our customers. Any such extended service outages could harm our reputation, revenue and operating results.

General Risks Relating to Our Offerings and Operations

We depend on the success of our recording solutions.

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 not decline significantly or that revenues generated from our recording solutions will not be significantly impacted. 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-service, 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, and to the extent not mandated under applicable regulations, 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.

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

The sale of advanced software applications and multi-product offering is complex, and requires, among other things, customization and implementation, and is subject to a prolonged sale process. Therefore, the sale of advanced software applications and multi-product offering may impact the time we recognize the revenue from such orders. These factors could result in a delay in revenue recognition and materially adversely affect our results of operations.

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

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

We encounter quarter-to-quarter seasonality, especially given the increasing proportion of advanced software applications in our overall sales mix. The sales cycle for our products and services ranges 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. As a result, transactions that do not meet all the recognition criteria of that quarter may only be recognized in the following quarter or subsequent quarters, 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.

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.

Fluctuations in our results of operations may result from our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' requirements, the timing and success of new product introductions and enhancements or product initiation by our competitors, the purchasing and budgeting cycles of our customers and general economic, industry and market conditions, amongst other factors.

In addition, our quarterly operating results may be subject to significant fluctuations due to additional 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 and services 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. Changes in the mix of products and services across our different business lines may significantly impact our revenues. 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.

We generally provide forecasts as to expected future revenues in the coming fiscal quarters and fiscal year. These forecasts are based on management estimation and expectations, our then-existing backlog and an analysis of assumptions and assessments that may not materialize or end up being inaccurate. We may not meet our expectations or those of industry analysts in a particular future quarter, including as a result of the factors described in this Item 3.

In addition, as described above, our revenues reflect 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 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, as most of our expenses are not variable in the short term.

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, 2017, approximately 27% of our employees were devoted to research and product development and approximately 22% 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 (such as India) 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.

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. Also, in the event that any of these third party vendors is unable to meet our requirements in a timely manner or that our relationship with any such vendor is terminated, we may experience disruption in our business until an alternative source of supply can be obtained. Any disruption, or any other interruption in a vendor's ability to provide components to us, could result in delays in making product deliveries or inability to deliver, which could have a material adverse effect on our business, financial condition and results of operations.

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 services could directly impair our financial results and we could face potential product liability claims.

Our software products and services are highly complex. Despite extensive testing by us and by our clients, our products and services may include errors, failures, bugs or other weaknesses. Such errors, failures, bugs or other weaknesses in our products and services could result in product returns, loss of or delay in market acceptance of our products and services, 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 and services 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, as our products are used by our customers for important aspects of their business, such as compliance recording and operational risk management functions that are often critical to our clients and must adhere to certain rules and regulations, any errors or defects in, or other performance problems with, our products and services could hurt our reputation and may damage our customers' business. If that occurs, we could lose future sales, our existing customers could elect not to renew, and we could potentially be 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

Our debt could adversely affect our financial condition and prevent us from fulfilling our obligations under our financing arrangements.

In connection with our November 2016 acquisition of inContact, we incurred indebtedness pursuant to the Credit Facility available to us under the Credit Agreement and through the issuance of the Notes. The debt incurred could have adverse consequences to our financial condition and business. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;

• make it more difficult for us to satisfy our other financial obligations;

• make it more difficult for us to make strategic acquisitions;

require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby
• reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;

• expose us to interest rate fluctuations since the interest on the Credit Agreement is imposed at variable rates;

• make it more difficult for us to satisfy our obligations to our lenders, resulting in possible defaults on and acceleration of such debt;

• limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

• place us at a competitive disadvantage compared to our competitors that have less debt;

• limit our ability to borrow additional funds as needed;

• restrict our ability to prepay the Notes or to pay cash upon exchanges of the Notes; and

• limit our ability to pay dividends, redeem stock or make other distributions.

Our ability to make payments on and to refinance our debt, to fund planned capital expenditures and to maintain sufficient working capital will depend on our ability to generate cash in the future. This is subject to general economic, financial, competitive, business, regulatory and other factors that may be beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the Credit Agreement or from other sources in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. If our cash flow and capital resources are insufficient to allow us to make scheduled payments on our debt, we may need to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance all or a portion of our debt on or before the maturity thereof, any of which could have a material adverse effect on our business, financial condition or results of operations. We cannot assure you that we will be able to refinance any of our debt on commercially reasonable terms or at all, or that the terms of that debt will allow any of the above alternative measures or that these measures would satisfy our scheduled debt service obligations. If we are unable to generate sufficient cash flow to repay or refinance our debt on favorable terms, it could significantly adversely affect our financial condition and the value of our outstanding debt. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

A failure to comply with the covenants and other provisions of our outstanding debt could result in events of default under such instruments, which could permit acceleration of our Notes and borrowings under our Credit Agreement. Any required prepayment or exchange of our Notes or Credit Facility as a result of an event of default or fundamental change triggering such right would lower our current cash on hand such that we would not have those funds available for use in our business, which could adversely affect our operating results.

We are subject to a number of restrictive covenants under the Credit Agreement, which restrict our business and financing activities.

The Credit Agreement imposes, and the terms of any future debt may impose, operating and other restrictions on us. Such restrictions limit or prohibit, among other things, our and our subsidiaries' ability to incur or guarantee additional debt, pay dividends, repurchase or retire our equity interests or subordinated debt, transfer or sell our assets, make certain payments or investments and capital expenditures, create liens, engage in certain transactions with our affiliates and merge or consolidate with other companies.

The restrictions under the Credit Agreement may, in certain circumstances, prevent us from taking actions that management believes would be in the best interests of our business, and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that do not have similar restrictions. In the event of any event of default under the Credit Agreement, the lenders under the Credit Agreement could elect to terminate their commitments or cease making further loans and accelerate the outstanding loans, and, in any such case, we could ultimately be forced into bankruptcy or liquidation. Because the indenture governing the Notes and the Credit Agreement has customary cross-default provisions, if our obligations under the Credit Agreement are accelerated we may be unable to repay or refinance the amounts due under the Credit Agreement or the Notes.

The conditional exchange feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

The Notes will mature on January 15, 2024, unless earlier prepaid, redeemed or exchanged. In the event certain conditions are met during set periods, the conditional exchange feature of the Notes will be triggered, meaning that holders of Notes will be entitled at their option to exchange the Notes at any time during such specified periods. If one or more holders elect to exchange their Notes, we may elect to settle all or a portion of our exchange obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to exchange their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital and adversely affect covenants under the Credit Agreement.

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, INR and other currencies compared to the U.S. dollar, the functional currency in our financial statements. A significant portion of the expenses associated with our Israeli and Indian operations, including personnel and facilities related expenses, are incurred in NIS and INR, respectively, 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 these foreign currencies, our earnings may be negatively affected. 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 in Israel, the United States 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 effective 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 (“OECD”) introduced the base erosion and profit shifting project in 2013, which set out a plan to address international taxation principles in a globalized, digitized business world. In November 2015, the G20 adopted the OECD’s published guidance on domestic legislation and administrative changes to address the plan’s action points. As a result of participant countries adopting the international tax policies set out under the plan, changes have been and continue to be made to numerous international tax principles, as well as national tax incentives, which could adversely affect our provision for income taxes.

The recent comprehensive tax reform in the United States could adversely affect our results of operations and financial condition.

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (the “U.S. Tax Reform”), a comprehensive tax legislation that includes significant changes to the taxation of business entities. These changes include, among others, (i) a permanent reduction to the corporate federal income tax rate, (ii) a partial limitation on the deductibility of business interest expense, (iii) a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with certain rules designed to prevent erosion of the U.S. income tax base) and (iv) a one-time tax on accumulated offshore earnings held in cash and illiquid assets, with the latter taxed at a lower rate. We are in the process of assessing the overall impact of the U.S. Tax Reform on our business and financial condition. Currently such impact is not entirely clear, and it is possible that our assessment of our business, effective income tax rate and our profitability may be adversely affected as a result of tax regulations and guidance to this new legislation, which are anticipated to be provided by the regulators during the coming year.

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 at the time of liquidation and would adversely affect our assets and income.

Changes in accounting principles, or interpretations thereof, could have a significant impact on our financial position and results of operations.

We prepare our Consolidated Financial Statements in accordance with U.S. GAAP. These principles are subject to interpretation by the Securities and Exchange Commission (the “SEC”) and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Additionally, the adoption of new or revised accounting principles may require that we make significant changes to our systems, processes and controls. Changes resulting from these new standards may result in materially different financial results and may require that we change how we process, analyze and report financial information and that we change financial reporting controls.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, may have a material effect on our reported financial results.

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options, an entity must separately account for the liability and equity components of convertible or exchangeable debt instruments (such as the Notes) that may be settled entirely or partially in cash upon exchange in a manner that reflects our economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of shareholders’ equity on our consolidated balance sheet, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their principal amount over the term of the Notes. We will report lower net income (or greater net loss) in our financial results because ASC 470-20 requires interest to include both the current period’s amortization of the debt discount and the instrument’s coupon interest, which could adversely affect our reported or future financial results.

In addition, convertible or exchangeable debt instruments (such as the Notes) that may be settled entirely or partly in cash are not required to be included in our diluted share count if we have the ability and intent to settle exchanges in cash. If we elect to settle such excess in ADSs, according to the treasury stock method, the transaction is accounted for in the diluted share count, as if the number of ADSs that would be necessary to settle such excess are deemed issued. We cannot be sure that we will be able to continue to demonstrate the ability or intent to settle exchanges in cash or that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the ADSs deliverable upon exchange of the Notes, our diluted earnings per share would be adversely affected.

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.

Current and future accounting pronouncements and other financial reporting standards, might negatively impact our financial results.

We regularly monitor our compliance with applicable financial reporting standards and review new pronouncements and drafts thereof that are relevant to us. As a result of new standards, changes to existing standards and changes in their interpretation, we might be required to change our accounting policies.

This could lead to risks in the following areas, among others: not being able to react in a timely manner to new accounting pronouncements and financial reporting standards concerning revenue recognition (including the new ASC 606 guidance on revenue from contracts with customers that we will need to adopt in 2018) and unpredictable changes in interpretation of standards. Any one or more of these events could have an adverse effect on our business, financial position, and profit.

Risks Relating to Intellectual Property, Data Protection and Regulatory Environment

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 225 U.S. patents and 49 patents issued in additional countries covering substantially the same technology as the U.S. patents. We have over 64 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. Consequently, we may be unable to prevent our proprietary technology from being exploited abroad, which could affect our ability to expand to international markets or require costly efforts to protect our technology. Policing the unauthorized use of our products, trademarks and other proprietary rights is expensive, difficult and, in some cases, impossible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of management resources, either of which could harm our business. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

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.

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 constantly implemented or changed. Such 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. It is expected that the current U.S. administration will promulgate new or amended or abolish regulations that may impact our customers’ business or our operations, such as the Dodd –Frank Act or consumer protection laws, and which may reduce the demand for our products and services and may adversely affect our results of operations.

From time to time, we may also operate pursuant to specific authorizations of, and commitments towards, U.S., Israeli, E.U. 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. For example, on April 14, 2016, the European Parliament formally adopted the General Data Protection Regulation (the “GDPR”), which formally go into effect on May 25, 2018. The GDPR provides that companies must comply with certain standards regarding the protection of the personal data of their customers or risk significant financial penalties. Regulations or interpretive positions may be enforced specifically with respect to the use of SaaS, hosting and cloud-based services, as well as 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, hosting and cloud-based 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.

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 on 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. 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.

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, 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 impact 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, most of whom reside outside the United States, may be difficult to obtain 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 Technology Enterprise” programs and certain grants from the National Association for Technology and Innovation (formerly known as the Office of the Chief Scientist of the Ministry of Economy) of the State of Israel (the “NATI”), for research and development.

To be eligible for tax benefits as a Preferred Technology Enterprise, we must continue to meet certain conditions. While we believe that we have met and continue to meet the conditions that entitle us to previously obtained Israeli tax benefits, there can be no assurance that the Israeli Tax Authorities will agree.

To be eligible for NATI-related grants and benefits, we must continue to meet certain conditions, including conducting the research, development, manufacturing of products developed with such NATI grants in Israel, and providing the NATI 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 NATI programs.

Moreover, we participated in the European Community Framework Program for Research, Technological Development and Demonstration, which funds and promotes research. Under these programs we had to comply with certain conditions. If it is apparent we failed 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. Our last program under this Framework ended in August 2015.

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 Technology 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 Securities

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

Numerous factors, some of which are beyond our control, may cause the market price of our ADSs, ordinary shares and the Notes 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;
- The exchangeability of the Notes for ADSs;
- Hedging or arbitrage trading activity involving ADSs by holders of the Notes;

Modification of hedge positions by counterparties to the hedge transactions we entered into simultaneously with the

- issuance of the Notes, including the possible entry into or unwinding of derivative transactions with respect to the ADSs or the purchase or sale of the ADSs or other NICE securities in secondary market transactions;

- 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, or the exchange of a substantial amount of Notes, or perception thereof, 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.

Additionally, future exchanges of the Notes for ADSs, or the perception that these exchanges may occur, could reduce the market price of the ordinary shares or ADSs. This could also impair NICE’s abilities to raise additional capital through the sale of its securities.

The market prices of the ordinary shares and the ADSs, which may fluctuate significantly, will directly affect the market price for the Notes.

We expect that the market price of the ordinary shares and the ADSs will affect the market price of the Notes. This may result in greater volatility in the market price of the Notes than would be expected for non-exchangeable notes. The market price of the ordinary shares and the ADSs will likely fluctuate in response to a number of factors, many of which are beyond our control. Holders who receive ADSs upon exchange of the Notes will therefore be subject to the risk of volatility and depressed prices of ADSs. In addition, we expect that the market price of the Notes will be influenced by yield and interest rates in the capital markets, our creditworthiness and the occurrence of certain events affecting us that do not require an adjustment to the exchange rate. Fluctuations in yield rates in particular may give rise to arbitrage opportunities based upon changes in the relative values of the Notes and ADSs. Any such arbitrage could, in turn, affect the market prices of ADSs and the Notes.

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.

We have not registered, and do not currently intend to register, the Notes, the ADSs into which the Notes are exchanged or exchangeable or the ordinary shares represented thereby. There are restrictions on Noteholders' ability to transfer or resell the Notes, ADSs and the underlying ordinary shares.

The Notes, the ADSs deliverable upon exchange of the Notes and the ordinary shares represented thereby were offered and sold pursuant to an exemption from registration under the Securities Act and applicable state securities laws, and we have not registered, and do not currently intend to register, the Notes, the ADSs or such ordinary shares. Therefore, Noteholders may transfer or resell the Notes only in a transaction registered under or exempt from the registration requirements of the Securities Act and applicable state securities laws, and may be required to bear the risk of their investment for an indefinite period of time.

The fundamental change and make-whole fundamental change provisions of the Notes may delay or prevent an otherwise beneficial attempt to acquire our company.

The fundamental change prepayment rights of the Noteholders under the Notes, which would allow Noteholders to require that we prepay all or a portion of their Note upon the occurrence of a fundamental change, and the provisions under the Notes requiring an increase to the exchange rate for exchanges in connection with a make-whole fundamental change, in certain circumstances may delay or prevent an acquisition of NICE that would otherwise be beneficial to our shareholders.

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. On June 6, 2016 we were renamed NICE 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 221 River Street, Hoboken, New Jersey 07030.

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 global enterprise software leader providing solutions for the Customer Engagement and Financial Crime and Compliance markets. NICE's solutions use advanced omnichannel analytics and automation based on an open cloud platform to improve customer experience as well as prevent financial crime.

NICE's core mission is to empower organizations to act smarter and respond faster, both to provide superior customer service and to prevent financial crime. Our software is used by customer service organizations of enterprises of all sizes and verticals and by compliance and fraud prevention groups in financial institutions.

With an integrated cloud platform and advanced analytics solutions we help organizations understand their customers, engage their employees and improve their processes. Additionally, we help them predict needs and identify risks to create an excellent customer experience, prevent fraud and ensure compliance. These capabilities are enhanced through the utilization of advanced automation and artificial intelligence capabilities. Our most advanced solutions constantly improve by applying machine learning to cross-industry and cross-organizations data and by offering collective insights.

NICE is at the forefront of two industry transformations; the adoption of cloud platforms by enterprises and the shift by financial institutions to integrated risk management solutions for end-to-end financial crime prevention.

In both cases, our ability to deeply integrate analytics and automation and apply it across multiple data sources and workflows enables customers to achieve greater effectiveness and efficiency.

We rely on several key assets to drive our growth:

- Our market-leading integrated open cloud platform and solutions for omnichannel routing, data capture, analytics, automation and artificial intelligence, many of which are protected by a broad array of patents.
- Our ability to provide solutions that cover all market segments, from small to mid-sized business to large scale Fortune 100 enterprises.
- Our extensive portfolio of applications as well as a large partner ecosystem allow NICE's customers to benefit from a wide range of cloud 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 loyal customer base. Today, more than 25,000 organizations in over 150 countries, including 85 of the Fortune 100 companies, use NICE solutions.
- 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 access to data for improving our algorithms through machine learning and artificial intelligence, which relies on a combination of our extensive customer base, cloud-base deployments and domain expertise.
- Our services, customer support and operations, which enable our customers to quickly enjoy the benefits of our solutions, with multiple deployment models in the cloud or on-premise throughout the world and support for full value

realization and customer success.

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

Business Overview

NICE is an industry leader operating in two main markets: Customer Engagement and Financial Crime and Compliance. NICE's long-term strategy is to further strengthen its leadership position in these two market segments and further enhance its position in adjacent markets. During 2017, NICE continued to execute its long-term strategy through both innovation and acquisitions, enhancing our position as a leader in both markets.

Customer Engagement

Organizations that serve consumers are challenged to provide high quality service that is responsive to consumers' ever-changing needs across all touch points, and to differentiate themselves through efficient and effective customer experience. In addition, they have to find ways to leverage customer interactions and generate upsell opportunities. They need to accomplish these objectives while containing operational costs and adhering to regulations. NICE's customer experience platform helps organizations address these challenges.

NICE is a global leader in the Customer Engagement market. Our platform and solutions serve thousands of organizations worldwide, providing a powerful combination of omnichannel routing in the cloud with workforce optimization (including recording and workforce management), analytics, automation and artificial intelligence capabilities. Our platform and solutions empower businesses to deliver consistent and personalized experience across the customer journey, optimize business performance and ensure compliance and are delivered both in the cloud as well as on-premise.

NICE serves contact centers, back office operations and retail branches, spanning multiple industries, including, banking, telecommunications, insurance, healthcare, business process outsourcing, government, utilities, travel, entertainment and e-commerce.

Our unified, enterprise-grade open cloud foundation supports contact centers of all sizes and geographic locations – from small single sites, to distributed remote agents, to global enterprises. The foundation is open and extensible, with over 250 Application Program Interfaces (APIs) and over 100 development partners.

Our smart omnichannel routing capabilities empower organizations to connect customer journeys across any channel to the right employee, provide a superior experience in the customer's preferred channel, offer Interactive Voice Response (IVR) together with different channels consumers use today and be ready for future channels the organization wants to add.

Our advanced analytics solutions help organizations understand their customers, their employees and their processes to improve customer experience. Our solutions analyze both unstructured and structured data, coming from all touchpoints of the customer journey and data systems, allowing organizations to deliver the consistent and personalized experience that customers today expect, as well as improving operational efficiency, ensuring regulatory compliance and increasing revenues.

Our adaptive persona-based and analytics-driven approach for agent engagement and improvement allows organization to drive employee productivity and motivation. Our workforce optimizations solutions enable organizations to ensure that their employees are engaged, properly trained and in a position to provide the highest quality of service.

Our automation and artificial intelligence solutions streamline service delivery by releasing employees from the manual execution of repetitive processes and employing software robots to handle them, leading to reduced handle time and costs, improved response times and happier customers and employees.

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Financial Crime and Compliance

Financial institutions are regularly challenged with prevention of fraud and money laundering, and compliance adherence. They have a common need for risk management solutions that will help them stay ahead of the evolving landscape of threats and efficiently adapt to changes in business and regulatory requirements.

Furthermore, many organizations that are not traditional financial institutions, including alternative payment platforms, cryptocurrency exchanges, gaming, fintech, etc. find themselves under similar threats and under increasing regulatory scrutiny and need to quickly adjust and ensure they adhere with those requirements.

NICE is a global leader in advanced analytics based applications to fight financial crime and ensure compliance. NICE provides organizations with proven capabilities for real-time and cross-channel fraud prevention, anti-money laundering, brokerage compliance and enterprise-wide case management. With this set of solutions, financial institutions can tighten risk controls, lower operational and information technology costs, enhance investigation efficiency and improve customer experience.

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

Our open platform serves as an end-to-end financial crime and compliance solution, this allows our customers to use a unified platform instead of integrating multiple solutions, whether home-grown or from third party vendors. The NICE platform handles the entire process, including detection, investigation, remediation and reporting. Such integrated open platform allows our customers to improve detection, lower costs, keep tight control over their process and automate regulatory reporting.

Our recently introduced Autonomous Financial Crime capabilities, that incorporate artificial intelligence and robotic automation into our platform allows to further increase detection, reduce noise and automate many previously manual routine tasks.

Our Actimize Watch solution allows us to better protect financial institutions from criminal threats by leveraging the cloud and machine learning technologies. Each customer that subscribes to the cloud delivered service can tune their data, and any new threat pattern that is detected is shared with all other customers of the service. As such, Actimize Watch serves as an inoculation – protecting all organizations from an attack perpetrated against a specific organization.

Mid-size financial institutions are finding themselves under increased pressure to adopt compliance best practices. Our Essentials platform is a cloud-based financial crime and compliance solution that enables smaller organizations to enjoy the capabilities previously only afforded to large organizations.

We plan to continue to expand our addressable market by providing cloud solutions to smaller institutions and by expanding to non-traditional financial institutions. We also expand our value to our customers by leveraging artificial intelligence, the cloud and robotic automation which facilitate both better protection and significant cost reductions.

Industry and Technology Trends

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

Organizations are looking for open software platforms to be the foundation for their applications. Open platforms provide unified fully-integrated solutions that are all based on a shared framework of service, allowing for fast innovation, easy deployment, flexible functionality and an enhanced ecosystem of solution providers. Third party solutions can be easily added to extend the functionality of the platform to match a customer's or industry specific needs.

Cloud adoption is accelerating and demand is expanding across segments. Cloud solutions have become the most popular way to achieve flexible and cost-effective deployment models for enterprise systems. These include SaaS, Contact Center as a Service ("CCaaS"), Infrastructure as a Service, Platform as a Service, and other cloud-based solutions. By using cloud solutions, customers of all sizes can scale their operation quickly and easily while paying only for the amount of resources they use. There are several market needs driving this trend, including the desire for business agility, the pressure to continually improve operational efficiency and innovate to reduce total cost of ownership ("TCO") and to ease implementation complexity.

Consumers demand a holistic omnichannel experience that is effortless and consistent across all touchpoints. Consumers demand immediate, effortless, consistent and personalized experiences across all communication channels, including mobile apps, web, chat, SMS, social, and over the phone, with the least amount of effort. 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 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 touch points.

Analytics has become the main driver for improving customer experience. Organizations are increasingly adopting a customer-centric strategy to get better understanding of customer behaviors and gain insight into the omnichannel customer journey. Organizations are increasing the use of artificial intelligence empowered tools in order to achieve focused decisioning and real-time action solutions – being proactive instead of reactive and predictive/prescriptive instead of descriptive. Front and back office functions seek to employ analytics to better optimize their operations. These tools include, among others, cognitive engagement solutions, like interactive communications, predictive analytics and machine learning.

Process automation and machine learning are increasingly being used to automate financial investigation tasks where it may not be necessary to have human involvement. This frees up investigators from low value, high volume manual tasks so that they may better focus on more important and strategic tasks. This leads to better resource utilization, increased accuracy and productivity, and improved return on investment.

Companies are looking for ways to engage their employees in personalized and adaptive ways to improve workforce productivity and satisfaction. Contact center employees are heterogenic with different needs and requirement. These employees, especially those that belong to the "millennial" generation, expect organizations to hear their voice and engage them individually. Successfully engaging and motivating these employees in a personalized manner reduces attrition levels, hiring and on boarding efforts and improves the experience level of the team, resulting in an improved experience for the end customers.

Organizations look at Big Data technologies to analyze a wealth of information, derive new business insights and act in real time. Structured and unstructured data, from millions of omnichannel interactions and transactions, open up an opportunity to gain deep insight and human understanding, 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 into providing the best solution and an accurate response.

Automation and machine learning are increasingly used to enhance customer experience and efficiency. 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. As a result, organizations increasingly use these technologies to provide faster and more efficient customer service.

Chat and conversational bots to contain and deflect calls and interactions into self-service. Companies are looking for new and advanced digital means to improve customer satisfaction. Further development of intelligent bots will improve operational processes, increase flexibility in customer interactions with the contact center, as well as decrease wait time while providing a personalized experience. This technology will allow the human workforce to focus on more complex added value services.

Preventing financial crime and ensuring stringent compliance and evolving regulatory environments. 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. 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 increasing need to control cost of compliance. The regulatory pressures and increasing threat landscape have driven a sharp increase in the number of risk and compliance personnel, which in turn have dramatically increased the cost of compliance. Customers are turning to technology to allow them to control these costs without compromising their compliance adherence and while continuing to lower their exposure to financial crime.

An integrated risk management platform is becoming more prevalent. The ever-expanding risk landscape and sophistication of financial criminals, as well as the need to keep costs in check, creates a growing need for a single view of financial crime-related risk, thereby allowing organizations to aggregate and analyze the different detection signals coming from throughout the financial services organization. Financial institutions are seeking a single platform that aggregates all such information from across the organization, with the capabilities to analyze it, act on it and present it in a single dashboard to both operations and executives.

Strategy

Strengthening our market leadership

We intend to solidify and increase our market-leading position by continuing to offer and expand our comprehensive portfolio of solutions and by leveraging several major industry trends:

The shift to the cloud – we provide a cloud offering for both Customer Engagement as well as for Financial Crime and Compliance. This allows us to provide a broader set of functionalities with the strength of our integrated offering.

Expanding our market share in the mid-market - our cloud platforms as well as our expanded partner network and our marketing and sales organizations allow us to reach and to serve smaller organizations in a more cost effective way than in the past, significantly enhancing our market opportunity

Adoption of artificial intelligence and automation – NICE expertise and technology in the domains of Machine Learning, Artificial Intelligence and Automation as well as our unique access to data to train these algorithms via our cloud offering, allows us to provide market leading solutions in these domains.

Our brand, global reach, financial resources, extensive domain expertise and ability to deliver solutions for large organizations, as well as small and mid-sized companies, will also contribute to increasing our market-leading position.

In 2017 we considerably enhanced our cloud offering through NICE inContact CXone™, the global leading cloud customer experience platform as well as NICE Actimize Essentials, our financial crime and compliance cloud offering. These offerings enable us to grow our value to our existing customers, as well as expand NICE's reach to the mid-market and open up new opportunities in large enterprises, considerably increasing our addressable market size.

We plan to continue to develop our open cloud platforms, for both the Customer Engagement and Financial Crime markets, to enable unified integrated solutions that offer fast innovation and easy implementation. We also plan to continue to develop DevOne, our partners and developers ecosystem, and our advanced applications marketplace, CXExchange. These allow our customers to expand the functionality of CXOne™ to cover even more business needs.

In 2017 we also introduced Autonomous Financial Crime and Compliance – a platform that leverages big data, artificial intelligence and advanced automation. Autonomous Financial Crime and Compliance allows financial institutions that have been burdened by significant increases in compliance demands as well as an ever increasing rate of fraud attempts to automate many remedial tasks and to increase their detection rate, all leading to significant savings in operational cost.

We intend to drive additional growth by continuing to develop our direct relationships 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, fintech, gaming 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.

Continuing to deliver more comprehensive solutions to our existing customers

One of our main assets is our customer base. We believe there are many opportunities to up-sell and cross-sell within our existing customer base. This includes increasing our customers' exposure to the full breadth of our portfolio that we continue to enhance to provide our customers with new benefits by expanding the offering they already use and adding new products.

Continuing organic innovation and development, while also pursuing acquisitions

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

Maximizing the synergetic potential across some of our businesses

A lot of our solutions are based on the same methodology of capturing and analyzing massive amounts of structured and unstructured data, providing real-time insight and driving process automation. Thus, an important pillar of our corporate strategy is to maximize the synergies and cooperation between our business areas, where possible.

We have already introduced several joint offerings and combined go-to-market efforts. We will continue leveraging our extensive complementary domain expertise, technological know-how, capabilities and development, in order 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 high-quality customer service.

Providing innovative, real-time analytics and machine learning 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 enhancing our capabilities in operationalizing Big Data with analytics, behavior prediction, decisioning and guidance. We also plan to continue enabling organizations to address the full lifecycle of interactions, transactions and events (i.e., before, during, and after they occur).

Offering a flexible business model

Our strategy is to offer our solutions in alignment with both on-premises and cloud-based enterprise software business models, adjusting our solutions to our clients' changing needs.

In the on-premises model, 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, the growth of our on-premises client base and the increase in cloud sales) is driving an increase in our recurring revenue.

We offer our solutions in cloud-based models as well, providing our customers access to faster innovation, more flexibility as well as a lower TCO. Given the growing demand for these models, we've expanded our portfolio and penetrated the mid-market segment, as well as enabled 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.

An increase in the proportion of recurring revenue (both from recurring maintenance and cloud sales) out of our overall revenue mix is expected to provide increasingly predictable revenue streams.

Customer Engagement Business Strategy

Our strategy is to extend our market leading position in the customer engagement space, while continuing to expand beyond the contact center to the different customer experience channels and touch points with multiple delivery models. We intend to achieve this by providing solutions that focus on:

- Offering a unified, open, cloud platform that combines omnichannel routing, IVR, self-service, customer journey analytics, adaptive WFO and automation: NICE inContact CXone™, a global leading cloud customer experience platform.

- Offering solutions to all customer touchpoints, as well as solutions that benefit back office operations, retail branches, and self-service channels with the ability to easily connect future channels.

- Offering our clients the possibility to extend our solutions through innovative third party solutions that they can self-select using our platform's CXexchange application marketplace as part of our DEVone dedicated partner ecosystem for developers.

- Leading cloud transformation across the entire Customer Engagement portfolio for all segments and regions to enhance flexibility, agility and lower TCO.

- Providing a comprehensive suite of customer service essentials, from predictive omnichannel routing and WFO to advanced analytics based applications.

- Transforming the workforce through Adaptive Workforce Optimization (Adaptive WFO), by creating and managing agent personas through enhancement of the employee experience and engagement, in order to drive their motivation and reduce attrition.

· Infusing analytics into each and every element of customer engagement.

Leveraging artificial intelligence and advanced process automation technologies to automate customer engagement and to dramatically reduce routine employee activities, while using our advanced analytics to identify processes suitable for automation.

· Analyzing individual customer journeys and operationalizing the insights extracted to create business value in real-time for customer experience stakeholders.

· Capturing customer feedback across all touch points, driving specific insights and taking action to address the needs of Customer Experience Officers and other stakeholders in the marketing department in order to improve customer loyalty and satisfaction.

· Extending Workforce Management functionality to proactively identify and solve staffing gaps, manage agent communication and adjust schedules.

Financial Crime and Compliance Business Strategy

We plan to continue to extend 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 a new platform for Financial Crime and Compliance solutions with data and analytics agility, driving forward the Autonomous Financial Crime Management (AFCM) vision and our ability to cross sell solutions, leveraging Big Data, machine learning, advanced automation and other technologies to help customers reduce the cost of operations while increasing their adherence and capturing more crime.

· Leveraging our cloud based platform Essentials to expand our market reach to mid-size banks and financial institutions.

· Continuing to cross-sell and up-sell into our existing customer base around the world.

· Continuing to focus on tier 1 and tier 2 clients by providing them with solutions to meet their needs via cloud and on-premise models.

· Introducing cloud based solutions to monitor procurement, payments, and travel and expense data within organizations

· Partnering with world-class consultancy and other firms to identify additional significant opportunities.

· Increasingly selling holistic solutions, combining Financial Crime and Compliance offerings with Customer Engagement offerings.

· Offering our solutions to verticals outside of the traditional financial services, such as gaming, energy, insurance, healthcare, industry regulators, government agencies, and alternative payments providers.

Our Solutions

I. Customer Engagement

Our Platform and Solutions' Core Capabilities

Omnichannel Routing and IVR enables organizations to run their contact center in the cloud, and route contacts and interactions to ensure agents positively and productively interact with customers on any channel. Organizations gain business flexibility by quickly deploying agents anytime, anywhere for maximum operational flexibility and implementing routing and interactive voice, IVR and digital channel response changes in hours, not months.

Omnichannel, Real-time Interaction Analytics enables organizations to uncover the valuable data and insights hidden in customer interactions. It uses advanced technology powered by Nexidia Analytics, 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.

Omnichannel 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.

Employee Engagement enables organizations to improve agent's individual productivity, identify performance gaps, deliver targeted coaching, and effectively forecast workloads and schedule staff in an adaptive manner enabling intra-day scheduling. 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 enable organizations to analyze the entire customer journey across various touchpoints, transactions and events. These solutions allow our customers to have a comprehensive view of customer intents and actions throughout their journey. They also leverage Big Data infrastructure and predictive analytics models to identify and sequence individual customer interactions across time and touch points, including calls, text, IVR, web, self-service and others. With this analysis, organizations can understand the context of each contact, uncover patterns, predict needs and personalize interactions in real time.

Advanced Process Automation provides organizations with a real-time decisioning engine that supports business decisions. The engine draws on business rules and predictive models to automate mundane manual tasks through process insights derived from analytics that are applied while interactions are taking place, for attended and unattended automation environments. 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.

Open Cloud Platform powers rapid innovation with an extensible enterprise-grade platform that scales securely, deploys quickly, and serves customers of all sizes globally. We guarantee industry-best availability and offer easy customization through RESTful APIs and our developer program, plus CXexchange marketplace for pre-built integrations from ecosystem partners. The combination of the above capabilities enables organizations to improve customer experience and achieve business and operational goals. Solutions are available individually or as an integrated whole.

Addressing Business and Operational Needs

1. Omnichannel Routing

Solution	Description
Automatic Contact Distributor and Interactive Voice Response	Ensure customer requests are routed to qualified agents or resolved with self-service through a skills-based omnichannel routing engine that provides a universal queue for real-time interaction management, and a consolidated interface with a seamlessly integrated IVR for routing strategies across all supported channels.
Personal Connection	Provide inside sales an easier way to attain quota by connecting with more prospects every day and customer service the ability to reduce inbound calls through personalized, low cost, and proactive outbound notifications.
Customer Interaction Channels	Enable contact centers to service customers via any channel, with extensive routing options, consolidated reporting and a state-of-the-art agent interface. Channels include inbound and outbound voice, callback, voicemail, email, chat, text/SMS, Social Media and work items. Other channels, such as video, are implemented using work items.

2. Open Cloud Platform

Solution	Description
CRM Integrations	Provide pre-built CRM integrations, such as Salesforce, and empower agents to personalize omnichannel customer service. Provide seamless, bidirectional CRM integrations with the contact center that increase agent efficiency and independence by delivering a real-time 360-degree view of the customer.
UCaaS Integrations	Provide pre-built or partner-provided integration with Unified Communication tools that enables seamless collaboration between contact center agents and experts in their organization. This easy to deploy integration provides a single solution for formal and informal contact center agents.
Network and Voice Connectivity Solutions	Provide Voice as a Service network connectivity suite that delivers flexible and reliable telephony services built specifically for the contact center. Offering a full range of telephony options, with guaranteed voice quality. Through our partnership with a leading, independent 3rd party, proactive diagnostic tools and extensive telephony expertise we guarantee voice quality based on mean opinion score (MOS).
APIs	Empower organizations to customize and integrate their contact center with other business critical solutions to create the optimal customer service environment.

3. Compliance and Risk

Solution	Description
Compliance Omnichannel 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, the General Data Protection Regulation (GDPR) 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.

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.
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	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.

4. Operational Efficiency

Solution	Description
Contact Center Omnichannel 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 and personalized 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.
Employee Engagement Management	Real-time analysis of understaffing and overstaffing combined with mobility and dynamic scheduling to facilitate agents with the flexibility required, while ensuring that a company's operational goals and KPIs are achieved. The application also allows self-management of schedules through an intuitive mobile application anytime, anywhere and on-the-go, allowing employees to perform sophisticated transactions like shift bidding and shift swaps, setting preferences, reporting absences, and receiving immediate confirmation;
Quality Central	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.
Nexidia Interaction Analytics	Analyzes large quantities of customer interactions across multiple channels in real time to identify hot topics and root causes quickly, and to produce actionable insights. These insights are then leveraged to improve processes, enhance customer experience, increase sales, reduce attrition, 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 across voice and IVR channels
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.
Desktop Automation	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. Operated on virtual machines and monitored centrally, these robots handle end-to-end processes, essentially performing any routine task which the human user would otherwise do manually.

Desktop analytics

Monitors and collects data for every application log-in, screen navigation, mouse selection, field entry or any other activity that employees are performing on their desktop to analyze processes for weaknesses, measure concrete results and identify best practices.

5. Customer Experience

Solution	Description
Voice of the Customer	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 reaches out for customer feedback from any touch point, including text message, email, IVR, mobile app, and online forms immediately following an interaction through their channel of choice; 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.
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 Loyalty	Understands the business practices and behaviors that drive customer loyalty by calculating Net Promoter Score (NPS). 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.
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.

6. Sales Optimization

Solution	Description
Sales Performance 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 Personalization	Uses customer intelligence, predictive models and machine learning to make insightful, real-time personalization 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 bases best practices off their behavior. Establishes thresholds and works with agents, measuring performance against sales driven metrics.

7. Public Safety Incident Debriefing and Investigation

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

NICE Investigate Automates and expedites the end-to-end collection, analysis and sharing of all digital case evidence – from Records Management Systems, CAD, interview room and emergency call audio, documents, photos, private and public CCTV, body-worn and in-car video, social media and more – to help facilitate building and clearing more cases faster.

8. Public Safety Emergency Response Optimization

Solution	Description
NICE Multimedia Recording	Addresses the needs of emergency communications, dispatch and air traffic control operations. The recording platform automatically records, analyzes, stores, quickly retrieves and instantly replays telephony, radio and IP voice calls, operator console screens and SMS Text-to-911. TDM and VoIP recordings can be used to ensure compliance with regulations, provide case or incident evidence, and manage and improve departmental quality and productivity.
NICE Inform	Helps emergency centers to effectively record, manage and derive valuable insights from today's higher volume and variety of communications. It captures multimedia communications and helps manage, synchronize and put incidents into context – saving time, money and resources, while ensuring quality and compliance.

II. Financial Crime and Compliance

Our Solutions' Core Capabilities

Autonomous Financial Crime Management (AFCM): By merging data, analytics and automation technologies, financial services organizations are able to improve detection, improve their operational efficiencies, and reduce costs. Raw data becomes actionable intelligence by applying machine learning, advanced analytics and automation. This innovative process will create a unique environment that more effectively addresses the challenges and pain points that financial services organizations are facing by allowing them to tailor their operations to lower costs and drive greater profitability, all while improving accuracy and throughput. Autonomous Financial Crime Management also allows organizations to configure which decisions to direct to human experts, supporting either semi-autonomous to fully autonomous operations.

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, financial services providers, healthcare providers and gaming providers to expand the use of NICE's solutions over time. This eases implementation and lowers total cost of ownership.

Analytical models and flexible 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 advanced 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.

Solutions are available individually or as an integrated whole.

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.
Robotic Process Automation (RPA)	Robotic Process Automation (RPA) includes attended robots that are digital assistants that live in the case manager on analysts' desktops and collaborate with them as needed during the day. These robots can be used on demand – as for copying and pasting or navigating between systems and screens – to help analysts complete their evidence gathering processes and get to a decision point faster and more accurately. It also includes unattended robots which are a digital workforce, working 24/7 without human intervention. These robots can be used to fetch data from legacy systems and update enterprise systems so data is always in the right place when you need it. As no integrations are needed, implementations are faster and cheaper.
Quality Assurance	Actimize Quality Assurance helps risk & compliance teams create a truly closed-loop, end-to-end investigation process. With it, compliance and quality teams can collaborate in order to reduce re-opens, work more efficiently and lower risk.
Productivity Studio	Actimize Productivity Studio allows organizations to increase speed and efficiency, without compromising on accuracy. Teams are empowered to understand their productivity by seeing gaps and bottlenecks in their workflows, as well as patterns and trends in their activities.
Notifications & Attestations	With Actimize Notifications & Attestations, management and internal audit can gain oversight of their teams, ensuring everyone is aligned; teams can mitigate risk by lowering organizational and personal accountability risk; and finally, teams can improve their efficiency with quick access to all past and present notifications without leaving the case management platform.
Investigation Management	Actimize Investigation Management is an automation and discovery suite for investigators. The solution helps automate evidence gathering, so that more time is spent analyzing and assessing risks.

2. Anti-Money Laundering

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-effective 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	<p>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.</p>
FATCA Compliance	<p>Helps U.S. and non-U.S. financial institutions comply with the Foreign Account Tax Compliance Act (or FATCA), that requires foreign financial institutions and certain other non-financial foreign entities to report on the foreign assets held by their U.S. account holders). The solution helps 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.</p>
AML Essentials	<p>A cloud-based offering that uses the same power and experience as our enterprise solutions, with coverage that includes Transaction Monitoring, Customer Due Diligence, and Sanctions Screening, offers rapid deployment and reduces overhead to make compliance easier and at a lower total cost of ownership.</p>
Anti-Bribery & Corruption (ABC)	<p>Anti-Bribery and Corruption is a cloud-based solution that provides ongoing monitoring of procurement, payments, and travel & expense data within organizations. Based upon two decades of transactional analytics experience, Actimize ABC analyzes transactions and behavior across the organization and the supply chain, for a real-time, up to date view of their bribery and corruption risk across business, geographic, vendor and customer lines.</p>

3. Fraud Prevention

Solution	Description
ActimizeWatch	<p>ActimizeWatch is a cloud-based managed services solution to optimize analytics. ActimizeWatch continuously monitors the transactional data for individual FIs to assess when analytics must be tuned, and leverages insights from a market-wide view to proactively optimize analytics for members of the service. ActimizeWatch uses machine learning analytics to assess cross-market transactional data, identify fraud patterns within individual organizations and across the market. ActimizeWatch proactively optimizes analytics using automation for quick delivery of implementation-ready models and features.</p>
Fraud Essentials	<p>A cloud-based offering that uses the same power and experience as our enterprise solutions. The Fraud Essentials solution serves as both a single and cross-channel solution for online banking and mobile banking channels. It can detect fraud perpetrated against enrollments, address or account-based bill payments, and inter-bank transactions such as wire, ACH, etc.</p>
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. 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. Solution includes the Actimize Digital & Mobile Wallet Fraud which protects customers from digital account takeover, and protects organizations 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>
Payment Gateway Protection	<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.</p> <p>Actimize’s Payment Gateway Protection solution provides real-time fraud monitoring for all payments transactions before they leave the banking environment to travel onto payment rails, as well as monitoring of inbound transactions. The solution applies payment level analytics that seek out anomalies in transaction patterns and flows without need for channel data.</p>
Omni-channel Protection for Retail	<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>
Omni-Channel Protection for Commercial/Wholesale	<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</p>

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.

Deposit Account Fraud

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.

Authentication-IQ

Manages multiple authentication methods and risk-based decisions by creating a complete customer profile, based on historical authentication activity, account servicing, and transactional behavior which is then used to identify suspicious behavior at log-in or throughout a session, producing real-time actionable risk scores. In addition, the solution manages the process of step up authentication, choosing the appropriate method, producing alerts and enabling real-time interdiction. Finally, it provides alert and case management in a unified context to prioritize investigations and optimize workflow across the enterprise.

4. Financial Markets Compliance

Solution	Description
Institutional Trade Surveillance	Provides scenario management for identifying market manipulation and abuse, fair dealings with customers, and insider trading across asset classes (such as equities, fixed income, swaps and futures). It includes specific tools for desk supervision, control room surveillance, and trade reporting practices, to ensure comprehensive oversight and sales and trading compliance across all channels.
Retail Trade Surveillance	Addresses organization-wide compliance needs 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.
Markets Surveillance Cloud (MSC)	Actimize Markets Surveillance Cloud (MSC) is a turnkey solution that effectively detects market manipulation and reduces false positives by enabling firms to create rules and tailor alert thresholds based on their trading activity.
Holistic Surveillance	Actimize Holistic Surveillance view puts the pieces together and NICE Actimize Holistic Surveillance allows a holistic view across both trade and communications data, proactively analyzing all trading interactions, while monitoring the full trade life cycle in conjunction with relevant news events.
Holistic Behavioral Analytics	Actimize Holistic Behavioral Analytics enables sell side, buy side, and retail brokerage firms to easily pinpoint individuals whose actions are putting their firms at risk. The solution does this by analyzing a wide range of data and identifying deviations from normal behavior. In addition, Actimize Holistic Behavioral Analytics is the natural complement to traditional analytics, allowing you to cover both sides of compliance — known and hidden threats.
Trade Reconstruction	Trade Reconstruction dramatically simplifies the reconstruction of a trade by normalizing, analyzing, indexing and correlating data across structured and unstructured data sources.

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. We have established a business partner program, which provides full support and a broad portfolio of sales tools to help our partners promote the NICE offerings, helping to drive mutual revenue growth and success.

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. Our DEVone program allows third party software providers to integrate with our platform and extend its functionality. We currently have over 100 DEVone partners.

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: Accenture, Bain, Boston Consulting Group, Cisco, Cognizant, ConvergeOne, Deloitte, Fuze, IBM, Infosys, IPC, Motorola, PWC, RingCentral, Salesforce.com, Servion, 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 Realization Services (VRS) 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. Their focus on continuous value realization helps our customers accelerate return on investment, increase revenue and minimize business costs.

Managed Services empowers organizations to meet short term objectives, such as lowering handle time or improving sales rates, along with achieving long term goals such as customer retention. Our team of experienced practitioners work with customers, guiding the process of collecting interactions, prioritizing subjects to study, conducting analysis and most importantly, developing plans that put the results of the analysis into action.

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

Customer Success 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 is done by use of very sophisticated proprietary utilities and automations that perform in a proactive manner allowing the means to avoid impacting customer and business interruption. This includes: NICE Cloud Services Operations, running our Hosting Centers as well as our newly launched AWS Global Regions; a mature DevOps team who design and develop the utilities and automations while working with our product development teams to optimize our solutions for the cloud environment, and the 7X24 Cloud Application Support teams that monitor and manage the solutions for our customers, ensuring world class up-time, performance, 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 (in the majority of cases) an ongoing delivery of "like-for-like" upgrade releases, service packs and hot fixes. NICE also offers a Technical Account Management service or TAM. The TAM is a designated manager responsible for escalation management and overall customer care services.

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

Advanced Services – Technical experts perform system-level audits to ensure ongoing compliance with operational specifications as well as specific product customizations tailored to the requirements of the customer.

Application Performance Services – A 24/7 function that proactively monitors NICE-hosted and customer-premise environments with triage, resolution and escalation of system alarms.

Managed Technical Services (Technical & Operation) – NICE offers a suite of managed technical & operation services that enable the customer to fully outsource all necessary responsibilities & functions required in order to manage the NICE solutions. This service includes: dedicated onsite and remote support engineers, system management, system operation, updates and upgrades.

Manufacturing and Source of Supplies

The vast majority of our solutions is software-based and is 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 management for all of our products, as well as the ISO 27001:2013 information security management and ISO 14001:2015 environmental management 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 through some 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 2015, 2016 and 2017 were approximately \$132.0 million, \$151.7 million, and \$211.4 million respectively, of which approximately \$2.1 million, \$1.7 million, and \$2.4 million, respectively, were derived from third-party funding, and \$1.4 million, \$8.5 million, and \$27.9 million, respectively, were capitalized software development costs.

In 2017, we were qualified to participate in seven programs funded by the Israeli NATI 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 (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 2015, 2016 and 2017 we received a total of \$2.1 million, \$1.3 million, and \$2.1 million from the NATI programs, respectively.

The Research and Development Law generally requires that the product incorporating know-how developed under an NATI-funded program be manufactured in Israel. However, upon the approval of the NATI (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 NATI (and provided the NATI 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 NATI. Such approval is not required for the sale or export of any products resulting from such research or development. The NATI, under special circumstances, may approve the transfer of NATI-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 NATI a portion of the sale price paid in consideration for such NATI-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, its controlling shareholders and non-Israeli interested parties to notify the NATI 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. Further, if the interested party is non-Israeli, requires the party to undertake to the NATI to comply with the Research and Development Law. In addition, the rules of the NATI may require prior approval of the NATI 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 NATI programs which may lead to additional royalties being payable on additional products.

The funds available for NATI 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 NATI 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 225 U.S. patents and 49 patents issued in additional countries covering substantially the same technology as the U.S. patents. We have over 64 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, NICE Adaptive WFO, NICE WFM, NICE Voice of the Customer, NICE Work Force Management, NICE Incentive Compensation, NICE Real Time Solutions, NICE Trading Recording, NICE Uptivity, NICE Air, NICE Communication Surveillance, Customer Engagement Analytics, Decisive Moment, Fizzback, IEX, inContact, inContact Logo, NICE inContact, Insight from Interactions, Intent. Insight. Impact., Last Message Replay, Mirra, NICE, NICE Analyzer, NICE Engage, NICE Engage Platform, NICE Interaction Management, NICE Sentinel, NICE Inform, NICE Inform Lite, NICE Performance Compliance, NICE Inform Media Player, NICE Inform Verify, NICE Logo, NICE Perform, NICE Incentive Compensation Management, NICE Real Time Solutions, NICE Trading Recording, NICE Proactive Compliance, NICE Seamless, NICE Security Recording, NICE SmartCenter, NICE, NiceLog, Nexidia, Nexidia (!) Logo, Nexidia Interaction Analytics, Nexidia Advanced Interaction Analytics, Nexidia Search Grid, Neural Phonetic Speech Analytics, Own the Decisive Moment, Scenario Replay, Syfact, Syfact Investigator, TotalView, inContact Cloud Center Solutions, Supervisor on-the-go, VAAS, Voice as a Service, Personal Connection, InTouch, Echo, inCloud, CXone, CXone Logo, NICE inContact CXone, NICE Perform Compliance, NICE Performance Management, inContact Automatic Contact Distributor, inContact Personal Connection, inContact Interactive Voice Response and inContact Work Force Management.

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. In addition, we charge for some of our cloud software based on actual consumption, which may also fluctuate seasonally. 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

Data Privacy and Cyber-Related Security Restrictions

We are subject to applicable data privacy and cyber-related security restrictions in countries in which our customers and their end-users are located, specifically in relation to our SaaS, hosting and cloud-based services, as well as other outsourced services, including the United States, Israel and the European Union. For example, on April 14, 2016, the European Parliament formally adopted the General Data Protection Regulation, which formally goes into effect on May 25, 2018. In the event we do not comply with such data privacy and cyber-related security restrictions, we may be subject to significant financial penalties.

Export Restrictions

We are subject to applicable export control regulations in countries from which we export goods and services, including the United States, Israel and the United Kingdom. Such regulations may apply with respect to product components that are developed or manufactured in, or shipped from, the United States, Israel and the United Kingdom, or with respect to certain content contained in our products. There are restrictions that apply to software products that contain encryption functionality. 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, 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 “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”, SVHC-173), 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 “Our Solutions” section in this Item 4 – “Business Overview”) as well as their scale, performance and accuracy, comprehensiveness of solutions and broad functionality.

We are leaders in the Customer Engagement space. We compete against WFO players such as Aspect, Calabrio, Genesys and Verint. In the CCaaS market, which is a part of the Contact Center Infrastructure market that is still mainly held by traditional on-premises players, we compete against Amazon Connect, Avaya, Five9 and Genesys, as well as other niche vendors. We also compete against certain cloud communications vendors (UCaaS), such as 8x8, which offer basic CCaaS capabilities. In addition, we are seeing some CRM companies that provide a subset functionality of our broader offerings.

We are leaders in the Financial Crime and Compliance space. 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, NASDAQ Smarts, 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 France 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 Netherlands 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
Nexidia Inc.	United States
inContact Inc.	United States
inContact Bolivia S.R.L.	Bolivia
inContact Philippines Inc.	Philippines

Property, Plants and Equipment

Our executive offices and engineering, research and development operations are located in North Ra'anana, Israel. The offices occupy approximately 242,000 square feet, with an annual rent and maintenance fee of approximately \$9.1 million in 2018 and thereafter, 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.

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 Hoboken, New Jersey, occupies approximately 60,000 square feet. We consolidated our North American locations into this one office location in November 2016, and we sub-leased our two former facilities in New Jersey and New York for the remainder of their respective lease terms through 2023 and 2021, respectively;

Our EMEA headquarters in London, occupies approximately 22,500 square feet (of which 5,543 square feet are sub-leased for a term ending in 2023), and includes an office space and lab; and

Our APAC headquarters in Singapore occupies approximately 8,000 square feet and is used as office space.

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

Our Americas facilities located in –

o Salt Lake City, Utah – an office that occupies approximately 128,000 square feet and includes office space and training facilities;

o Atlanta, Georgia – two offices that occupy together approximately 40,000 square feet and are used as office space and a lab; and

o Additional offices are located in Colorado, Texas, Ohio and California.

Our APAC facilities are located in Pune, India - occupies approximately 108,000 square feet and includes a research and development and service center. There are also additional APAC offices located in Bangalore, Manila, Hong Kong and Tokyo.

We believe that our existing facilities are adequate to meet our current needs and substantially adequate to meet our 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 global enterprise software leader providing solutions for the Customer Engagement and Financial Crime and Compliance markets. NICE’s solutions use advanced omnichannel analytics and automation based on an open cloud platform to improve customer experience as well as prevent financial crime.

NICE’s core mission is to empower organizations to act smarter and respond faster both to provide superior customer service and to prevent financial crime. Our software is used by customer service organizations of enterprises of all sizes and verticals and by compliance and fraud prevention groups in financial institutions.

With an integrated cloud platform and advanced analytics solutions we help organizations understand their customers, engage their employees and improve their processes. Additionally, we help them predict needs and identify risks to create an excellent customer experience, prevent fraud and ensure compliance. These capabilities are enhanced through the utilization of advanced automation and artificial intelligence capabilities. Our software constantly improves by offering collective insights and some of our newer software offerings apply machine learning to cross-industry and cross-organizations data and by offering collective insights.

NICE is at the forefront of two industry transformations; the adoption of cloud platforms by enterprises and the shift by financial institutions to integrated risk management solutions for end-to-end financial crime prevention.

In both cases, our ability to deeply integrate analytics and automation and apply it across multiple data sources and workflows enables customers to achieve greater effectiveness and efficiency.

We rely on several key assets to drive our growth:

- Our market-leading integrated open cloud platform and solutions for omnichannel routing, data capture, analytics, automation and artificial intelligence, many of which are protected by a broad array of patents.
- Our ability to provide solutions that cover all market segments, from small to mid-sized business to large scale Fortune 100 enterprises.
- Our extensive portfolio of applications as well as a large partner ecosystem allow NICE's customers to benefit from a wide range of cloud 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 loyal customer base. Today, more than 25,000 organizations in over 150 countries, including 85 of the Fortune 100 companies, use NICE solutions.
- 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 access to data for improving our algorithms through machine learning and artificial intelligence, which relies on a combination of our extensive customer base, cloud-base deployments and domain expertise.
- Our services, customer support and operations, which enable our customers to quickly enjoy the benefits of our solutions, with multiple deployment models in the cloud or on-premise throughout the world and support for full value realization and customer success.

We have established a leadership position in many of our areas of operation by offering comprehensive and innovative enterprise-grade platforms, solutions and technologies. Our customers, across all sizes and verticals, including banking, telecommunications, healthcare, insurance, retail, travel, gaming, public safety, state and local government 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 are included in our consolidated statement of income from the date of acquisition. On November 14, 2016, we completed the acquisition of inContact, a leading provider of cloud contact center software and agent optimization tools. We acquired inContact for total consideration of approximately \$1 billion in cash. The acquisition enables us to offer a fully integrated and complete cloud contact center where companies can interact with customers. The acquisition enabled the two market leaders to join forces and provide the industry's first fully integrated and complete cloud contact center solution suite.

On March 22, 2016, we completed the acquisition of Nexidia, a leading provider of advanced customer analytics. We acquired Nexidia for total consideration of approximately \$135 million in cash. The acquisition allows us to offer a combined offering, featuring a best-in-class, analytics-based solution with accuracy, scalability and performance, enabling organizations to expand their analytics usage in critical business use cases.

On March 11, 2016, we completed the acquisition of Voiceprint International, Inc. (“VPI”), a provider of workforce optimization software and services for enterprises, contact centers, first responders and trading floors. We acquired VPI for total consideration of approximately \$21.7 million in cash.

In addition, from time to time we complete acquisitions and investments that are not considered material to our business and operations. During 2017, we completed two acquisitions for a total consideration of approximately \$77 million in cash. For additional information see Note 1b to our Consolidated Financial Statements included elsewhere in this annual report.

Discontinued Operations

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

In July 2015, we completed the sale of our Cyber and Intelligence operation to Elbit Systems and one of its subsidiaries (together, “Elbit”) for total consideration of \$151.6 million, comprised of \$111.6 million in cash and \$40.0 million in earn out based on future business performance conditions, which were not met. In 2016, Elbit made certain claims in relation to the transaction in accordance with the procedures set in the acquisition agreement between the parties, which the parties settled in December 2016. Pursuant to such settlement, we recorded additional expenses in 2016 and a final net working capital price adjustment. Under the settlement agreement, we also agreed to reduce the earnout by \$4.0 million. We previously accounted for the Cyber and Intelligence operation under the Security Solution segment.

Following the sale of these two operations, 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 the Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions 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 estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. 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;
- Impairment of long-lived assets;
- Income taxes;
- Legal contingencies;
- Business combination;
- Stock-based compensation;
- Marketable securities;
- Fair value of financial instruments; and
- Exchangeable senior notes.

Revenue Recognition. We generate revenues from sales of software products, services and cloud, which include software license, SaaS and network connectivity, hosting, support and maintenance, implementation, configuration, project management, consulting, training 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. Revenues from maintenance and professional services are recognized ratably over the contractual period and as services are performed, respectively. 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 elements.

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. 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.

Our SaaS offerings provide customers access to certain of our software within a cloud-based IT environment on a subscription basis, and may also include network connectivity services over our network or through third party network connectivity providers on a usage basis. Because such offerings do not grant customers the right to take possession of the software, we consider these arrangements to be service contracts which are not within the scope of ASC 985-605. In addition, we also derive revenue from professional services included in implementing or improving a customer's cloud software solutions experience.

Revenues for our SaaS offerings are recognized ratably over the contract term or based on actual usage, commencing with the date the service is made available to customers and all other revenue recognition criteria have been satisfied. Revenue from the network connectivity usage is derived based on customer specific rate plans and call usage and is recognized in the period the call is initiated. Upfront fees related to professional services that are not considered to have standalone value, are deferred and recognized over the estimated life of the customer.

To assess the probability of collection for revenue recognition, we have 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 and other contractual rights, which are estimated based on our past experience and are deducted from revenues.

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

Impairment of Long-Lived Assets. Our long-lived assets include goodwill, property and equipment and identifiable other intangible assets that are subject to amortization.

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 us 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 us to bypass the qualitative assessment for any reporting unit and proceed directly to performing the first step of the goodwill impairment test.

During the fourth quarter of each of the fiscal years ended December 31, 2015, 2016 and 2017, we performed a qualitative assessment for our 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. Accordingly, no impairment charge was recognized during any of such fiscal years.

Our other long-lived assets (besides goodwill) 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 charge was recognized during any of such fiscal years.

Income Taxes. We account 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. We provide a valuation allowance, if necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized. Deferred tax assets and deferred tax liabilities are presented under long-term assets and long-term liabilities, respectively.

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% (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.

Legal Contingencies. We are currently involved in various claims and legal proceedings. We review the status of each matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss.

Business Combination. We apply the provisions of ASC 805, "Business Combination", and we allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from customer relationships, acquired technology and acquired trademarks from a market participant perspective, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Stock-based Compensation. We account 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.

We recognize compensation expenses for the value of our awards, which have graded vesting, based on the accelerated attribution method over the requisite service period of each of the awards.

We estimate 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 our Board of Directors. For information on our dividend payments, see Note 13d to our Consolidated Financial Statements included elsewhere in this annual report.

We measure the fair value of restricted stock based on the market value of the underlying shares at the date of grant.

Marketable Securities. We account 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 our consolidated statements of income.

Our securities are reviewed for impairment in accordance with ASC 320-10-35. 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 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 accumulated other comprehensive income (loss).

Fair Value of Financial Instruments. We apply 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. We measure our investments in money market funds classified as cash equivalents, marketable securities and its foreign currency derivative contracts at fair value.

In determining fair value, we use 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 us. Unobservable inputs are inputs that reflect our 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 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 inputs that are unobservable and significant to the overall fair value measurement.

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.

Our marketable securities and foreign currency derivative contracts are classified within Level 2. For more information, see Note 3 and Note 10 to our Consolidated Financial Statements included elsewhere in this annual report.

The carrying amounts of cash and cash equivalents, short-term bank deposits, trade receivables and trade payables, approximate their fair value due to the immediate or short-term maturities of these financial instruments. The carrying amount of the long term loan approximates its fair value due to the fact the loan bears a variable interest rate.

Exchangeable Senior Notes. We apply ASC 815 “Derivative and Hedging” (“ASC 815”) and ASC 470 “Debt” (“ASC 470”). Under these standards, we separately account for the liability and equity components of convertible debt instruments that may be settled in cash in a manner that reflects our nonconvertible debt borrowing rate. The liability component at issuance is recognized at fair value, based on the fair value of a similar instrument that does not have a conversion feature. The equity component is based on the excess of the principal amount of the debentures over the fair value of the liability component, after adjusting for an allocation of debt issuance costs, and is recorded as capital in excess of par. Debt discounts are amortized as additional non-cash interest expense over the expected life of the debt.

Recently Adopted Accounting Standards

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows. ASU 2016-09 became effective for us beginning the first quarter of 2017, at which time we changed our accounting policy to account for forfeitures as they occur. The change was applied on a modified retrospective basis with a cumulative effect adjustment to retained earnings of \$6,208 as of January 1, 2017. In addition, historically, excess tax benefits or deficiencies from our equity awards were recorded as additional paid-in capital in our consolidated balance sheets and were classified as a financing activity in the consolidated statements of cash flows. As a result of the adoption, we will prospectively record any excess tax benefits or deficiencies from our equity awards as part of our provision for income taxes in our consolidated statements of operations in the reporting periods in which equity vesting occurs. Excess tax benefits for share-based payments are now presented as an operating activity in the statements of cash flows rather than financing activity. We elected to apply the cash flow classification requirements related to excess tax benefits retrospectively to all periods presented, which resulted in an increase to cash generated by operating activities and in a decrease to cash generated by financing activities in the consolidated statements of Cash Flows of \$7,868 and \$7,595 for the years ended December 31, 2016 and December 31, 2015, respectively.

Recently Issued Accounting Standards Not Yet Adopted

In May 2014, the FASB issued Accounting Standards Update 2014-09 (“ASU 2014-09”) "Revenue from Contracts with Customers (Topic 606)". ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Subsequently, the FASB issued several additional ASUs related to ASU 2014-09, collectively they are referred to as the “new revenue standards”, which become effective for us beginning January 1, 2018. We have adopted the new revenue standards using the modified retrospective transition method.

We estimated the analysis of all potential impacts of the new revenue standards. The impacts mainly relate to arrangements that include term-based software licenses, allocation of transaction price to each performance obligation on a relative standalone selling price and capitalization of costs related to obtaining customer contracts. Based on work performed to date, on January 1, 2018 we expect to record a cumulative-effect of approximately \$39 million attributed to Deferred Revenues and approximately \$45 million attributed to costs related to obtaining customer contracts. These amounts will be recorded as adjustment to retained earnings. The impact derives from arrangements that based on "Revenue Recognition (Topic 605)" were to be recognized in future years during 2018 to 2022.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for us for interim and annual periods beginning on or after January 1, 2018. We expect no material impact on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"). The updated standard aims to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. This update is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods; early adoption is permitted and modified retrospective application is required. We are currently evaluating the impact of adopting ASU 2016-02 on our Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments." The guidance addresses the classification of cash flow related to (1) debt prepayment or extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance, including bank-owned life insurance, (6) distributions received from equity method investees and (7) beneficial interests in securitization transactions. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The guidance will generally be applied retrospectively and is effective for financial statements issued for annual reporting periods beginning after December 15, 2017. We expect no material impact on our statement of cash flows.

In October 2016, the FASB issued Accounting Standards Update 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers Other than Inventory" ("ASU 2016-16"), which requires companies to recognize the income-tax consequences of an intra-entity transfer of an asset other than inventory. ASU 2016-16 will be effective for us for interim and annual periods beginning after December 15, 2017. We expect no material impact on our Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04 "Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 eliminates step 2 of the goodwill impairment test, which requires the calculation of the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity will compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We are currently evaluating the effect that this guidance will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01 "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"), which provides guidance to evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. If substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single asset or a group of similar assets, the assets acquired (or disposed of) are not considered a business. ASU 2017-01 is effective for us for fiscal years beginning after December 15, 2017, including interim periods within those periods. . We expect no material impact on our Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)" ("ASU 2016-13"). The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be of greater use to users of the financial statements. ASU 2016-13 is effective for us for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is allowed as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the effect that this guidance will have on our Consolidated Financial Statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". The objectives of this ASU are to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and to make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. We are currently evaluating the effect that this guidance will have on our Consolidated Financial Statements.

Results of Operations

The following table sets forth our selected consolidated statements of income for the years ended December 31, 2015, 2016, and 2017, expressed as a percentage of total revenues. Totals may not add up due to rounding.

	2015	2016	2017
Revenues			
Products	34.3 %	30.2 %	23.9 %
Services	61.8	61.4	49.0
Cloud	3.9	8.4	27.1
	100.0	100.0	100.0
Cost of revenues			
Products	7.2	5.2	3.8
Services	24.0	24.6	16.9
Cloud	1.6	3.5	14.5
	32.8	33.3	35.2
Gross profit	67.2	66.7	64.8
Operating expenses			
Research and development, net	13.9	13.9	13.6
Selling and marketing	24.4	26.4	27.1
General and administrative	9.8	11.5	9.7
Amortization of acquired intangibles	1.3	1.7	3.1
Total operating expenses	49.3	53.5	53.5
Operating income	17.9	13.2	11.3
Financial income (expense), net	0.7	1.1	(1.5)
Other expenses, net	(0.1)	(0.1)	-
Income before taxes	18.5	14.2	9.8
Taxes on income (tax benefits)	3.3	2.1	(1.0)

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Net income from continuing operations	15.2	12.1	10.8
Income (loss) from discontinued operations	16.4	(0.8)	-
Taxes on income (tax benefits) from discontinued operations	3.7	(0.2)	-
Net income (loss) from discontinued operations	12.7	(0.6)	-
Net income	27.9	11.5	10.8

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Comparison of Years Ended December 31, 2016 and 2017

Revenues

Our total revenues increased by approximately 31.2% to \$1,332.2 million in 2017 from \$1,015.5 million in 2016. Revenues from sales of Customer Engagement Solutions and Financial Crime and Compliance Solutions in 2017 were \$1,051.4 million and \$280.8 million, respectively, an increase of 39.4% and 7.5% from 2016, respectively.

The growth in revenues from our Customer Engagement Solutions is mainly attributed to increased demand for our solutions delivered over the cloud and to our expanded analytics offerings primarily due to the full year inclusion of inContact and Nexidia, respectively. These offerings enable organizations to improve operational efficiency and customer experience, enhance compliance and improve sales optimization.

The growth in revenues from Financial Crime and Compliance Solutions is primarily driven by increased demand of financial institutions throughout our markets for solutions that secure financial transactions and prevent fraud and complex financial crimes, magnified by the continued evolution of advancements in our technology.

	Years Ended December 31, (U.S. dollars in millions)		Dollar	Percentage	
	2016	2017	Change	Change	
Product revenues	\$306.2	\$318.9	\$12.7	4.1	%
Service revenues	623.8	652.1	28.3	4.5	
Cloud revenues	85.5	361.2	275.7	322.4	
Total revenues	\$1,015.5	\$1,332.2	\$316.7	31.2	%

The increase of \$12.7 million in product revenues is attributed to the increased demand for our Financial Crime and Compliance Solutions products mainly due to increased demand of financial institutions throughout our markets.

The growth in service revenues is mainly due to increase in maintenance services resulting primarily from an increase in install base from previous years' sales, partially offset by a decrease in professional services due to the growing transition from on-premise to cloud-based solutions.

The growth in cloud revenues is mainly due to the full year inclusion of inContact and Nexidia and due to the growing transition from on-premise to cloud-based solutions.

Revenue by Region

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change	
	2016	2017			
United States, Canada and Central and South America (“Americas”)	\$720.5	\$1,035.9	\$315.4	43.8	%
Europe, the Middle East and Africa (“EMEA”)	193.5	190.0	(3.5)	(1.8)
Asia-Pacific (“APAC”)	101.5	106.3	4.8	4.7	
Total revenues	\$1,015.5	\$1,332.2	\$316.7	31.2	%

The Americas revenue increased by 43.8%, driven by our Customer Engagement Solutions, mainly due to increased demand for our solutions delivered over the cloud and our analytics offerings, primarily due to the full year inclusion of inContact and Nexidia, respectively.

The EMEA revenue decreased by 1.8%, mainly driven by a lower demand for our solutions, partially offset by an increase in our analytics offerings.

The APAC revenue increased by 4.7%, mainly driven by increased demand for both our Financial Crime and Compliance Solutions and our Customer Engagement Solutions.

Cost of Revenues

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change	
	2016	2017			
Cost of product revenues	\$53.0	\$51.1	\$(1.9)	(3.6)%
Cost of service revenues	250.0	225.0	(25)	(10)
Cost of cloud revenues	34.7	192.6	157.9	455	
Total cost of revenues	\$337.7	\$468.7	\$131	38.8	%

Cost of product revenues decreased both on a dollar basis and as a percentage of product revenues. The decrease is mostly a result of a decrease in amortization of intangibles assets and third party royalties payable to vendors.

Cost of service revenues decreased both on a dollar basis and as a percentage of service revenues. The decrease is primarily due to increased efficiency in service organization, migration of certain functions to low-cost countries and a decrease in amortization of intangible assets.

Cost of cloud revenues increased both on a dollar basis and as a percentage of cloud revenues. The increase is primarily due to the full year inclusion of inContact and Nexidia and the growing transition from on-premise to cloud-based solutions.

Gross Profit

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change	
	2016	2017			
Gross profit on product revenues	\$253.2	\$267.9	\$ 14.7	5.8	%
as a percentage of product revenues	82.7 %	84.0 %			
Gross profit on service revenues	\$373.8	\$427.0	53.2	14.2	
as a percentage of service revenues	59.9 %	65.5 %			
Gross profit on cloud revenues	\$50.8	\$168.6	117.8	231.9	
as a percentage of cloud revenues	59.4 %	46.7 %			
Total gross profit	\$677.8	\$863.5	\$ 185.7	27.4	%
as a percentage of total revenues	66.7 %	64.8 %			

The increase in gross profit on product revenues is primarily a result of increased sales of software based solutions with higher margins and a decrease in third party royalties payable to vendors and amortization of intangible assets.

The increase in gross profit on service revenues is mainly attributed to the increase in service revenues, a decrease in costs due to efficiency in service organization and a decrease in amortization of intangible assets.

The increase in gross profit on cloud revenues is due to an increase in our cloud sales, which is primarily due to the full year inclusion of inContact and Nexidia. The decrease in cloud gross margin is mainly due to inContact cloud which historically had a lower gross margin.

Operating Expenses

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change	
	2016	2017			
Research and development, net	\$141.5	\$181.1	\$ 39.6	28.0	%
Selling and marketing	268.3	361.3	93.0	34.7	
General and administrative	116.6	129.1	12.5	10.7	
Amortization of acquired intangible assets	\$17.2	\$41.9	\$ 24.7	143.6	%

Research and Development, Net. Research and development expenses, before capitalization of software development costs and government grants, increased by \$57.2 to \$211.4 million in 2017, as compared to \$151.7 million in 2016, and represented 15.7% and 14.9% of revenues in 2017 and 2016, respectively. The increase in research and development is attributed primarily to the full year inclusion of inContact and Nexidia and to an increase in cost of wages. Capitalized software development costs increased by \$19.4 million to \$27.9 million in 2017 from \$8.5 million in 2016 primarily due to increase in capitalized software development costs related to our cloud based solutions.

Selling and Marketing Expenses. Selling and marketing expenses increased to \$361.3 million in 2017 as compared to \$268.3 million in 2016, which represented 27.1% and 26.4% of total revenues in 2017 and in 2016, respectively. The increase in selling and marketing expenses is attributed primarily to the full year inclusion of inContact and Nexidia and to an increase in cost of wages.

General and Administrative Expenses. General and administrative expenses increased to \$129.1 million in 2017, as compared to \$116.6 million in 2016, which represented 9.7% of total revenues in 2017, as compared to 11.5% of total revenues in 2016. The increase in general and administrative expenses is attributed primarily to the full year inclusion of inContact and Nexidia, partially offset by a decrease in acquisition and integration related expenses and a decrease in rent costs.

Amortization of acquired intangible assets. Amortization of acquired intangible assets included in the operating expenses represented 3.1% and 1.7% of our revenues in 2017 and 2016, respectively. The increase in amortization of acquired intangible assets is attributable to our recent acquisitions, mainly inContact.

Financial Income (Expense), net, and Other Expense, net

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change
	2016	2017		
Financial income (expense), net	\$10.8	\$(20.4)	\$ (31.2)	(288.9)%
Other expenses, net	0.5	-	(0.5)	(100)%

Financial Expense and Other, net. Financial expenses, net, were \$20.4 million in 2017, compared to financial net income of \$10.8 million in 2016. The increase in financial expenses, net is attributable primarily to the long term loan and the exchangeable notes expenses related to financing of the acquisition of inContact, a decrease in gain on realization of investments and a decrease in interest income as a result of lower average cash balance versus previous years.

Other expenses, net amounted to \$0.5 million in 2016, and are comprised primarily of loss on disposal of assets.

Taxes on Income. In 2017, tax benefits amounted to \$13.6 million, as compared to tax expenses of \$21.4 million in 2016. Our tax expenses during 2017 decreased as compared with 2016 primarily due to realization of \$31.0 million net deferred tax liabilities as a one-time tax adjustment as a result of a decrease in the U.S. federal tax rate under the U.S. Tax Reform. See Note 2 and Note 12 to the Consolidated Financial Statements included elsewhere in this annual for more details about the U.S. Tax Reform and its effects.

Our effective tax rate for 2017 was (10.5%), compared to 14.8% in 2016. Our effective tax rate in 2017 was lower mainly due to the above realization of net deferred tax liability.

The majority of our income in Israel continues to benefit from lower tax rates, which were 12.0% in 2017 and 16% in 2016, pursuant to our Preferred Enterprise programs, which is discussed in Note 12 of our Consolidated Financial Statements under the caption "Taxes on Income".

Net Income from continuing operations. Net income was \$143.3 million in 2017, as compared to \$116.9 million in 2016. The increase in 2017 resulted primarily from an increase in our revenue and gross profit, partially offset by higher operating expenses and an increase in our interest expenses attributable primarily to long term debt and tax

benefits due to the U.S Tax Reform.

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Comparison of Years Ended December 31, 2015 and 2016

Revenues

Our total revenues increased by approximately 9.6% to \$1,015.5 million in 2016 from \$926.9 million in 2015. Revenues from sales of Customer Engagement Solutions and Financial Crime and Compliance Solutions in 2016 were \$754.4 million and \$261.1 million, respectively, an increase of 9.6% and 9.4% from 2015, respectively.

The growth in revenues from our Customer Engagement Solutions is mainly attributed to increased demand for our solutions delivered over the cloud and to our expanded analytics offerings, as these offerings enable organizations to improve operational efficiency and customer experience, enhance compliance and improve sales optimization.

The growth in revenues from Financial Crime and Compliance Solutions is primarily driven by increased demand of financial institutions across the globe for solutions that secure financial transactions and prevent fraud and complex financial crimes, magnified by the continued evolution of advancements in our technology.

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change	
	2015	2016			
Product revenues	\$317.9	\$306.2	\$ (11.7)	(3.7)	%
Service revenues	609.0	709.3	100.3	16.5	
Total revenues	\$926.9	\$1,015.5	\$ 88.6	9.6	%

The decrease of \$27.1 million in product revenues is attributed to our Customer Engagement Solutions, offset by an increase of \$15.4 million in revenues from our Financial Crime and Compliance Solutions. The decrease in product revenues is mainly the result of a transition to cloud based solutions in which SaaS revenues are recognized as service revenues and over a subscription period.

The growth in service revenues is mainly due to our solutions delivered over cloud, which constitute approximately 52% of such growth, maintenance services resulting primarily from an increase in install base from previous years' sales, which constitute approximately 29% of such growth, and professional services, which constitute approximately 19% of such growth.

Revenue by Region

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change	
	2015	2016			
United States, Canada and Central and South America ("Americas")	\$630.1	\$720.5	\$ 90.4	14.4	%
Europe, the Middle East and Africa ("EMEA")	196.9	193.5	(3.4)	(1.7)	
Asia-Pacific ("APAC")	99.9	101.5	1.6	1.6	
Total revenues	\$926.9	\$1,015.5	\$ 88.6	9.6	%

The Americas revenue increased by 14.4% driven by our Customer Engagement Solutions, mainly due to increased demand for our solutions delivered over the cloud and to our analytics offerings.

The EMEA revenue decreased by 1.7%, mainly driven by unfavorable currency effects, partially offset by our Customer Engagement Solutions due to an increase in our analytics offerings.

The APAC revenue increased by 1.6% mainly due to increased demand for our Financial Crime and Compliance Solutions, offset by a decrease in Customer Engagement Solutions.

Cost of Revenues

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change	
	2015	2016			
Cost of product revenues	\$66.4	\$53.0	\$ (13.4)	(20.2)%
Cost of service revenues	237.2	284.7	47.5	20.0	
Total cost of revenues	\$303.6	\$337.7	\$ 34.1	11.2	%

Cost of product revenues decreased both on a dollar basis and as a percentage of product revenues. The decrease is mostly a result of a decrease in royalties and third party product costs payable to vendors, partially offset by higher amortization of intangible assets arising from our recent acquisitions.

Cost of service revenues increased both on a dollar basis and as a percentage of service revenues. The increase is primarily due to increased personnel and amortization of intangible assets arising from our recent acquisitions.

Gross Profit

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change	
	2015	2016			
Gross profit on product revenues	\$251.5	\$253.2	\$ 1.7	0.7	%
as a percentage of product revenues	79.1 %	82.7 %			
Gross profit on service revenues	371.8	424.6	52.8	14.2	%
as a percentage of service revenues	61.0 %	59.9 %			
Total gross profit	\$623.3	\$677.8	\$ 54.5	8.7	%
as a percentage of total revenues	67.2 %	66.7 %			

The increase in gross profit on product revenues is primarily a result of increased sales of software based solutions with higher margins and a decrease in royalties and third party product costs payable to vendors.

The increase in service gross profit is mainly attributed to the increase in service revenues. The decrease in service gross margin is primarily attributed to amortization of intangible assets as a result of our recent acquisitions, partially offset by higher margins on SaaS revenues.

Operating Expenses

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change	
	2015	2016			
Research and development, net	\$128.5	\$141.5	\$13.0	10.2	%
Selling and marketing	225.8	268.3	42.5	18.8	
General and administrative	90.4	116.6	26.2	29.0	
Amortization of acquired intangible assets	12.5	17.2	4.7	37.5	%

Research and Development, Net. Research and development expenses, before capitalization of software development costs and government grants, increased by \$19.5 million to \$151.5 million in 2016, as compared to \$132.0 million in 2015, and represented 14.9% and 14.2% of revenues in 2016 and 2015, respectively. The increase in research and development is attributed primarily to additional personnel as a result of recent acquisitions. Research and development, net increased by \$13.0 million following an increase in capitalized software development costs to \$8.5 million in 2016, compared to \$1.4 million in 2015. The increase in capitalized software development is related to our cloud based solutions. Amortization of capitalized software development costs included in cost of product revenues were \$0.5 million in 2016 and \$0.4 million in 2015.

Selling and Marketing Expenses. Selling and marketing expenses increased to \$268.3 million in 2016 as compared to \$225.8 million in 2015, and represented 26.4% and 24.4% of total revenues in 2016 and in 2015, respectively. The increase in selling and marketing expenses is attributed primarily to additional personnel as a result of recent acquisitions, an increase in sales incentives and an increase in marketing expenses.

General and Administrative Expenses. General and administrative expenses increased to \$116.6 million in 2016 as compared to \$90.4 million in 2015, and represented 11.5% of total revenues in 2016 as compared to 9.8% of total revenues in 2015. The increase in general and administrative expenses is attributed primarily to recent acquisitions and integration related expenses, mainly related to the acquisition of inContact, an increase in rent costs following restructuring of our Americas offices and additional personnel as a result of recent acquisitions.

Amortization of acquired intangible assets. Amortization of acquired intangibles included in the operating expenses represented 1.7% and 1.3% of our revenues in 2016 and 2015, respectively. The increase in amortization of acquired intangible assets is attributable to our recent acquisitions, mainly inContact and Nexidia.

Financial and Other Income

	Years Ended December 31, (U.S. dollars in millions)		Dollar Change	Percentage Change	
	2015	2016			
Financial income, net	\$5.7	\$10.8	\$ 5.1	89.5	%
Other expenses, net	0.4	0.5	0.1	25	%

Financial Income and Other, net. Financial income, net, was \$10.8 million in 2016 compared to \$5.7 million in 2015. The increase in financial income, net is attributable primarily to gain on realization of investments and gain on currency exchange, partially offset by credit facility expenses related to financing of the inContact acquisition. Other, net amounted to \$0.5 million in 2016, compared to \$0.4 million in 2015. The expenses comprised primarily of loss on disposal of assets.

Taxes on Income. In 2016, taxes on income amounted to \$21.4 million, as compared to \$30.8 million in 2015. Our provision for taxes during 2016 decreased as compared with 2015, primarily due to a proportionally significant realization of deferred tax liabilities recorded against the amortization of the newly acquired intangible assets of inContact and Nexidia, and which was partially offset by an increase in our provision for uncertain tax positions.

Our effective tax rate for 2016 was 14.8%, compared to 18.0% in 2015. Our effective tax rate in 2016 was lower due to the above realization of deferred tax liabilities being mainly realized at higher tax rates, as compared with 2015, thus increasing the offsetting effect on the effective tax rate.

The majority of our income in Israel continues to benefit from lower tax rates, which were 16.0% in 2016 and 2015, pursuant to our Preferred Enterprise programs, which is discussed in Note 12 of our Consolidated Financial Statements under the caption "Taxes on Income".

Net Income. Net income was \$123.1 million in 2016, as compared to \$140.6 million in 2015. The decrease in 2016 resulted primarily from acquisition and integration related expenses, inclusion of inContact and Nexidia results with lower operating margin, amortization of intangible assets resulting from our recent acquisitions and increase in rent costs following restructuring of our Americas offices.

Discontinued operations. During 2015 we sold our Cyber and Intelligence and Physical Security business units for gains of \$101.8 million and \$45.5 million, respectively, which is presented as part of the net income on discontinued operations. During 2016 we recorded additional expenses following a settlement agreement and final net working capital price adjustment.

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, 2017, we had \$525.1 million of cash and cash equivalents and short-term and long-term investments, as compared to \$286.0 million at December 31, 2016 and \$828.4 million at December 31, 2015.

Cash provided by operating activities was \$394.7 million, \$228.2 million, and \$252.3 million in 2017, 2016, and 2015, respectively. Net cash from operations in 2017 consisted primarily of net income of \$143.3 million, adjusted for non-cash activities such as depreciation and amortization of \$156.3 million, stock-based compensation of \$57.0 million as well as working capital changes derived from an increase in deferred revenues of \$41.6 million, increase in accrued expenses and other liabilities of \$25.5 million, decrease in deferred taxes of \$70.8 million and decrease in trade receivables of \$37.7 million. Net cash from operations in 2016 consisted primarily of net income of \$126.1 million (excluding non-cash gain on disposal of discontinued operations of \$9.1 million), adjusted for non-cash activities such as depreciation and amortization of \$77.8 million, stock-based compensation of \$40.5 million as well as working capital changes derived from an increase in accrued expenses and other liabilities of \$18.0 million, decrease in deferred taxes of \$25.9 million and increase in trade receivables of \$31.7 million. Net cash from operations in 2015 consisted primarily of net income of \$111.5 million (excluding non-cash gain on disposal of discontinued operations of \$147.3 million), 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 million, which were partially offset by an increase in trade receivables of \$56.3 million.

Net cash used in investing activities was \$213.0 million, \$800.0 million and \$28.4 million in 2017, 2016 and 2015, respectively. In 2017, net cash used in investing activities consisted primarily of payment for acquisitions in an aggregate amount of \$76.0 million, net investment in marketable securities and short term bank deposits of \$69.1 million and purchase of property, equipment of \$39.9 million and capitalization of internal use software costs of \$27.9 million. In 2016, net cash used in investing activities consisted primarily of payment for the acquisition of inContact, Nexidia and other acquisitions in an aggregate amount of \$1,157 million, which were partially offset by net proceeds received from the sale of marketable securities of \$402.7 million. 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 the sale of discontinued operations of \$186.1 million.

Net cash provided by (used in) financing activities was \$(14.8) million, \$405.4 million and \$(79.4) million in 2017, 2016 and 2015, respectively. In 2017, net cash used in financing activities was attributed primarily to the repayment of long term debt of \$260.0 million, repurchase of our ordinary shares of \$24.4 million and payment of dividends of \$9.6 million, which were offset primarily by proceeds from issuance of exchangeable notes of \$260.1 million and proceeds from issuance of shares upon exercise of share options and purchase of shares under employee share purchase plans of \$19.24 million. In 2016, net cash provided by financing activities was attributed primarily to the long term loan of \$464.8 million and proceeds from issuance of shares upon exercise of options and purchase of shares under employee share purchase plans of \$23.5 million, which were partially offset by payment of dividends of \$38.2 million and repurchase of our ordinary shares of \$43.6 million. 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. For more information regarding the long term debt, see Note 14 to our Consolidated Financial Statements.

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 “Research and Development” and “Intellectual Property” under Item 4, “Information on the Company” in this annual report.

Trend Information

For information on trends in our industry, please see Item 4, “Information on the Company—Business Overview—Industry and Technology 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 as of December 31, 2017 (in thousands of U.S. dollars).

	Total	Payments Due by Period			More than 5 years
		Less than 1 year	1- 3 years	3-5 years	
Contractual Obligations					
Long-term debt obligations, including estimated interest *	526,622	218,785	11,352	7,188	289,297
Operating Leases	97,378	18,626	32,127	27,593	19,392
Unconditional Purchase Obligations	31,773	20,646	10,924	203	-
Severance Pay**	17,250				
Total Contractual Cash Obligations	673,383	258,057	54,403	34,984	308,689
Uncertain Income Tax Positions ***	43,984				

* Long-term debt obligations mainly include senior exchangeable notes and long-term loan as disclosed in Note 14 to our Consolidated Financial Statements.

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

	Total Amounts Committed	Amount of Commitment Expiration Per Period			More than 5 years
		Less than 1 year	1- 3 years	3-5 years	
Other Commercial Commitments					
Guarantees – Continuing operations	4,792,805	4,202,626	400,673	189,506	-
Guarantees – Discontinued operations*	19,488,497	18,324,591	1,163,906	-	-
Total Guarantees	24,281,302	22,527,217	1,564,579	189,506	--

* Represents guarantees that were not endorsed and are still in effect with respect to contracts assumed as part of the sale of the Cyber and Intelligence line of business, for which we have a back to back contractual commitment and entitlement to indemnification upon realization of the guarantees.

Item 6. Directors, Senior Management and Employees.

6.A. Directors and Senior Management

The following tables set forth, as of March 20, 2018, 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 Committee Member	Nominations Committee Member	Outside Director*
David Kostman	53	Chairman of the Board of Directors	X			X	X	
Rimon Ben-Shaoul	73	Director	X			X		
Dan Falk	73	Director	X	X	X	X	X	X
Yocheved Dvir	65	Director	X	X	X			X
Yehoshua Ehrlich	68	Director				X		
Leo Apotheker	64	Director		X		X		
Joe Cowan	69	Director		X		X		
Zehava Simon	59	Director	X	X	X			X

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

Members of Management

<u>Name</u>	<u>Age</u>	<u>Position</u>
Barak Eilam	42	Chief Executive Officer
Miki Migdal	57	President, Enterprise Product Group
Joseph Friscia	63	President, NICE-Actimize
Paul Jarman	48	Chief Executive Officer, inContact
Beth Gaspich	52	Chief Financial Officer
Eran Liron	50	Executive Vice President, Marketing and Corporate Development
Barry Cooper	47	Chief Operating Officer
Tali Mirsky	45	Corporate Vice President, General Counsel and Corporate Secretary
Hagit Ynon	46	Corporate Vice President, Finance

In December 2017, Mr. Yechiam Cohen retired from his position as Corporate Vice President, General Counsel and Corporate Secretary, effective December 31, 2017, and Mrs. Tali Mirsky assumed the position effective March 2018.

In January 2018, Mr. Eran Porat retired from his position as Corporate Vice President, Finance, effective January 2018, and Ms. Hagit Ynon assumed the position effective January 2018. 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 for most of the period since 2001 and as our Chairman of the Board since February 2013. Mr. Kostman is currently co-CEO and board member of Outbrain, Inc. and serves on the board of directors of ironSource Ltd. and Tivit S.A., and is a member of Nanoosh LLC. Mr. Kostman is also a former board member of publicly traded Retalix Ltd. (acquired by NCR). 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 from 1994 to 2000, focusing on the technology and Internet sectors, and NM Rothschild & Sons from 1992 to 1993, focusing on mergers and acquisitions 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. Between 2001 and 2005, 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. Since 2002 Mr. Ben-Shaoul serves as Chairman of Grand AutoMotive LLP. Mr. Ben-Shaoul also served as a director of MIND C.T.I. Ltd., BVR Systems Ltd. and several private companies. 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 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 from 1989 to 1992, Head of the Group's General Insurance Division and Corporate Office from 1993 to 1997, Group CFO from 1997 to 1999, and Head of the Group's Strategic Development Division and Marketing Array and Risk Manager in 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. Additionally, 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. From 2008 to 2010, he served as Chief Executive Officer of SAP AG. In addition, he is currently chairman of the board of Unit4, a leading Dutch software company, and Signavio GmbH, Vice Chairman and Lead Director of Schneider SE, and a member of the board of KMD, P2 Energy Services and Taulia Inc. 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. From October 2013 until September 2017, Mr. Cowan was the CEO and director of Epicor, and since September 2016 has been a director of ChannelAdvisor, Inc. During 2013, Mr. Cowan also served as President of DataDirect Networks, Inc. From 2010 until 2013, Mr. Cowan served as the Chief Executive Officer and President of Online Resources Corp. During 2009, he 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 Operating Officer of Baan Co. NV and Avantis GOB NV. He has been a Director of DataDirect Networks, Inc. between 2011 and February 2013. Mr. Cowan has also served on the boards of various publicly traded companies, including ChannelAdvisor Inc., 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 also 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 acting as leader of Finance and 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.

Paul Jarman has served as NICE inContact CEO since November 2016, and served as inContact CEO since January 2005 until we acquired inContact. Prior to becoming CEO, Mr. Jarman served as inContact's President from December 2002. Prior to December 2002, he served as inContact's Executive Vice President. Mr. Jarman was instrumental in guiding inContact from its roots in telecommunications to its strategic offering of cloud-based contact center solutions and has been a part of every major enhancement the company has made since 1997. Mr. Jarman led inContact's listing on NASDAQ. Prior to joining inContact, he was an executive with HealthRider, Inc. Mr. Jarman holds a Bachelor of Science degree in Accounting from the University of Utah.

Beth Gaspich has served as our Chief Financial Officer since October 2016. Ms. Gaspich joined NICE as CFO of the Financial Crime and Compliance division NICE Actimize in September 2011, where she was responsible for finance, legal and business operations. Prior to joining NICE, she was Chief Financial Officer for Archive Systems, Inc., a privately held document management software provider. She also served as Vice President of Finance at RiskMetrics Group, Inc., a cloud based risk management software company. Ms. Gaspich was one of the founding members of RiskMetrics Group and assisted in taking the company through a successful public offering on the NYSE in January 2008. Prior to that, Ms. Gaspich held several other senior positions throughout her career at large global financial institutions, including JP Morgan and Price Waterhouse. Ms. Gaspich holds a BA in Accounting from the University of Missouri.

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.

Barry Cooper has been with NICE since 2011 and serves as our Chief Operating Officer (COO) since May 2016. Prior to serving as COO, Mr. Cooper served as Vice President, Business Operations for APAC from March, 2011 until June 2013, and as of July 2013 and until assuming the role of COO, he served as Executive Vice President, Professional Services and Cloud. Prior to joining NICE, Mr. Cooper was a Management Consultant at Accenture; the Head of Customer Service, IT and Billing at Time Telekom, Malaysia; and Vice President of Professional Services, APAC for CSG Systems, later Comverse. Mr. Cooper holds a First Class Bachelor of Computer Science and Mathematics with Honors from Salford University in the United Kingdom.

Tali Mirsky has served as our Corporate Vice President, General Counsel and Corporate Secretary since March 2018. From 2010 to early 2018, she served as Global Vice President of Legal Affairs and Corporate Secretary at Frutarom Industries Ltd., where she led the company's M&A transactions in addition to managing the company's legal department and handling all legal matters and corporate and securities related items. Prior to that, Tali served as Vice President, General Counsel and Corporate Secretary of Alvarion, led Business and Legal Affairs at Nicast and Midbar Tech and was an associate with Naschitz Brandes & Co law office. She holds an LL.B in Law and Business Administration from IDC, Herzliya and is admitted to practice law in Israel.

Hagit Ynon has served as our Corporate Vice President, Finance since January 2018. Prior to serving as Corporate Vice President Finance, Ms. Ynon served as Vice President Accounting, Treasury and Tax from 2008 until 2017. From 2000 to 2007, Ms. Ynon served as Corporate Controller and other managerial positions in the finance department. Ms. Ynon is a certified public accountant and holds a Bachelor's degree in Business and Accounting from the College of Management Academic Studies and a Masters in Business Administration from the College of Management Academic Studies.

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 17 persons during 2017 consisted of approximately \$7.7 million in salary, fees, bonus, commissions and directors' fees and approximately \$0.7 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 and operating income. The plan is reviewed and approved by our Board of Directors annually, as is any bonus payment under the plan.

During 2017, our officers and directors received, in the aggregate, (i) options to purchase 146,800 ordinary shares, that include 56,800 options with an exercise price equal to the par value of the ordinary shares (the “par value options”), and (ii) 182,500 restricted share units, under our equity based compensation plans. The options (other than the par value options) have a weighted average price of \$79.21 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 (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 July 1, 2015), 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 special annual cash fee for the Chairman of the Board in the amount of NIS 450,000 (equivalent to approximately \$129,348). The special annual fee is subject to adjustment for changes in the Israeli consumer price index after September 2012. At the Company's special general meeting held on December 21, 2016, following the recommendation of our compensation committee and approval by our Board of Directors, our shareholders approved certain amendments to the current compensation policy.

(b) Individual Compensation of Covered Executives

The following describes the compensation of our five most highly compensated executive officers in 2017, based on the total of salary costs, bonus cost and equity costs expensed in 2017 ("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. For Covered Executives in Israel these amounts are based on the Shekel exchange rate of 3.60, which represents the average rate for 2017, and for the Covered Executive in Singapore are based on the Singapore dollar exchange rate of 1.42, which represents the average rate for 2017.

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 (1) 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.

Bonus Costs. Bonus Costs represent bonuses granted to the Covered Executive with respect to the year ended (2) December 31, 2017, paid in accordance with the Company's performance-based bonus plan or as detailed in footnotes below.

Equity Costs. Represents the expense recorded in our financial statements for the year ended December 31, 2017, (3) with respect to equity granted in 2017 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 - \$788; Bonus Costs - \$1,257; Equity Costs - \$1,913 expense recorded in 2017 for equity granted in 2017 and \$2,313 expense recorded in 2017 for equity granted in previous years.

ii. Paul Jarman – CEO, inContact. Salary Costs - \$424; Bonus Costs - \$367; Equity Costs - \$2,352 expense recorded in 2017 for equity granted in 2017 and \$793 expense recorded in 2017 for equity granted in previous years.

iii. Yaron Hertz – President, NICE Americas. Salary Costs - \$386; Bonus Costs - \$437 and \$997 expense recorded in 2017 for equity granted in 2017 and \$161 expense recorded in 2017 for equity granted in previous years.

iv. Joseph Friscia – President, NICE Actimize. Salary Costs - \$437; Bonus Costs - \$438; Equity Costs - \$694 expense recorded in 2017 for equity granted in 2017 and \$692 expense recorded in 2017 for equity granted in previous years.

v. Miki Migdal –President, NICE Enterprise Product Group. Salary Costs - \$457; Bonus Costs - \$406; Equity Costs - \$543 expense recorded in 2017 for equity granted in 2017 and \$608 expense recorded in 2017 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. 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. We do not have, nor do our subsidiaries have, any directors’ service contracts granting to the directors any benefits upon termination of their service.

Outside Directors

Except as discussed below, 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. Pursuant to regulations under the Israeli Companies Law that took effect in April 2016, a NASDAQ -listed company that does not have a controlling shareholder is entitled to opt out of the provisions of the Israeli Companies Law requiring at least two outside directors and certain related requirements, so long as the company complies with the SEC regulations and NASDAQ listing rules regarding independent directors and the composition of the audit and compensation committees. In December 2016, our shareholders approved amendments to our articles of association, pursuant to which our Board of Directors may elect to opt out of such requirements for appointment of outside directors (together the “2016 Relief Amendments”). According to the 2016 Relief Amendments, an outside director that was appointed prior to a company opting out of such requirements may continue in office until the end of his or her then-current term or until the end of the second annual general meeting convened after the applicable company opts out of the requirement, whichever is earlier. At this time, our Board of Directors has not made an election to opt out of such requirements.

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 in the same manner required to appoint outside directors for their initial term; or (2) one or more shareholders 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. Unless we actually adopt the applicable relief provided under the 2016 Relief Amendments, each committee of the 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. At this time, our Board of Directors has not made an election to opt out of such requirements.

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, a majority of the directors must 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 must 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. Pursuant to the 2016 Relief Amendments, the Company may elect to opt out of the composition and attendance rules set with respect to the internal audit committee under the Israeli Companies Law, so long as the company complies with the SEC regulations and NASDAQ listing rules regarding the composition and attendance rules in that respect. At this time, our Board of Directors has not made an election to opt out of such requirements.

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 Board of Directors and 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.

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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 the Israeli Companies Law, the Board of Directors of a public company must establish a compensation committee. Pursuant to the 2016 Relief Amendments, the Company may elect to opt out of the relevant composition and attendance rules set under the Israeli Companies Law, and to comply with the SEC regulations and NASDAQ listing rules that apply to the composition and attendance rules of a compensation committee. At this time, our Board of Directors has not made an election to opt out of such requirements and we have continued to comply with the Israeli Companies Law with respect to the composition and attendance rules of a compensation committee, as our compensation committee consists of at least three directors who satisfy the independence qualifications detailed above in “Internal Audit Committee”, and the chairman of the compensation committee is 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 with the Company 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 to such director) and (ii) whether such director is affiliated with the Company or one of its 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, 2017, we had 5,208 employees worldwide, which represented an increase of approximately 5.6% from December 31, 2016.

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	At December 31,		
	2015	2016*	2017
Operations	107	66	67
Customer Support	1,374	1,928	2,028
Sales & Marketing	682	1,069	1,169
Research & Development	801	1,294	1,396
General & Administrative	352	573	548
<u>Total</u>	3,316	4,930	5,208
Geographic Location			
Israel	946	944	913
Americas	1,263	2,544	2,557
Europe	564	530	510
Asia Pacific	543	912	1,228
<u>Total</u>	3,316	4,930	5,208

* The substantial increase in number of employees in 2016 resulted mainly from acquisitions and an increase in personnel in certain locations (for more information, please see Item 5, "Operating and Financial Review and

Prospects—Recent Acquisitions” in this annual report).

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We also utilize temporary employees in various activities. On average, we employed 68 temporary employees and obtained services from 876 consultants (not included in the numbers set forth above) during 2017.

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.

In almost all jurisdictions, 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 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 apply to our Israeli employees by order of the Israeli Ministry of Labor and Welfare. These statutes and provisions principally deal with the length of the work day and the work week, minimum wages, insurance coverage of work-related accidents, determination of severance pay and the provisions of other employment matters. Israeli law generally requires the payment of severance pay by employers upon an employee's death, retirement or termination of employment by the employer without due cause. We currently fund our ongoing severance payment obligations in Israel by making monthly payments to approved severance funds or insurance policies. For more information please see Note 2p of 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 these contributions also include payments for national health insurance. The payments to the National Insurance Institute are equal to approximately 16.37% of an employee's wages (up to a certain cap as determined from time to time by the law), of which the employee contributes approximately 60.58% and the employer contributes approximately 39.42%.

In addition, we pay severance benefits to our employees located elsewhere in accordance with local laws and practices of the countries in which they are employed, including our U.S. based employees pursuant to the U.S. Federal Department labor legislation and requirements and local state regulations.

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 may be limited under applicable law.

Share Ownership

As of March 8, 2018, our directors and executive officers serving at that time beneficially owned an aggregate of 385,633 options to purchase ordinary shares that were vested on such date or that are scheduled to vest within 60 days thereafter, or approximately 0.63% of our outstanding ordinary shares. The options have an average exercise price of \$48.27 per share and expire between 2019 and 2026. 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 2017.

2008 Share Incentive Plan and 2016 Share Incentive Plan

In June 2008 the Company adopted the 2008 Share Incentive Plan (the "2008 Plan") and in February 2016 the Company adopted the 2016 Share Incentive Plan (the "2016 Plan", and together with the 2008 Plan, the "Plans"). The Company adopted the Plans to provide incentives to employees, directors, consultants and/or contractors by rewarding performance and encouraging behavior that will improve the Company's profitability.

Under each of the Plans, 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 ordinary shares; share appreciation right; share and/or restricted share award ("RSA"); restricted stock unit ("RSU") and/or other share unit; and/or other share-based award and/or other right or benefit under the Plans, including any such equity-related award that is a performance based award (each an "Award"). In regard to the 2008 Plan, please see the discussion below regarding performance-based awards beginning calendar year 2014.

Generally, under the terms of the Plans, unless determined otherwise by the administrator of the Plans, 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 RSUs 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 RSUs and the 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 a resolution of the Company's Board of Directors dated February 4, 2014, options that are performance-based and that were granted during calendar year 2014 and thereafter shall expire seven years following the date of grant. The maximum number of shares that may be subject to Awards granted under each of the Plans is calculated each calendar year as 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. Awards are non-transferable except by will or the laws of descent and distribution.

Following an amendment made in December 2010 to the 2008 Plan and also applied under the 2016 Plan (the "2010 Amendment"), options granted under such plan are granted at an exercise price equal to the average of the closing prices of one 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 Plans (including par value options in some cases).

Prior to the 2010 Amendment, the options 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 that could be approved by the Company's Board of Directors, including in some cases par value options.

The Company's Board of Directors also adopted an addendum to the Plans for Awards granted to residents of Israel (the "Addendum") and resolved to elect the "Capital Gains Route" (as defined in Section 102(b)(2)) of the Israeli Income Tax Ordinance-5721-1961 ("Tax Ordinance") for the grant of Awards to Israeli grantees. There is also a U.S. addendum under each of the Plans that applies to non-qualified stock options for purposes of U.S. tax laws.

The Plans are generally administered by our Board of Directors and compensation committee, which determine the grantees under the Plan and the number of Awards to be granted. As of March 8, 2018, options and restricted share units to purchase 722,158 ordinary shares were outstanding under the 2008 Plan at a weighted average exercise price of \$20.47. As of March 8, 2018, options and restricted share units to purchase 2,092,265 ordinary shares were outstanding under the 2016 Plan at a weighted average exercise price of \$7.13.

Nexidia Inc. 2005 Stock Incentive Plan

In 2005, Nexidia adopted the Nexidia Inc. 2005 Stock Incentive Plan (the "Nexidia Plan"), to attract and retain Nexidia's employees, directors, consultants and advisors and to align the interests of such recipients with the interests of Nexidia's shareholders. Under the Nexidia Plan, the grantees can receive incentive and non-qualified options to acquire shares of Nexidia's common stock, restricted stock awards, restricted stock units and stock appreciation rights.

Pursuant to the terms of the Nexidia acquisition agreement, we assumed and converted Nexidia's stock options and restricted stock units originally granted under the Nexidia Plan into stock options and restricted stock units of NICE, respectively.

As of March 8, 2018, assumed Nexidia options to purchase 11,863 shares of NICE and 85,550 assumed restricted share units were outstanding under the Nexidia Plan, at a weighted average exercise price of \$0.78. We have registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act, 173,860 ordinary shares for issuance under the Nexidia Plan.

inContact, Inc. 2008 Equity Incentive Plan

In 2008, inContact adopted the inContact, Inc. 2008 Equity Incentive Plan, as subsequently amended in June 14, 2012 (as amended, the "inContact Plan") to enhance inContact's ability to attract and retain those employees, officers, directors and consultants who are expected to make important contributions to inContact and any of its subsidiaries and to align the interests of such recipients with the interests of inContact's shareholders. Under the inContact Plan, the grantees can receive incentive and non-qualified options to acquire shares of inContact's common stock and can receive stock appreciation rights.

Pursuant to the terms of the inContact Merger Agreement, we assumed and converted inContact's stock options, restricted stock awards and restricted stock units originally granted under the inContact Plan into stock options, restricted stock awards and restricted stock units of NICE, respectively.

As of March 8, 2018, assumed inContact options to purchase 159,859 shares of NICE and 84,719 assumed restricted share units and restricted shares were outstanding under the inContact Plan, at a weighted average exercise price of \$27.28. We have registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act, 476,114 ordinary shares for issuance under the inContact Plan.

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

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

Pursuant to the terms of the e-Glue acquisition agreement, we assumed the outstanding stock options and restricted share units granted by e-Glue under the 2004 e-Glue Plan that did not expire upon closing of the e-Glue acquisition. Following such assumption, the options represent rights to purchase ordinary shares of NICE or restricted share units of NICE, pursuant to a set formula (such options and restricted share units, together the "Assumed e-Glue Options"). Some of the Assumed e-Glue Options have a three year vesting period, with a third becoming vested and exercisable one year from their date of grant and the remainder vesting and become exercisable in equal installments on an annual basis over the following two years. The remaining portion of the Assumed e-Glue Options vest as follows: 25% vest and become exercisable one year from their date of grant, and the remaining 75% vested and became exercisable on December 31, 2011. Certain Assumed e-Glue Options are subject to acceleration rights if employment is terminated within a limited time period and under certain circumstances. Assumed e-Glue Options generally expire ten years after the date of grant. 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 8, 2018, assumed e-Glue Options and restricted share unit to purchase 420 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, 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 8, 2018, assumed Fizzback options and restricted share units to purchase 1,742 ordinary shares of NICE were outstanding under the Fizzback Plan, at a weighted average exercise price of \$0.69. We have registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act, 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 8, 2018, assumed Merced options, restricted share units and restricted shares to purchase 4,619 ordinary shares of NICE were outstanding under the 2001 Merced Plan and the 2011 Merced Plan, at a weighted average exercise price of \$14.13. We have registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act, 343,288 ordinary shares for issuance under the 2001 Merced Plan and the 2011 Merced Plan.

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 20, 2018. 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 Henderson Group plc 201 Bishopsgate EC2M 3AE United Kingdom	4,947,800 ⁽²⁾	8.1	%
Massachusetts Financial Services Company 111 Huntington Avenue Boston, Massachusetts 02199	4,594,141 ⁽³⁾	7.5	%

(1) Based upon 61,212,874 ordinary shares issued and outstanding as of March 20, 2018.

(2) Janus Henderson Group plc reported that these shares are held by managed portfolios. This information is based upon a Schedule 13G filed by Janus Henderson Group plc with the SEC on February 13, 2018.

(3) This information is based upon a Schedule 13G/A filed by Massachusetts Financial Service Company with the SEC on February 9, 2018.

As of March 14, 2018, we had approximately 44 registered ADS holders of record in the United States, with our ADS holders holding in total approximately 49% of our outstanding ordinary shares, as reported by JPMorgan Chase Bank, N.A., the depository for our ADSs.

As of October 26, 2017, Migdal Insurance & Financial Holdings Ltd. (“Migdal”) reported that it held 3,005,795, or 4.95%, of our ordinary shares. This information is based upon a Schedule 13G filed by Migdal with the SEC on October 31, 2017. Of these shares, (i) 2,791,731 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 Migdal, according to the following segmentation: 1,517,114 ordinary shares are held by profit-participating life assurance accounts, 1,102,469 ordinary shares are held by Provident funds and companies that manage Provident funds, and 172,148 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) 214,064 are beneficially held for their own account (Nostro account).

As of December 29, 2017, Psagot Investment House Ltd. (“Psagot”) reported that it held 2,979,017, or 4.89%, of our ordinary shares. This information is based upon a Schedule 13G/A filed by Psagot with the SEC on February 12, 2018. These securities are beneficially owned by portfolio accounts managed by Psagot Securities Ltd., Psagot Exchange Traded Notes Ltd., mutual funds managed by Psagot Mutual Funds Ltd., and provident funds and pension funds managed by Psagot Provident Funds and Pension Ltd. managed savings managed by Psagot Insurance Company Ltd. according to the following segmentation: 1,410,642 ordinary shares are held by portfolio accounts managed by Psagot Securities Ltd., 781,272 ordinary shares are held by Psagot Exchange Traded Notes Ltd., 63,676 ordinary shares are held by mutual funds managed by Psagot Mutual Funds Ltd. (of this amount, 12,000 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), 712,203 ordinary shares are held by provident funds and pension funds managed by Psagot Provident Funds and Pension Ltd. and 11,224 ordinary shares are held by Psagot Insurance Company Ltd. Each of the foregoing companies is a wholly-owned subsidiary of Psagot Investment House Ltd.

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”. On October 11, 2017, the Court of Appeals affirmed without opinion the district court’s judgment granting ClickFox’s motion to dismiss.

California Lawsuit

In May 2009, inContact was served a lawsuit titled California College, Inc., et al., v. UCN, Inc., et al. in connection with the sale of services with those Insidesales.com, Inc. California College originally sought damages in excess of \$20.0 million. Insidesales.com and inContact filed cross-claims against one another, which they subsequently agreed to dismiss with prejudice. In October 2011, California College reached a settlement with Insidesales.com, the terms of which have not been disclosed and remain confidential. In June of 2013, California College amended its damages claim to \$14.4 million, of which approximately \$5.0 million was alleged to be pre-judgment interest. On September

10, 2013, the court issued an order on inContact's Motion for Partial Summary Judgment. The court determined that factual disputes exist as to several of the claims, but dismissed California College's cause of action for intentional interference with prospective economic relations and the claim for prejudgment interest. Dismissing the claim for prejudgment interest effectively reduced the claim for damages to approximately \$9.2 million. The trial court granted inContact's motion to stay the trial without date pending an interlocutory appeal to the Utah Supreme Court of the trial court's ruling with respect to allowing California College's experts to testify at trial. The briefs were filed in the matter and oral arguments were made in August 2017. The Utah Court of Appeals has yet to rule on the matter. At this stage we are unable to evaluate the probability of a favorable or unfavorable outcome in this litigation.

Gordon Complaint

On June 10, 2016, a complaint captioned Natalie Gordon v. inContact, Inc., et al., was filed in the Third Judicial District Court of Salt Lake County, State of Utah (the “Court”) naming as defendants inContact and its Board of Directors (the “Gordon Action”). On August 4, 2016 the parties entered into a Memorandum of Understanding for the settlement of the three actions. The parties have completed the negotiation of the settlement agreement, and the Utah Third District Court has approved the settlement, formally dismissing this action.

Dividends

Our Board of Directors previously approved a dividend plan under which we paid 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 was \$0.64 per share or \$0.16 per share quarterly. 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.

On January 6, 2017, our Board of Directors approved the termination of this dividend plan in connection with our adoption of a capital return strategy to optimize our long term growth profile. Accordingly, we do not have any plans at this time to make any future dividend payments. 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, 2017, 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 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		
2013	\$42.12	\$33.63
2014	51.75	37.08
2015	68.38	47.95
2016	69.79	54.12