

NICE SYSTEMS LTD
Form 20-F
March 26, 2014

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, 2013

OR

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

OR

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

Commission file number 0-27466

NICE-SYSTEMS LTD.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

22 Zarchin Street, P.O. Box 690, Ra'anana 43107, Israel

(Address of principal executive offices)

Dafna Gruber, +972-9-7753151, dafna.gruber@nice.com,
22 Zarchin Street, P.O. Box 690, Ra'anana 43107, Israel

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

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

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

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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: 60,096,547 Ordinary Shares, par value NIS 1.00 per share (which excludes 8,181,586 treasury shares)

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

Yes No

PRELIMINARY NOTE

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

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

In this annual report, all references to "NICE," "we," "us" or "our" are to NICE-Systems Ltd., a company organized under the laws of the State of Israel, and its wholly owned subsidiaries. For a list of our significant subsidiaries, please refer to page 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 and all references to "NIS" are to New Israeli Shekels. Except as otherwise indicated, the financial statements of and information regarding NICE are presented in U.S. dollars.

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PART I

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

Not Applicable.

Item 2. Offer Statistics and Expected Timetable.

Not Applicable.

Item 3. Key Information.

Selected Financial Data

The following selected consolidated balance sheet data as of December 31, 2012 and 2013 and the selected consolidated statements of income data for the years ended December 31, 2011, 2012 and 2013 have been derived from our audited Consolidated Financial Statements. These financial statements have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP, and audited by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global. The selected consolidated statements of income data as of December 31, 2009 and 2010 and the selected consolidated balance sheet data for the years ended December 31, 2009, 2010 and 2011 have been derived from other Consolidated Financial Statements not included in this annual report and have also been prepared in accordance with U.S. GAAP and audited by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5, "Operating and Financial Review and Prospects" and the Consolidated Financial Statements and notes thereto and other financial information included elsewhere in this annual report.

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Year Ended December 31,

2009 2010 2011 2012 2013
(U.S. dollars in thousands, except per share data)

OPERATING DATA:

Revenues

Products	\$ 281,783	\$ 325,429	\$ 355,760	\$ 369,381	\$ 377,558
Services	301,332	364,022	438,071	509,631	571,726
Total revenues	583,115	689,451	793,831	879,012	949,284

Cost of revenues

Products	88,030	107,190	116,256	122,917	117,833
Services	149,175	161,885	191,049	228,306	247,115
Total cost of revenues	237,205	269,075	307,305	351,223	364,948
Gross profit	345,910	420,376	486,526	527,789	584,336

Operating expenses:

Research and development, net	77,382	97,083	109,127	121,387	136,563
Selling and marketing	141,526	178,407	199,044	230,162	248,618
General and administrative	72,791	76,345	95,650	96,134	88,304
Amortization of acquired intangible assets	16,012	19,489	23,677	32,590	30,571
Restructuring expenses	-	-	-	1,884	527

Total operating expenses	307,711	371,324	427,498	482,157	504,583
Operating income	38,199	49,052	59,028	45,632	79,753
Financial income, net	8,094	9,339	10,783	6,738	4,037
Other expenses, net	(115)	(154)	(162)	1,530	(110)
Income before taxes on income	46,178	58,237	69,649	53,900	83,680
Taxes on income	3,422	9,530	12,386	(13,994)	28,405
Net income	42,756	48,707	57,263	67,894	55,275

Basic earnings per share	\$ 0.70	\$ 0.78	\$ 0.91	\$ 1.11	\$ 0.92
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Weighted average number of shares used in computing basic earnings per share (in thousands)

	61,395	62,652	62,924	60,905	60,388
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Diluted earnings per share	\$ 0.68	\$ 0.76	\$ 0.89	\$ 1.09	\$ 0.89
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Weighted average number of shares used in computing diluted earnings per share (in thousands)

	62,490	64,132	64,241	62,261	61,830
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At December 31,
2009 2010 2011 2012 2013

BALANCE SHEET DATA:

Working capital	\$ 184,460	\$ 173,909	\$ 173,543	\$ 137,635	\$ 76,425
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Total assets	1,399,677	1,534,418	1,581,836	1,660,945	1,657,058
Shareholders' equity	1,062,754	1,160,760	1,158,644	1,191,088	1,204,796

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Risk Factors

Risks Relating to Markets, Global Operations and Competition

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

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

To the extent that our business suffers as a result of such unfavorable economic and market conditions, our operating results may be materially adversely affected. In particular, enterprises may reduce spending in connection with their contact centers. Financial institutions may also reduce spending in relation to trading floors and operational risk management, as IT-related capital expenditures are typically lower in times of economic slowdowns. In addition, enterprises' ordering and payment patterns are influenced by market conditions and could cause fluctuations in our quarterly results. Moreover, our clients may, due to imminent regulatory or operational deadlines or objectives or for other reasons, prioritize other expenditures over the solutions that we offer.

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

We depend on the stability of the North American market.

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

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

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

New potential entrants to our markets may lead to the widespread availability and standardization of some of the products and services, which could result in the commoditization of our products and services, reduce the demand for our products and services and drive us to lower our prices. System integrators, as well as infrastructure vendors, that have decided and/or may decide in the future to enter our market space and compete with us by offering comprehensive solutions, could result in a substantial decline in our sales. Moreover, major enterprise software vendors, such as those from the traditional enterprise business intelligence and business analytics sector, Customer Relationship Management (or CRM), or infrastructure players (mostly telephony or switch vendors), may decide to enter our market space and compete with us in this emerging opportunity, either by internal development of comprehensive solutions or through acquisition of any of our existing competitors. Such competition could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

The economic climate has forced many organizations to reassess their contact center solutions' infrastructure. For the contact center, the enterprise and the remote and mobile workforce, an all-in-one contact center platform may be a preferred alternative to a multi-point system, as it may result in a reduction in the Total Cost of Ownership (TCO) and the enablement of new cross systems business processes. Although we may benefit from this trend, at the same time, we are observing that there are infrastructure players that are potentially looking to introduce a "contact center as a service" cloud-based solution that will include features and functionality currently supplied by us, in addition to the infrastructures supplied by such vendors. With the strengthening of this trend, we may be faced with a new type of competition, and in the event that we are not able to create an integrated experience for our customers in the form of an integrated suite, there could be a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

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

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

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

We believe that our ability to anticipate changes in technology and industry standards and to successfully develop and introduce new, enhanced and differentiated products, on a timely basis, in each of the markets in which we operate, is a critical factor in our ability to grow our business. As a result, we expect to continue to make significant expenditures on research and development, particularly with respect to new software applications, which are continuously required in all our business areas. The convergence of voice and data networks and wired and wireless communications could require substantial modification and customization of our current cross-channel products, as well as the introduction of new multi-channel products. Further, customer adoption of these new technologies may be slower than we anticipate. We cannot assure you that the market or demand for our products and solutions will be sustained or grow as rapidly as we expect, if at all, that we will successfully develop new products or introduce new applications for existing products, that such new products and applications will achieve market acceptance, or that the introduction of new products or technological developments by others will not render our products obsolete. In addition, our products must readily integrate with major third party security, telephone, front-office and back-office systems. Any changes to these third party systems could require us to redesign our products, and any such redesign might not be possible on a timely basis or achieve market acceptance. Our inability to develop products that are competitive in technology and price and responsive to customer needs could have a material adverse effect on our business, financial condition and results of operations.

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

Operating globally exposes us to additional and unpredictable risks.

We sell our products and solutions throughout the world and intend to continue to increase our penetration of international markets. In 2011, 2012 and 2013 approximately 99% of our total sales were derived from sales to customers outside of Israel. Our future results could be materially adversely affected by a variety of factors relating to international transactions, including:

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

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

- changes in tax laws or practices;
- changes in foreign currency exchange rates;
- longer payment cycles in certain countries in our geographic areas of operations; and
- general difficulties in managing our global operations.

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

As we continue to explore the expansion of our global reach, an increasing focus of our business may be in emerging markets, including South America and in Asia and the Pacific (or, APAC). In many of these emerging markets, we may be faced with risks that are more significant than if we were to do business in developed countries, including undeveloped legal systems, unstable governments and economies, and potential governmental actions affecting the flow of goods and currency. We cannot assure you that one or more of these factors will not have a material adverse effect on our international operations, business, financial condition and results of operations.

Unpredictable events, including extreme weather events, earthquakes and tsunamis, may adversely affect our business.

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

General Risks Relating to Our Business, Offerings and Operations

We depend on the success of our recording solutions.

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

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

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

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

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

As our market opportunities change, our reliance on particular distribution channels and strategic partners may increase or we may need to create new strategic partnerships and alliances to address changing market needs, all of which may negatively impact our growth and gross margins. There can be no assurance that we will be successful in maintaining, creating or expanding these channels and partnerships. If we are not successful, we may lose sales opportunities, customers and market share, which may have a material adverse effect on our business and results of operations.

We depend on Avaya's installation base for a significant portion of our recurring sales.

We sell our products, either directly or through our other distribution channels, to customers who use Avaya's infrastructure or operate in Avaya's environment. To the extent that Avaya does not allow or support the integration of our products with its infrastructure or products or uses other means to prevent us from selling our products to such customers (some of our largest customers currently use Avaya for their contact center infrastructure), we may experience a reduction in sales to these customers, which is broader than Avaya's direct business with us. This could, of course, influence our ability to continue rendering maintenance services and other services and generate recurring sales to these customers. As a result, we may sustain loss of customers and market share, which may have a material adverse effect on our business, financial condition, or results of operation.

We depend on a small number of significant customers.

While no single customer of ours accounted for more than five percent of our aggregate revenues in 2013, we do have a small number of significant customers in each sector of our business, each of which could be material to a particular area of our business. In addition, in our Security business, there may be certain transactions that could account for at least five percent of our revenues in a particular year. Such transactions are subject to certain risks (as discussed in the immediately following risk factor "We face risks related to large projects."), which could have a material adverse effect on our revenues and operating results.

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

We face risks relating to large projects.

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

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

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

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

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

We may not be able to sustain growth.

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

