

Drosos Virginia
Form 4
February 06, 2018

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Drosos Virginia

2. Issuer Name and Ticker or Trading Symbol
SIGNET JEWELERS LTD [SIG]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)
CLARENDON HOUSE, 2
CHURCH STREET

3. Date of Earliest Transaction
(Month/Day/Year)
02/04/2018

Director 10% Owner
 Officer (give title below) Other (specify below)
Chief Executive Officer

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

HAMILTON, D0 HM11

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)
				(A) or (D)	Price		
Common Shares, par value \$0.18	02/04/2018		F	15,622	D \$ 50.94	111,852	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

Reports of Independent Registered Public Accounting Firm

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Consolidated Statements of Income

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Statements of Changes in Shareholders' Equity

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Consolidated Statements of Cash Flows

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

NICE SYSTEMS LTD.

We have audited the accompanying consolidated balance sheets of NICE Systems Ltd. and subsidiaries (the Company) as of December 31, 2007 and 2008, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of December 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 5, 2009 expressed an unqualified opinion thereon.

/s/ KOST, FORER, GABBAY & KASIERER

Tel-Aviv, Israel
April 5, 2009

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

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NICE SYSTEMS LTD. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

NICE SYSTEMS LTD.

We have audited NICE Systems Ltd. s (NICE or the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). NICE s management is responsible for maintaining effective internal control over financial reporting included in the accompanying Management s Annual Report on internal control over financial reporting. Our responsibility is to express an opinion on the Company s Internal Control over Financial Reporting based on our audit.

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

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

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

In our opinion, NICE maintained in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NICE and subsidiaries as of December 31, 2007 and 2008, and the related consolidated statements of income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2008 and our report dated April 5, 2009 expressed an unqualified opinion thereon.

/s/ KOST, FORER, GABBAY & KASIERER

Tel-Aviv, Israel
April 5, 2009

KOST FORER GABBAY & KASIERER
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NICE SYSTEMS LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2007	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 116,619	\$ 144,376
Short-term bank deposits	39,233	65,003
Marketable securities	84,089	121,069
Trade receivables (net of allowance for doubtful accounts of \$5,239 and \$6,308 at December 31, 2007 and 2008, respectively)	101,977	104,115
Other receivables and prepaid expenses	20,749	23,697
Inventories	11,835	11,500
Deferred tax assets	8,258	8,400
Total current assets	382,760	478,160
LONG-TERM ASSETS:		
Marketable securities	158,260	170,923
Other long-term assets	27,088	25,322
Property and equipment, net	18,655	23,394
Other intangible assets, net	162,315	145,402
Goodwill	443,256	445,504
Total long-term assets	809,574	810,545
Total assets	\$ 1,192,334	\$ 1,288,705

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

NICE SYSTEMS LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2007	2008
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 21,792	\$ 23,060
Accrued expenses and other liabilities	208,085	237,589
Total current liabilities	229,877	260,649
LONG-TERM LIABILITIES:		
Accrued severance pay	16,431	19,928
Deferred tax liabilities	41,764	37,060
Other long-term liabilities	468	246
Total long-term liabilities	58,663	57,234
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS EQUITY:		
Share capital-		
Ordinary shares of NIS 1 par value:		
Authorized: 125,000,000 at December 31, 2007 and 2008; Issued and outstanding: 59,412,812 and 60,667,712 shares at December 31, 2007 and 2008, respectively;	14,801	15,157
Additional paid-in capital	811,250	853,226
Accumulated other comprehensive income (loss)	13,068	(1,343)
Retained earnings	64,675	103,782
Total shareholders equity	903,794	970,822
Total liabilities and shareholders equity	\$ 1,192,334	\$ 1,288,705

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

NICE SYSTEMS LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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

	Year ended December 31,		
	2006	2007	2008
Revenues:			
Products	\$ 261,098	\$ 316,888	\$ 351,680
Services	148,546	200,486	272,482
Total revenues	409,644	517,374	624,162
Cost of revenues:			
Products	84,675	89,373	95,861
Services	89,539	116,969	142,885
Total cost of revenues	174,214	206,342	238,746
Gross profit	235,430	311,032	385,416
Operating expenses:			
Research and development, net	44,880	59,632	78,445
Selling and marketing	95,190	120,592	147,879
General and administrative	60,463	85,089	97,378
Amortization of acquired intangibles	4,918	9,175	14,493
In process research and development write-off	12,882	3,710	
Settlement and related expenses			9,870
Total operating expenses	218,333	278,198	348,065
Operating income	17,097	32,834	37,351
Financial income and other, net	13,895	14,800	11,236
Income before taxes on income	30,992	47,634	48,587
Taxes on income	8,591	10,254	9,480
Net income	\$ 22,401	\$ 37,380	\$ 39,107

Net earnings per share:

Explanation of Responses:

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Basic	\$ 0.45	\$ 0.69	\$ 0.65
Diluted	\$ 0.43	\$ 0.67	\$ 0.64

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

NICE SYSTEMS LTD. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total comprehensive income	Total shareholders equity
Balance as of January 1, 2006	\$ 6,772	\$ 473,203	\$ 2,996	\$ 4,070		\$ 487,041
Issuance of shares of ESPP	2	227				229
Exercise of share options	510	37,187				37,697
Stock-based compensation		12,571				12,571
Tax benefit in respect of offering expenses		(585)				(585)
Excess tax benefit from share based payment arrangements		5,733				5,733
Stock split effected as stock dividend	5,470	(5,470)				
Comprehensive income:						
Foreign currency translation adjustments			4,463		\$ 4,463	4,463
Unrealized gains on derivative instruments, net			24		24	24
Net income				22,401	22,401	22,401
Total comprehensive income					\$ 26,888	
Balance as of December 31, 2006	12,754	522,866	7,483	26,471		569,574
Issuance of shares upon public offering, net	1,283	179,546				180,829
Issuance of shares of ESPP	4	495				499
Exercise of share options	393	19,406				19,799
Stock-based compensation		23,666				23,666
Tax benefit in respect of offering expenses		10				10
Excess tax benefit from share based payment arrangements		4,945				4,945
Issuance of shares and options for the acquisition of Actimize	365	60,272				60,637
Restricted shares vesting in respect of Actimize acquisition	2	44				46
FIN 48 opening balance adjustment				824		824
Comprehensive income:						
Foreign currency translation adjustments			5,175		\$ 5,175	5,175
Unrealized gains on derivative instruments, net			410		410	410
Net income				37,380	37,380	37,380
Total comprehensive income					\$ 42,965	
Balance as of December 31, 2007	14,801	811,250	13,068	64,675		903,794

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NICE SYSTEMS LTD. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total comprehensive income	Total shareholders equity
Balance as of December 31, 2007	\$ 14,801	\$ 811,250	\$ 13,068	\$ 64,675		\$ 903,794
Issuance of shares of ESPP	5	526				531
Exercise of share options	290	14,430				14,720
Stock-based compensation		25,321				25,321
Tax benefit in respect of offering expenses		892				892
Excess tax benefit from share based payment arrangements		638				638
Restricted shares vesting in respect of Actimize acquisition	61	169				230
Comprehensive income:						
Foreign currency translation adjustments			(14,405)		\$ (14,405)	(14,405)
Unrealized gains on marketable securities, net			1,432		1,432	1,432
Unrealized losses on derivative instruments, net			(1,438)		(1,438)	(1,438)
Net income				39,107	39,107	39,107
Total comprehensive income					\$ 24,696	
Balance as of December 31, 2008	\$ 15,157	\$ 853,226	\$ (1,343)	\$ 103,782		\$ 970,822
Accumulated unrealized gains on marketable securities, net			\$ 1,432			
Accumulated unrealized losses on derivative instruments, net			(956)			
Accumulated foreign currency translation adjustments			(1,819)			
Accumulated other comprehensive loss as of December 31, 2008			\$ (1,343)			

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

NICE SYSTEMS LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	2007	2008
Cash flows from operating activities:			
Net income	\$ 22,401	\$ 37,380	\$ 39,107
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,919	30,926	42,740
Stock-based compensation	12,571	23,666	25,321
Excess tax benefit from share-based payments arrangements	(5,733)	(4,945)	(638)
In-process research and development write-off	12,882	3,710	
Accrued severance pay, net	751	632	1,506
Amortization of premium (accretion of discount) and accrued interest on marketable securities	278	(252)	1,504
Loss on marketable securities sold, called or impaired		257	4,924
Deferred taxes, net	(3,707)	(5,231)	(5,554)
Increase in trade receivables	(6,772)	(15,224)	(232)
Increase in other receivables and prepaid expenses	(1,897)	(9,623)	(1,450)
Decrease in inventories	5,376	7,579	300
Increase (decrease) in trade payables	1,435	(2,982)	189
Increase in accrued expenses and other liabilities	27,991	51,933	28,352
Other	80	418	(359)
Net cash provided by operating activities	87,575	118,244	135,710
Cash flows from investing activities:			
Purchase of property and equipment	(8,111)	(10,947)	(15,454)
Proceeds from sale of property and equipment	76	58	20
Investment in marketable securities	(217,655)	(208,590)	(231,057)
Proceeds from maturity of marketable securities	142,209	170,945	64,725
Proceeds from sale and call of marketable securities	3,000	30,100	111,826
Investment in short-term bank deposits	(117)	(39,131)	(64,448)
Proceeds from short-term bank deposits	99	139	39,095

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

NICE SYSTEMS LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	2007	2008
<u>Cash flows from investing activities (cont.):</u>			
Payment for the acquisition of FAST (a)	\$ (21,320)	\$ (4,975)	\$ (1,229)
Payment for the acquisition of Performix (b)	(13,800)		
Payment for the acquisition of IEX (c)	(203,162)	(1,500)	
Payment for the acquisition of Actimize (d)		(210,540)	(1,633)
Refund (payment) for other acquisitions	1,500	(500)	(18,773)
Decrease in accrued acquisition costs	(15)	(83)	(44)
Capitalization of software development costs	(1,225)	(962)	(1,278)
Purchase of intangible asset			(3,533)
Received upon the realization of investment in an affiliate			964
Other	83		
Net cash used in investing activities	(318,438)	(275,986)	(120,819)
<u>Cash flows from financing activities:</u>			
Proceeds from issuance of shares upon public offering, net		180,934	
Proceeds from issuance of shares upon exercise of options and ESPP, net	38,987	20,273	15,282
Receipt of short-term bank loan		120,000	
Repayment of short-term bank loan		(120,000)	
Excess tax benefit from share-based payments arrangements	5,733	4,945	638
Decrease in accrued offering expenses	(273)		
Decrease in short-term bank credit assumed in the acquisition of FAST	(785)		
Net cash provided by financing activities	43,662	206,152	15,920
Effect of exchange rate changes on cash	(390)	844	(3,054)
Increase (decrease) in cash and cash equivalents	(187,591)	49,254	27,757
Cash and cash equivalents at the beginning of the year	254,956	67,365	116,619
Cash and cash equivalents at the end of the year	\$ 67,365	\$ 116,619	\$ 144,376
<u>Supplemental disclosure of cash flows activities:</u>			
<u>Cash paid during the year for:</u>			
Income taxes	\$ 1,407	\$ 2,199	\$ 2,499

Explanation of Responses:

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Interest	\$	40	\$	668	\$	52
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The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	2007	2008
(a) <u>Payment for the acquisition of FAST:</u>			
Estimated fair value of assets acquired and liabilities assumed at the acquisition date:			
Working capital deficiency (excluding cash and cash equivalents)	\$ (5)	\$	\$
Property and equipment	256		
In-process research and development	212		
Other intangible assets	11,753		
Goodwill	17,042		
Long-term deferred tax liability	(1,449)		
	<u>27,809</u>		
Less decrease in deferred acquisition costs	(256)		
Add (less) earn out payment (accrued earn out payment)	(6,233)	4,975	1,229
	<u>\$ 21,320</u>	<u>\$ 4,975</u>	<u>\$ 1,229</u>
(b) <u>Payment for the acquisition of Performix:</u>			
Estimated fair value of assets acquired and liabilities assumed at the acquisition date:			
Working capital deficiency (excluding cash and cash equivalents)	\$ (2,800)		
Property and equipment	360		
Other intangible assets	8,060		
Goodwill	8,292		
Long-term deferred tax liability	(24)		
	<u>13,888</u>		
Less - accrued acquisition costs	(88)		
	<u>\$ 13,800</u>		
(c) <u>Payment for the acquisition of IEX:</u>			
Estimated fair value of assets acquired and liabilities assumed at the acquisition date:			
Working capital deficiency (excluding cash and cash equivalents)	\$ 1,687	(149)	
Property and equipment	315		
In-process research and development	12,670		

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Other intangible assets	78,170	
Goodwill	140,900	149
Long-term deferred tax liabilities	(28,909)	
	<u>204,833</u>	<u>149</u>
Payment (provision) on account of purchase price	(1,671)	1,500
	<u>\$ 203,162</u>	<u>\$ 1,500</u>

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

NICE SYSTEMS LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2006	2007	2008
(d) <u>Payment for the acquisition of Actimize:</u>			
Estimated fair value of assets acquired and liabilities assumed at the acquisition date:			
Working capital deficiency (excluding cash and cash equivalents)	\$	(8,919)	\$
Property and equipment		622	
Severance pay fund		324	
Long-term other receivables and prepaid expenses		332	
In-process research and development		3,710	
Other intangible assets		71,300	
Goodwill		219,543	
Long-term deferred tax liabilities		(13,028)	
Other long-term liabilities		(854)	
		<u>273,030</u>	
Add (less) (accrued) acquisition costs		(1,853)	1,633
Less - amount acquired by issuance of shares and options, net of issuance expenses		<u>(60,637)</u>	
		\$	\$
		<u>210,540</u>	<u>1,633</u>
(e) <u>Non-cash activities:</u>			
Tax benefit on offering expenses	\$	(585)	\$
		<u>10</u>	\$
			<u>892</u>
Accrued offering expenses	\$		\$
		<u>105</u>	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

a. General:

NICE Systems Ltd. (NICE) and subsidiaries (collectively - the Company) is a leading provider of solutions that capture, manage and analyze unstructured multimedia content and transactional data enabling companies and public organizations to comply with internal and governmental regulations, enhance business and operational performance, address security threats and behave in a proactive manner. Unstructured multimedia content includes phone calls to contact centers, trading floors, branches, home agents and back offices and emergency services and first responders, video captured by closed circuit cameras, radio communications between emergency services and first responders personnel, internet sessions, email and instant messaging and converged multimedia solutions for command and control centers. The Company s solutions include integrated, scalable, multimedia recording platforms, software applications and related professional services. These solutions address critical business processes and risk management, compliance procedures and security needs of companies and public organizations. The Company s solutions facilitate faster decision-making and near real-time action, improving business and employee performance, reducing exposure to operational risk such as fraud and compliance and anti-money laundering, and enhancing security and public safety.

The Company s customers use its systems in a variety of enterprises, such as financial services, telecommunications, health-care, outsourcers, retail, service providers and utilities. The Company s security solutions are primarily focused on homeland security and first responder organizations, transportation organizations, and the public and private sectors.

The Company s markets are located primarily in North America, Europe, the Middle East and Africa (EMEA) and Asia Pacific (APAC).

The Company depends on a limited number of contract manufacturers for producing its products. If any of these manufacturers become unable or unwilling to continue to manufacture or fail to meet the quality or delivery requirements needed to satisfy the Company s customers, it could result in the loss of sales, which could adversely affect the Company s results of operations and financial position.

The Company relies upon a number of independent distributors to market, sell and service its products in certain markets. If the Company is unable to effectively manage and maintain relationships with its distributors, or to enter into similar relationships with others, its ability to market and sell its products in these markets will be affected. In addition, a loss of a major distributor, or any event negatively affecting such distributors financial condition, could cause a material adverse effect on the Company s results of operations and financial position.

As for major customer data, see Note 14c.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

b. Acquisitions:

1. Acquisition of FAST Video Security AG (FAST):

On January 4, 2006, the Company consummated an agreement to acquire all of the outstanding shares of FAST, a Switzerland-based developer of innovative video systems for security and surveillance purposes. Under the agreement, the Company acquired FAST for \$21,650 in cash (including acquisition costs), with potential earn out based on performance milestones amounting to a maximum of \$12,000 payable based on certain financial performance criteria covering years 2006 and 2008 (of which \$7,000 in respect of 2006 and \$5,000 in respect of 2008).

During the fourth quarter of 2006 the Company estimated that an additional consideration for earn out in the amount of approximately \$6,200 would be paid by the Company on account of 2006 earn out; accordingly, the Company recorded additional goodwill in this amount. See also Note 11(c)(6). FAST did not meet the financial performance criteria with respect to 2008; accordingly no additional payment will be made and no additional goodwill will be recorded for 2008 earn out.

The acquisition of FAST strengthens the Company's position in the video security market with smart IP-based solutions and technologies complementary to the Company's existing digital video offerings. Additionally, the Company extends its presence in the digital video security market by increasing its footprint in Europe and APAC markets with high quality distribution channels and partners, and with new prestigious customers.

By purchasing FAST, the Company strategically expanded its market share both in geographical and vertical markets. The factors that contributed to the purchase price that resulted in recognition of goodwill included synergies, the benefits of increased market share, strategic positioning value and time-to-market benefits.

The acquisition was accounted for by the purchase method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of FAST. The results of FAST's operations have been included in the consolidated financial statements since January 4, 2006 (the consummation date).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed:

Cash	\$ 38
Trade receivables	1,869
Other receivables and prepaid expenses	975
Inventories	296
Property and equipment	256
Trademarks	484
Core technology	9,869
In-process research and development	212
Customer relationships	1,400
Goodwill	17,042
	<hr/>
Total assets acquired	32,441
	<hr/>
Short-term bank credit	(785)
Trade payables	(1,568)
Accrued expenses and other liabilities	(792)
Long-term deferred tax liabilities	(1,449)
	<hr/>
Total liabilities assumed	(4,594)
	<hr/>
Net assets acquired	\$ 27,847
	<hr/>

The \$212 assigned to in-process research and development was written off at the acquisition date in accordance with FASB Interpretation (FIN) No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method .

Trademarks, core technology and customer relationships in the amount of \$11,753 are amortized at an annual weighted average rate of 20%.

2. Acquisition of Performix:

On May 22, 2006, the Company consummated an agreement to acquire all of the outstanding shares of Performix Software Limited and to acquire the assets and assume certain liabilities of Performix Holdings Inc. and its subsidiaries (collectively Performix). Under the agreement, the Company acquired Performix for a total purchase price of \$13,910 in cash (including acquisition costs). According to the agreement the purchase price may increase by up to an additional \$3,150 based on certain performance criteria for the twelve month period ending July 1, 2007. Since the performance criteria have not been met, no additional payment was made in 2007.

Performix was among the first to recognize the potential in the area of contact center performance management (CCPM), an emerging trend in the contact center market. The acquisition of Performix extends NICE s solutions portfolio for the contact center market.

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The factors that contributed to the purchase price that resulted in recognition of goodwill included synergies, the benefits of increased market share vertically, strategic positioning value and time-to-market benefits.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

The acquisition was accounted for by the purchase method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of Performix. The results of Performix's operations have been included in the consolidated financial statements since May 22, 2006 (the consummation date).

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed:

Cash	\$ 22
Trade receivables	724
Other receivables and prepaid expenses	325
Property and equipment	360
Trade name	580
Core technology	5,790
Customer relationships and distribution network	1,690
Goodwill	8,292
	<hr/>
Total assets acquired	17,783
	<hr/>
Trade payables	(1,328)
Accrued expenses and other liabilities	(2,521)
Long-term deferred tax liability	(24)
	<hr/>
Total liabilities assumed	(3,873)
	<hr/>
Net assets acquired	\$ 13,910
	<hr/>

Trade name, core technology, customer relationships and distribution network in the amount of \$8,060 are amortized at an annual weighted average rate of 26%.

3. Acquisition of IEX:

On July 7, 2006, the Company consummated an agreement to acquire all of the outstanding shares of IEX Corporation (IEX), a worldwide provider of contact center workforce management solutions. Under the agreement, the Company acquired the shares of IEX, a wholly owned subsidiary of Tekelec, for approximately \$204,900 in cash (including acquisition costs).

The acquisition of IEX allows NICE to offer its customers and partners a more extensive product portfolio in the industries in which NICE operates. IEX is a leading vendor in workforce management, strategic planning and performance management solutions for the contact center market. IEX provides a high-end centralized solution that compiles data seamlessly across the enterprise, enabling more accurate and effective forecasting, planning and scheduling.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

By purchasing IEX, the Company strategically expanded its market share both in geographical and vertical markets. The factors that contributed to the purchase price that resulted in recognition of goodwill included synergies, the benefits of increased market share, strategic positioning value and time-to-market benefits.

The acquisition was accounted for by the purchase method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of IEX. The results of the IEX operations have been included in the consolidated financial statements since July 7, 2006 (the consummation date).

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed:

Cash	\$ 67
Trade receivables	7,215
Other receivables and prepaid expenses	346
Inventories	1,016
Short-term deferred tax assets	9,007
Property and equipment	315
Trade name	4,090
Core technology	35,060
In-process research and development	12,670
Customer relationships	39,020
Goodwill	141,049
	<hr/>
Total assets acquired	249,855
	<hr/>
Trade payables	(292)
Accrued expenses and other liabilities	(12,838)
Short-term deferred tax liabilities	(2,916)
Long-term deferred tax liabilities	(28,909)
	<hr/>
Total liabilities assumed	(44,955)
	<hr/>
Net assets acquired	\$ 204,900
	<hr/>

The \$12,670 assigned to in-process research and development was written off at the acquisition date in accordance with FASB Interpretation (FIN) No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method .

Trade name, core technology and customer relationships in the amount of \$78,170 are amortized at an annual weighted average rate of 12%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

4. Acquisition of Actimize Ltd. (Actimize):

On August 30, 2007, the Company consummated an agreement to acquire all of the outstanding shares of Actimize Ltd. (Actimize), a leading provider of transactional risk management software for the financial services industry, for an aggregate consideration of \$281,111. The total purchase price of Actimize was composed of the following:

Cash	\$ 217,224
Shares *)	53,217
Options and Restricted Shares Awards **)	7,670
Acquisition related transaction costs ***)	3,000
	<hr/>
Total purchase price	<u>\$ 281,111</u>

*) Represents the fair value of 1,501,933 American Depositary Shares (ADSs) of NICE issued to Actimize shareholders upon consummation of the acquisition, valued based on the market price of the securities a few days before and after the terms of the acquisition were agreed to and announced, in accordance with EITF 99-12.

**) Represents the fair value of the vested portion of 987,104 options and restricted shares of Nice granted upon consummation of the acquisition to the holders of partially vested NICE options and restricted shares of Actimize originally granted under Actimize's 2003 Omnibus Stock Option and Restricted Stock Incentive Plan. The fair value of these options was determined using a Black-Scholes-Merton valuation model with the following assumptions: expected life of 0-4 years, risk-free interest rate of 4.85%-4.99%, expected volatility of 30.7%-35.8% and no dividend yield. The fair value of the vested portion of the options is included herein as part of the total purchase price.

***) Acquisition related transaction costs include investment banking fees, legal and accounting fees and other external costs directly related to the acquisition.

On August 29, 2007, to finance a portion of the cash consideration for the Actimize acquisition, the Company entered into an unsecured loan agreement and a letter of undertaking with a bank, which provide for a term loan of \$120,000, originally repayable in one installment on February 29, 2008. The loan bore interest payable monthly, at an annual rate of LIBOR plus a margin of 0.45%. On September 28, 2007, the Company repaid the loan.

The acquisition of Actimize allows NICE to offer its customers and partners a more extensive product portfolio in the industries in which NICE operates. Actimize is a leading provider of software solutions for anti-money laundering, brokerage compliance, customer due diligence and fraud prevention. Built on a patented, scalable and extensible analytics platform, Actimize solutions enable financial institutions to increase their insight into real-time customer behavior and improve risk and compliance performance. By purchasing Actimize, the Company strategically strengthened its position as an enterprise wide analytics powerhouse and expanded its solution offering. The factors that contributed to the purchase price that resulted in recognition of goodwill, included the leverage for vertical markets and time to market benefits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

The acquisition was accounted for by the purchase method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of Actimize. The results of the Actimize operations have been included in the consolidated financial statements since August 30, 2007 (the consummation date).

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed:

Cash	\$ 8,081
Marketable securities	6,140
Trade receivables	4,503
Short-term other receivables and prepaid expenses	1,648
Short-term deferred tax assets	925
Property and equipment	622
Severance pay fund	324
Long-term other receivables and prepaid expenses	332
Trade name	1,680
Core technology	38,480
In-process research and development	3,710
Customer relationships	31,140
Goodwill	219,543
	<hr/>
Total assets acquired	317,128
	<hr/>
Trade payables	(1,729)
Accrued expenses and other liabilities	(18,403)
Short-term deferred tax liabilities	(2,003)
Long-term deferred tax liabilities	(13,028)
Other long-term liabilities	(854)
	<hr/>
Total liabilities assumed	(36,017)
	<hr/>
Net assets acquired	\$ 281,111
	<hr/>

The \$3,710 assigned to in-process research and development was written off at the acquisition date in accordance with FASB Interpretation (FIN) No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method .

Trade name, core technology and customer relationships in the amount of \$71,300 are amortized at an annual weighted average rate of 19%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

5. Acquisition of Quality Plus Group Ltd. (QPC):

On April 8, 2008, the Company acquired certain assets, shares and business from Quality Plus Group Ltd., a UK-based value-added distributor of NICE's contact center solutions, and its affiliates (QPC) for \$12,587 in cash (including acquisition costs). The business acquired includes the sale, distribution, service, support, maintenance and development of workforce management solutions and associated services as conducted by QPC in the UK, Sweden and Australia. With the acquisition of QPC, the Company expanded its customer base and presence in the UK, Sweden and Australia and expanded and strengthened the Company's support organization in these regions. The acquisition was accounted for by the purchase method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of QPC. The results of the QPC operations have been included in the consolidated financial statements since April 8, 2008 (the consummation date). The Company recorded customer relationships and goodwill in the amounts of \$12,000 and \$5,524, respectively.

6. Acquisition of certain assets and liabilities of AVT:

On April 28, 2008, the Company completed the acquisition of certain assets of AVT Systems Limited, for \$6,186 in cash (including acquisition costs). The business acquired includes the sale, distribution, service, maintenance and support of NICE voice recording solutions (hardware and software and associated services) in the United Kingdom. With the acquisition of AVT, the Company expanded its customer base and presence in the UK financial sector and expanded and strengthened the Company's support organization in the UK. The acquisition was accounted for by the purchase method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of AVT. The results of the AVT operations have been included in the consolidated financial statements since April 28, 2008 (the consummation date). The Company recorded customer relationships and goodwill in the amounts of \$3,838 and \$3,478, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL (Cont.)

7. Unaudited pro forma condensed results of operations:

The following represents the unaudited pro forma condensed results of operations for the year ended December 31, 2007 assuming that the acquisition of Actimize occurred on January 1, 2007. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisitions been consummated on those dates, nor does it purport to represent the results of operations for future periods. The 2008 acquisitions were immaterial; therefore no pro forma was presented for the year ended December 31, 2008.

In-process research and development write offs in respect of the acquisition of Actimize was not included in the pro forma condensed results of operation since it is a non-recurring charge.

	Year ended December 31,
	2007
	Unaudited
Revenues	\$ 537,467
Net income	\$ 15,436
Basic net earnings per share	\$ 0.28
Diluted net earnings per share	\$ 0.27

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in United States dollars:

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

NICE and certain subsidiaries transactions and balances denominated in dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured to dollars in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, Foreign Currency Translation . All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statements of income as financial income or expenses, as appropriate.

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

c. Principles of consolidation:

Intercompany transactions and balances have been eliminated upon consolidation.

d. Cash equivalents:

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

e. Short-term bank deposits:

Bank deposits with maturities of more than three months but less than one year are included in short-term bank deposits. Such short-term bank deposits are stated at cost.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Marketable securities:

The Company accounts for investments in debt securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities . Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such determinations at each balance sheet date.

In the third quarter of 2008, the Company reclassified its investments in marketable securities from the held to maturity category into the available-for-sale category.

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

Prior to the third quarter of 2008, debt securities were classified as held-to-maturity as the Company previously had the intent and ability to hold the securities to maturity and were stated at amortized cost.

The cost of held-to-maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization, accretion, decline in value judged to be other-than-temporary, and interest are included in financial income or expenses, as appropriate.

Interest income resulting from investments in structured notes is accounted for under the provision of EITF No. 96-12, Recognition of Interest Income and Balance Sheet Classification of Structured Notes . Under Emerging Issues Task Force (EITF) No. 96-12, the retrospective interest method is used for recognizing interest income.

In accordance with the Company's policy and FASB Staff Position (FSP) Nos. SFAS 115-1 (FSP 115-1) and SFAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments , the Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value, the length of time and extent to which the fair value has been less than the cost basis, the credit ratings of the securities and the financial condition and near-term prospects of the issuers.

g. Inventories:

Inventories are stated at the lower of cost or market value. The cost of raw materials is determined by the average cost method, and the cost of finished goods on the basis of costs charged by third party manufacturer.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Inventory provisions are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and discontinued products and for market prices lower than cost. At the point of the loss recognition, a new lower cost basis for that inventory is established. In addition, the Company records a liability for firm non-cancelable and unconditional purchase commitments with contract manufacturers for quantities in excess of the Company's future demands forecast consistent with its valuation of excess and obsolete inventory. Inventory provisions for 2006, 2007 and 2008 were \$5,095, \$2,716 and \$130 respectively, and have been included in cost of revenues.

h. Property and equipment, net:

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

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

	<u>%</u>
Computers and peripheral equipment	33
Office furniture and equipment	6 - 15

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

i. Other intangible assets, net:

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

	<u>Weighted average %</u>
Capitalized software development costs (see n)	33
Core technology	17
Trademarks	20
Customer relationships and distribution network	12

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

j. Impairment of long-lived assets:

The Company's long-lived assets and identifiable intangibles that are subject to amortization are reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. In 2006, 2007 and 2008, no impairment indicators have been identified.

k. Goodwill:

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under SFAS No. 142, goodwill is not amortized, but rather is subject to an annual impairment test.

SFAS No. 142 requires goodwill to be tested for impairment 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. The Company operates in four operating segments, and these segments comprise its reporting units. Fair value is determined using discounted cash flows. Significant estimates used in the fair value methodologies include estimates of future cash flows, future growth rates and the weighted average cost of capital of the reporting units. The Company performed annual impairment tests during the fourth quarter of 2006, 2007 and 2008 and did not identify any impairment losses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Revenue recognition:

The Company generates revenues from sales of products, which include hardware and software, software licensing, professional services and maintenance. Professional services include mainly installation, project management and training. The Company sells its products indirectly through a global network of distributors, system integrators and strategic partners, all of whom are considered end-users, and through its direct sales force.

Revenues from sales of product and software licensing are recognized when all criteria outlined in Statement of Position (SOP) No. 97-2, Software Revenue Recognition (as amended by SOP No. 98-9) are met. Revenue from products and software licensing is 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 or 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.

With regard to arrangements involving multiple elements, the Company applies Statement of Position No. 98-9, Modification of SOP No. 97-2, Software Revenue Recognition with Respect to Certain Transactions (SOP No. 98-9). According to SOP No. 98-9, revenues should be 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, at the outset of the arrangement with the customer, the Company defers revenue for the fair value of its undelivered elements (maintenance and professional services) and recognizes revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (products and software licenses) when the basic criteria in SOP No. 97-2 have been met. Any discount in the arrangement is allocated to the delivered element.

The Company's policy for establishing VSOE of fair value of maintenance services is based on the price charged when the maintenance is sold separately i.e. based on the renewal activity for the installed base of the Company. Establishment of VSOE of fair value of installation and training services is based on the price charged when these elements are sold separately. VSOE of fair value of project management services is established based on a price per day which is similar to price per day charged for installation services.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenues from fixed price contracts that require significant customization, integration and installation are recognized based on SOP No. 81-1 Accounting for Performance of Construction Type and Certain Production Type Contracts using the percentage-of-completion method of accounting based on the ratio of hours incurred to date to the total estimated hours of the contract. The amount of revenue recognized is based on the total fees under the license agreement and the percentage of completion achieved. The revenues from such arrangements are allocated between products and services revenues to reflect the portion of each revenue source separately. Estimates of total project requirements are based on prior experience of customization, delivery and acceptance of similar contracts and are reviewed and updated regularly by management. 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. As of December 31, 2008, no such estimated losses were identified.

The Company maintains a provision for product returns in accordance with SFAS No. 48, Revenue Recognition When Right of Return Exists. The provision is estimated based on the Company's past experience and is deducted from revenues. As of December 31, 2006, 2007 and 2008 provision for product returns amounted \$1,975, \$2,823 and \$2,833, respectively.

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

m. Research and development costs:

Research and development costs (net of grants) incurred in the process of software production before establishment of technological feasibility are charged to expenses as incurred. Costs of the production of a product master incurred subsequent to the establishment of technological feasibility are capitalized according to the principles set forth in SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed. Based on the Company's product development process, technological feasibility is established upon completion of a detailed program design.

Costs incurred by the Company between completion of the detailed program design and the point at which the product is ready for general release, have been capitalized.

Capitalized software development costs are amortized commencing with general product release by the straight-line method over the estimated useful life of the software product.

n. Income taxes:

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. This statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

On January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement.

The Company has decided to classify interest as financial expenses and penalties as general and administrative expenses. The Company's policy for interest and penalties related to income tax exposures was not impacted as a result of the adoption of the recognition and measurement provisions of FIN No. 48.

As a result of the implementation of FIN No. 48, the Company recognized a \$824 decrease in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of retained earnings.

o. Government grants:

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

p. Concentrations of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term bank deposits, trade receivables and marketable securities.

The Company's cash and cash equivalents and short-term bank deposits are invested in deposits mainly in dollars with major international banks. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions.

The Company's trade receivables are derived from sales to customers located primarily in North America, EMEA and the Far East. The Company performs ongoing credit evaluations of its customers and obtains letter of credit and bank guarantees for certain receivables. Additionally, the Company insures certain of its receivables with a credit insurance company. A general allowance for doubtful accounts is provided, based on the length of time the receivables are past due, and for specific debts that the Company has determined to be doubtful of collection. The Allowance for doubtful accounts expenses were \$(254), \$2,532 and \$7,782 for the years 2006, 2007 and 2008, respectively and has been included in general and administrative expenses.

The Company's marketable securities include investment in U.S. corporate debentures, U.S. government debentures and structured notes. The Company's investment policy limits the amount the Company may invest in any one type of investment or issuer, thereby reducing credit risk concentrations. As a result of the recent turmoil in capital markets, the Company has tightened its control and monitoring over its marketable securities portfolio in order to minimize potential risks stemming from current capital markets environment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company entered into forward contracts and option strategies (together: derivative instruments) intended to protect against the increase in value of forecasted non-dollar currency cash flows. The derivative instruments hedge portion of the Company's non-dollar currency exposure (see 2(w) below).

q. Severance pay:

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

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

Severance pay expense for 2006, 2007 and 2008 amounted to \$4,305, \$5,680 and \$7,822, respectively.

The Company has a 401(K) defined contribution plan covering certain employees in the U.S. All eligible employees may elect to contribute up to 6%, but generally not greater than \$15 per year, (for certain employees over 50 years of age the maximum contribution is \$20 per year) of their annual compensation to the plan through salary deferrals, subject to IRS limits. The Company matches 50% of employee contributions to the plan up to a limit of 6% of their eligible compensation. In the years 2006, 2007, and 2008 the Company recorded an expense for matching contributions in the amount of \$1,176, \$1,769 and \$2,154, respectively.

r. Basic and diluted net earnings per share:

Basic net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings per share are computed based on the weighted average number of Ordinary shares outstanding during each year plus dilutive potential equivalent Ordinary shares considered outstanding during the year, in accordance with SFAS No. 128, Earnings Per Share .

The weighted average number of shares related to outstanding anti-dilutive options and restricted shares excluded from the calculations of diluted net earnings per share was 705,589, 1,817,895 and 3,133,816 for the years 2006, 2007 and 2008, respectively.

s. Accounting for Stock-based compensation:

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)) 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. SFAS 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated income statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option-pricing model and values restricted stock based on the market value of the underlying shares at the date of grant. This option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility was calculated 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. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

t. Fair value of financial instruments:

The Company adopted the provisions of SFAS No. 157, Fair Value Measurements (SFAS No. 157) effective January 1, 2008. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

The following table presents assets and liabilities measured at fair value on a recurring basis at December 31, 2008:

	Fair value measurements using input type			Total
	Level 1	Level 2	Level 3	
Marketable securities:				
Corporate debentures	\$	\$ 180,774	\$	\$ 180,774
US Treasuries		88,530		88,530
U.S. government agency debentures		18,688		18,688
Structured notes		4,000		4,000
Foreign currency derivative contracts		(956)		(956)
Total Financials Assets	\$	\$ 291,036	\$	\$ 291,036

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Legal contingencies:

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

v. Advertising expenses:

Advertising expenses are charged to expense as incurred. Advertising expenses for the years 2006, 2007 and 2008 were \$5,918, \$6,479 and \$8,047, respectively.

w. Derivatives and hedging activities:

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities requires the Company to recognize all of its derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

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

The Company entered into derivative instrument arrangements to hedge a portion of anticipated new Israeli shekel (NIS) payroll payments. These derivative instruments are designated as cash flows hedges, as defined by SFAS No. 133, as amended, and are all highly effective as hedges of these expenses when the salary is recorded. The effective portion of the derivative instruments is included in payroll expenses in the statements of income.

At December 31, 2008, the Company expects to reclassify \$956 of net losses on derivative instruments from accumulated other comprehensive loss to earnings during the next twelve months.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New accounting pronouncements:

In February 2008, the FASB issued FASB Staff Position (FSP) FAS No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), to delay the effective date of FASB Statement 157 for one year for certain nonfinancial assets and nonfinancial liabilities, excluding those that are recognized or disclosed in financial statements at fair value on a recurring basis (that is, at least annually). For purposes of applying the FSP 157-2, nonfinancial assets and nonfinancial liabilities include all assets and liabilities other than those meeting the definition of a financial asset or a financial liability in FASB Statement 159. FSP 157-2 defers the effective date of Statement No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP 157-2. The Company does not expect the adoption of FSP 157-2 to have a material impact on its financial position, results of operations or cash flows.

In March 2008, the FASB issued Statement 161 Disclosures about Derivative Instruments and Hedging Activities (SFAS 161) an amendment to FASB No. 133. This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged. The Company does not expect the adoption of SFAS 161 to have a material impact on its financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. The Company believes that the adoption of SFAS 141R could have an impact on its consolidated financial statements; however, the impact would depend on the nature, terms and magnitude of acquisitions it consummates in the future.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of FSP 142-3 will have a material impact on the Company's financial position, results of operations or cash flows.

EITF Issue No. 08-7, Defensive Intangible Assets (EITF 08-7), requires an acquiring entity to account defensive intangible assets as a separate unit of accounting. Defensive intangible assets should not be included as part of the cost of the acquirer's existing intangible assets because the defensive intangible assets are separately identifiable. Defensive intangible assets must be recognized at fair value in accordance with SFAS 141(R) and SFAS 157. EITF 08-7 will be effective for the reporting period beginning after December 15, 2008. The Company does not expect a material impact on its consolidated financial statements from adoption of EITF 08-7.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company is currently evaluating the impact of SFAS No. 162 on its financial statements, and the adoption of this statement is not expected to have a material effect on the Company's financial statements.

In June 2008, the FASB issued FSP EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. Under the FSP, unvested share-based payment awards that contain rights to receive non-forfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years, and is not expected to have a significant impact on the Company's consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3:- MARKETABLE SECURITIES

a. Available-for-sale marketable securities

The following table summarizes amortized costs, gross unrealized gains and losses and estimated fair values of available for sale marketable securities as of December 31, 2007 and 2008:

	Amortized cost		Gross unrealized gains		Gross unrealized losses		Estimated fair value	
	December 31,		December 31,		December 31,		December 31,	
	2007	2008	2007	2008	2007	2008	2007	2008
Corporate debentures	\$	180,705	\$	1,691	\$	1,622	\$	180,774
U.S Government agency debentures	\$	1,199		18,553		2	\$	1,199
US treasuries		87,168		1,363		1		88,530
Structured notes		4,000						4,000
	\$	1,199	\$	3,191	\$	1,625	\$	1,199
	\$	290,426	\$	3,191	\$	1,625	\$	291,992

The scheduled maturities of available-for-sale marketable securities at December 31, 2008 were as follows:

	Amortized cost	Estimated fair value
Due within one year	\$ 121,374	\$ 121,069
Due after one year through five years	165,172	166,489
Due after five years through ten years	3,880	4,434
	\$ 290,426	\$ 291,992

b. Held-to-maturity marketable securities

The following table summarizes amortized costs, gross unrealized gains and losses and estimated fair values of held-to-maturity marketable securities as of December 31, 2007 and 2008:

Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
----------------	------------------------	-------------------------	----------------------

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	December 31,		December 31,		December 31,		December 31,	
	2007	2008	2007	2008	2007	2008	2007	2008
Corporate debentures	\$ 181,192	\$	\$ 973	\$	\$ 631	\$	\$ 181,534	\$
U.S Government agency debentures	54,278		42		94		54,226	
Structured notes	5,680				70		5,610	
	<u>\$ 241,150</u>	<u>\$</u>	<u>\$ 1,015</u>	<u>\$</u>	<u>\$ 795</u>	<u>\$</u>	<u>\$ 241,370</u>	<u>\$</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3:- MARKETABLE SECURITIES (Cont.)

In 2007 and 2008 the Company sold debt securities, which were classified as held-to-maturity, due to a credit deterioration of the issuer, in consideration of \$5,736 and \$13,356, respectively. As a result of the sale, the Company recorded a loss of \$203 and \$1,806, respectively.

In the third quarter of 2008, due to market conditions and deterioration in the credit worthiness of issuers, the Company reclassified its investments in marketable securities from the held-to-maturity category into the available-for-sale category.

In 2006, the Company did not sell any securities prior to their maturity and accordingly, did not realize any gains or losses on held-to-maturity securities in this year.

During 2006, 2007 and 2008, held-to-maturity marketable securities in the amounts of \$3,000, \$24,364 and \$41,680, respectively, were called by the issuers prior to maturity.

NOTE 4:- CURRENT OTHER RECEIVABLES AND PREPAID EXPENSES

	December 31,	
	2007	2008
Government authorities	\$ 4,090	\$ 6,409
Interest receivable	3,765	2,290
Prepaid expenses	9,273	11,784
Other	3,621	3,214
	<u>20,749</u>	<u>23,697</u>

NOTE 5:- INVENTORIES

	December 31,	
	2007	2008
Raw materials	\$ 1,832	\$ 1,828
Finished goods	10,003	9,672
	<u>11,835</u>	<u>11,500</u>

NOTE 6:- OTHER LONG-TERM ASSETS

	December 31,	
	2007	2008
Investment in affiliates	\$ 1,200	\$ 236
Severance pay fund	13,966	15,957
Other receivables and prepaid expenses	3,183	1,756
Deferred tax assets	8,739	7,373
	<u>27,088</u>	<u>25,322</u>

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2007	2008
Cost:		
Computers and peripheral equipment	\$ 69,838	\$ 77,839
Office furniture and equipment	16,180	15,593
Leasehold improvements	5,301	9,014
	91,319	102,446
Accumulated depreciation:		
Computers and peripheral equipment	57,262	63,093
Office furniture and equipment	11,580	11,243
Leasehold improvements	3,822	4,716
	72,664	79,052
Depreciated cost	\$ 18,655	\$ 23,394

Depreciation expense totaled \$8,244, \$8,740 and \$10,260 for the years 2006, 2007 and 2008, respectively.

NOTE 8:- OTHER INTANGIBLE ASSETS, NET

a. Other intangible assets:

	December 31,	
	2007	2008
Original amounts:		
Capitalized software development costs	\$ 8,207	\$ 8,927
Core technology	99,675	103,487
Trademarks	8,366	8,397

Explanation of Responses:

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Customer relationships and distribution network	92,262	101,836
	<u>208,510</u>	<u>222,647</u>
Accumulated amortization:		
Capitalized software development costs	5,877	6,475
Core technology	23,148	40,234
Trademarks	3,200	4,688
Customer relationships and distribution network	13,970	25,848
	<u>46,195</u>	<u>77,245</u>
Other intangible assets, net	\$ 162,315	\$ 145,402

- b. Amortization expense amounted \$13,675, \$22,186 and \$32,480 for the years 2006, 2007 and 2008, respectively.
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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- OTHER INTANGIBLE ASSETS, NET (Cont.)

- c. Estimated amortization expense for the years ended (excluding amortization of capitalized software development costs):

December 31,

2009	\$	31,198
2010		30,726
2011		27,512
2012		24,320
2013		16,935
2014 and thereafter		12,259
		142,950
	\$	142,950

NOTE 9:- GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2007 and 2008 are as follows:

	December 31,	
	2007	2008
Goodwill, beginning of the year	\$ 220,430	\$ 443,256
Additions in respect of acquisitions	220,192	9,002
Foreign currency translation adjustments	2,634	(6,754)
	443,256	445,504
Goodwill, end of year	\$ 443,256	\$ 445,504

NOTE 10:- ACCRUED EXPENSES AND OTHER LIABILITIES

December 31,	
2007	2008

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Employees and payroll accruals	\$	36,432	\$	42,699
Accrued expenses		56,529		51,472
Deferred revenues and advances from customers		93,293		108,196
Other		21,831		35,222
		<u> </u>		<u> </u>
	\$	208,085	\$	237,589
		<u> </u>		<u> </u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

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

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

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

2009	\$	11,964
2010		7,714
2011		6,277
2012		5,930
2013		1,101
2014 and thereafter		4,109
		4,109
	\$	37,095

Rent expenses for the years 2006, 2007 and 2008 were approximately \$8,668, \$10,531 and \$13,286, respectively.

- The Company leases its motor vehicles under cancelable operating lease agreements. The minimum payment under these operating leases, upon cancellation of these lease agreements was \$818 as of December 31, 2008.

Lease expenses for motor vehicles for the years 2006, 2007 and 2008 were \$2,865, \$4,041 and \$5,387, respectively.

b. Other commitments:

The Company is obligated under certain agreements with its suppliers to purchase goods and under an agreement with its manufacturing subcontractor to purchase projected inventory and excess inventory. Non cancelable obligations, net of provisions, as of December 31, 2008, were \$3,120. These obligations will be fulfilled during 2009.

c. Legal proceedings:

- On October 19, 2004, CipherActive filed an action against the Company in the District Court of Tel Aviv, State of Israel. In this lawsuit, CipherActive claims that under a development agreement with the Company, it is entitled to receive license fees in respect of certain software that it allegedly developed for the Company and which has been embedded in one of the Company's products. CipherActive claims that it is entitled to license fees in the amount of \$600 in addition to the amount of \$100 already paid to CipherActive by the Company in respect of such license fees.

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In the Company's statement of defense it claims that the software developed by CipherActive under the agreement has not been successful in the market, is no longer embedded in the Company's product and, therefore, CipherActive is not entitled to any additional license fees.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The parties to this litigation have recently agreed to submit the matter to a binding arbitration and hearings are expected to take place during the month of May 2009. The arbitration agreement approved by the Court determines that the Company's liability shall not exceed \$600 plus interest and expenses. The Company is currently unable to evaluate the probability of a favorable or unfavorable outcome.

2. On September 3, 2008, Multi-Format, Inc. filed a lawsuit against Harrah's Entertainment, Inc. and NICE Systems, Inc, a wholly owned subsidiary of the Company in the United States District Court for the District of New Jersey, alleging infringement of a U.S. patent and requesting damages. The patent purports to cover a PC-based system for monitoring and sorting representative images from video cameras, for security or other monitoring purposes. Multi-Format alleges that the defendants infringed one or more of the claims of the patent by making, using, selling, offering for sale and/or importing video surveillance products, including the Company's NiceVision Pro and NiceVision Harmony products, and that NICE Systems Inc has induced infringement of the patent through its sale and supplying of video surveillance solutions to Bally's Atlantic City, and/or other third parties or customers. On December 10, 2008, Multi-Format filed an Amended Complaint substituting Bally's Park Place, Inc. for Harrah's Entertainment, Inc. The Company filed a response and counterclaim on December 23, 2008, to which Multi-Format responded on January 7, 2009. An initial scheduling hearing took place on January 26, 2009. Multi-Format has not identified any specific patent claim it believes was infringed and has not made a monetary demand.

NICE Systems Inc. has undertaken to represent and indemnify Harrah's Entertainment in respect of this lawsuit.

The Company is currently unable to evaluate the probability of a favorable or unfavorable outcome

3. On July 20, 2004, S.T.S. Software Systems Ltd. (STS) filed a lawsuit in the U.S. District Court for the Southern District of New York charging Witness Systems, Inc. (Witness) with infringement of VoIP patents in the U.S. On June 26, 2007, the Company joined as a plaintiff in the litigation. A trial took place in the U.S. District Court for the Northern District of Georgia during the week of March 17, 2008 and on May 25, 2008. The Court dismissed the claim and determined that Witness Systems does not infringe the Company's patents.

On August 30, 2004, Witness filed a patent infringement action in the Federal Court for the Northern District of Georgia against NICE Systems, Inc. Witness subsequently filed an identical action against the Company in the same court. Witness accused the Company of infringing two U.S. patents relating to certain technology used with some of the Company's products, mainly screen capture. No trial date was set.

On January 19, 2006 Witness filed a patent infringement action in the Federal Court for the Northern District of Georgia against the Company and NICE Systems, Inc., alleging the infringing of a certain U.S patent relating to certain technology used with some of the Company's products, mainly Nice Perform. A trial took place during the week of May 12, 2008. The jury decided that the Company infringes Witness Systems' patent and adjudicated monetary damages of \$3,300. The Company filed a motion to revoke the jury's decision. Witness Systems filed a motion for a permanent injunction against the Company and the Company submitted its response to the Court.

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

On May 10, 2006, the Company and NICE Systems, Inc. filed a new lawsuit against Witness Systems, Inc. in the United States District Court for District of Delaware claiming that Witness Systems is infringing ten U.S. patents. These patents cover various aspects of recording customer interaction communications and traditional logging. This lawsuit went to trial before a jury on January 14, 2008. The jury deadlocked and on January 25, 2008 and a mistrial was declared. The Company filed a motion for a new trial date for the case.

On August 1, 2008, the Company and Verint Systems Inc. entered into an agreement to settle and dismiss all of the above patent disputes (which had commenced with Witness Systems, Inc. prior to its acquisition by Verint).

4. On July 27, 2004, Dictaphone Corp. (which was acquired by the Company) filed an action against VoicePrint in the United States District Court for the Central District of California asserting the infringement by VoicePrint of two U.S patents. The Company subsequently acquired these patents from Dictaphone as part of its acquisition. This lawsuit has been settled in principle, but the documentation for this settlement has not been finalized and executed by the parties.
5. In December 2006, Calyon Corporate and Investment Bank (Calyon) filed a suit against the Company in the District Court of Tel Aviv, demanding repayment of \$648 plus accrued interest, in the total amount of \$740. The Company deducted this amount in January 2004 from a payment transferred from an account of Thales maintained with Calyon to the Company's account, at the instruction of Thales, in connection with the acquisition of Thales Contact Solutions (TCS) from Thales. The Company had notified TCS in 2004 that it had setoff such amount with respect to an overdue payment by TCS to the Company. The dispute was submitted to mediation, however the mediation process failed and the proceedings were returned to the District Court of Tel Aviv. This lawsuit is in its initial stages and the first hearing is scheduled to take place on June 23, 2009. The Company is currently unable to evaluate the probability of a favorable or unfavorable outcome.
6. On March 9, 2007, Formatest AG filed a claim against NICE Switzerland AG, a wholly owned subsidiary of the Company, in the Cantonal Court of Zug, Switzerland. The claim was in the amount of approximately \$1,600 (1,187,793), plus interest at 5% per annum, and was made in connection with an agreement dated December 10, 2004 between FAST Video Security AG (now NICE Switzerland AG) and Formatest AG. On June 19, 2007, the Company and Formatest AG entered into an agreement settling all claims. The Company believes it is entitled to recover all or a substantial part of the settlement amount paid to Formatest AG (with the addition of legal costs), under the terms of indemnification provision contained in the sale and purchase agreement between the selling shareholders of FAST Video Security AG (the Sellers) and the Company dated November 16, 2006 (the Agreement). On December 18, 2007, the Sellers issued a Notice of Arbitration in the Zurich Chamber of Commerce, claiming that the Company should pay them an amount of \$1,229 (plus late payment interest of 5% from July 2007), which is the remaining unpaid portion of the first earn-out payment under the Agreement, release \$3,000 (plus accrued interest) from the escrow account pursuant to the Agreement, plus an additional late release interest of 5%, and compensate them for loss incurred due to deteriorating exchange rates and other related expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Prior to the commencement of the arbitration proceedings, the Company released to the Sellers a partial payment of \$1,400 out of the escrow funds and paid to the Sellers the amount of \$1,229.

On June 23, 2008, the Sellers filed their statement of claim, asking for payment of \$1,600 (representing the balance of the escrow funds) plus additional amounts for interest, losses on the exchange rates, legal costs for the defense of the Formatest claim and unspecified legal costs and expenses related to the arbitration proceeding. The Company filed a statement of defense and counterclaim on August 25, 2008, seeking an award dismissing the Seller's claims and holding the Sellers liable (jointly and severally) for the payment of a total of EUR 831,600 and additional amounts for interest and unspecified arbitration costs.

Pursuant to the current procedural timetable, the arbitration proceedings are expected to take place in the first half of 2009, and an award is not expected to be rendered before July 2009. The Company is currently unable to evaluate the probability of a favorable or unfavorable outcome.

7. On October 26, 2007, two former employees of NICE Systems Inc. filed a lawsuit against the Company and NICE Systems Inc, alleging violations of various laws prohibiting discrimination in employment. The dispute was settled in December 2008 between the parties.
8. On December 19, 2007, a former employee of NICE Systems Inc. sent the Company and NICE Systems Inc. a letter alleging engagement in prohibited discrimination in employment and retaliation in terminating his employment. The dispute was settled in December 2008 between the parties.
9. On October 15, 2007, a former employee of Actimize Ltd, a wholly owned subsidiary of the Company, filed a claim with the Tel Aviv district labor court, seeking a declaration, that he is entitled to 0.5% of the outstanding share capital of Actimize Ltd. In its statement of defense, Actimize Ltd. claimed that once the former employee chose not to exercise his vested options upon termination of his employment with the company, such options expired. In addition, Actimize Ltd. claimed, that the former employee's options deteriorated in value due to his decision not to exercise his right to re-price such options during his employment term. The case is at the preliminary stages and the court yet to set a hearing date. The Company is currently unable to evaluate the probability of a favorable or unfavorable outcome.

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

10. Around December 31, 2008, NICE Systems, Inc. received a letter from Plant CML (Plant), a distributor of NICE Systems, Inc., asserting several indemnity claims against the Company. The claims arise out of the Commonwealth of Massachusetts claim against Verizon Communications Inc. (Verizon) relating to numerous alleged problems associated with Company s products used by the Commonwealth. NICE Systems, Inc. sold the Company s products to Plant pursuant to a Reseller Agreement between the parties dated December 2005, and Plant, in turn, resold the products to Verizon, who in turn sold the overall system to the Commonwealth.

The Company is in the initial stage of assessing the facts, merits and potential magnitude of these claims. The Company is currently unable to evaluate the probability of a favorable or unfavorable outcome in this dispute.

11. The Company is involved in various other legal proceedings arising in the normal course of its business. Based upon the advice of counsel, the Company does not believe that the ultimate resolution of these matters will have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME

a. Israeli taxation:

1. Corporate tax rates in Israel:

Taxable income of Israeli companies is subject to tax at the rate of 27% in 2008, 26% in 2009 and 25% in 2010 and thereafter.

2. Tax benefits under the Israel Law for the Encouragement of Capital Investments, 1959 (the Law):

The Law empowers the Israeli Investment Center to grant Approved Enterprise status to capital investments in production facilities that meet certain relevant criteria (Approved Enterprise). In general, such capital investments will receive Approved Enterprise status if the enterprise is expected to contribute to the development of the productive capacity of the economy, absorption of immigrants, creation of employment opportunities, or improvement in the balance of payments.

The tax benefits derived from any such Approved Enterprise relate only to taxable income attributable to the specific program of investment to which the status was granted. To the extent that NICE has been granted Approved Enterprise status and operates under more than one approval, or that its capital investments are only partly approved, its effective corporate tax rate will be the result of a weighted combination of the various rates applicable.

Certain production facilities of NICE have been granted the status of an Approved Enterprise under the Law, in four separate investment programs. For all such Approved Enterprises, the Company elected to apply for alternative tax benefits (Alternative Package), waiving Government grants in return for a tax exemption.

Income derived from the first and second program was tax-exempt for a period of four years, commencing 1999 and 1997, respectively, and is taxed at the reduced corporate tax rate of 10%-25% (based on the percentage of foreign ownership in each taxable year) for an additional period of six years. Income derived from the third and fourth programs are tax-exempt for a period of two years, commencing 2005, and will be taxed at the reduced corporate tax rate of 10%-25% (based on the percentage of foreign ownership in each taxable year) for an additional period of eight years.

The above mentioned tax benefits are scheduled to expire by 2014 in a gradual manner.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

The Company's wholly owned subsidiary, Actimize Ltd., has received approval as an Approved Enterprise in Israel under the Law, for two investment programs and is therefore eligible for Israeli tax benefits. Pursuant to these benefits, Actimize Ltd. may enjoy a tax exemption from Israeli taxes on income derived during the first two years in which each investment program produces taxable income, subject to certain timing restrictions, provided that it does not distribute such income as a dividend. In addition, Actimize Ltd. will enjoy a reduced tax rate of 10% - 25%, (based on the percentage of foreign ownership in each taxable year) for an additional period of eight years. The benefit periods have not yet commenced.

In the event of distribution of dividends from the said tax-exempt income, the amount distributed will be subject to corporate tax at the rate ordinarily applicable to the Approved Enterprise's income. The tax-exempt income attributable to the Approved Enterprise programs mentioned above can be distributed to shareholders without subjecting the Company to taxes only upon the complete liquidation of NICE.

The duration of tax benefits, for each of the Programs is subject to limitations of the earlier of 12 years from completion of the investment or commencement of production, or 14 years from receipt of approval, as an Approved Enterprise under the Law.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the Law and regulations published thereunder. Should the Company fail to meet such requirements in the future, income attributable to its Approved Enterprise programs could be subject to the statutory Israeli corporate tax rate and the Company could be required to refund a portion of the tax benefits already received, with respect to such programs. As of December 31, 2008, management believes that the Company is in compliance with all the conditions required by the Law.

On April 1, 2005, an amendment to the Law came into effect (the Amendment) and has significantly changed the provisions of the Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as a Privileged Enterprise (rather than the previous terminology of Approved Enterprise), such as a provision requiring that at least 25% of the Privileged Enterprise's income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Law so that companies are no longer required for Investment Center approval in order to qualify for tax benefits. The period of tax benefits for a new Privileged Enterprise commences in the Year of Commencement. This year is the later of: (1) the year in which taxable income is first generated by the Company, or (2) a year selected by the company for commencement, on the condition that the Company meets certain provisions provided by the Law (Year of Election).

If a company requested the Alternative Package of benefits for an Approved Enterprise under the old law before the 2005 amendment, it is precluded from filing a Year of Election notice for a Privileged Enterprise for two years after the year in which the Approved Enterprise was activated.

In addition, the Law provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the law as they were on the date of such approval. Therefore, the four existing Approved Enterprises will not be subject to the provisions of the Amendment.

NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

The Company has four Privileged Enterprises with Years of Election ranging from 2006 through 2008.

As a result of the Amendment, tax-exempt income generated under the Company's Privileged Enterprise program will be subject to taxes upon dividend distribution or complete liquidation.

The Company does not intend to distribute any amounts of its undistributed tax exempt income as dividends as it intends to reinvest its tax-exempt income within the Company. Accordingly, no deferred income taxes have been provided on income attributable to the Company's Approved or Privileged Enterprise programs as the undistributed tax exempt income is essentially permanent in duration.

As of December 31, 2008, approximately \$160,000 is tax-exempt attributable to its various Approved and Privileged Enterprise programs. If such tax exempt income is distributed (other than in respect of the first four programs upon the complete liquidation of the Company), it would be taxed at the reduced corporate tax rate applicable to such profits (between 10%-25%) and an income tax liability of approximately \$28,000 would be incurred as of December 31, 2008.

Income from sources other than an Approved or a Privileged Enterprise is subject to tax at regular Israeli corporate tax rate.

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

NICE is an Industrial Company as defined and, as such, is entitled to certain tax benefits including accelerated depreciation, deduction of public offering expenses in three equal annual installments and amortization of other intangible property rights for tax purposes.

b. Income taxes on non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective country of residence. Neither Israeli income taxes, foreign withholding taxes nor deferred income taxes were provided in relation to undistributed earnings of the Company's foreign subsidiaries. This is because the Company intends to permanently reinvest undistributed earnings in the foreign subsidiaries in which those earnings arose. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

c. Net operating loss carryforward:

As of December 31, 2008, the Company had carryforward tax losses totaling approximately \$60,000 which can be carried forward and offset against taxable income with expiration dates ranging from 2009 and onwards. Approximately \$37,600 of these carryforward tax losses have no expiration date. The balance expires between 2009 and 2028.

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

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

d. Deferred tax assets and liabilities:

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts recorded for tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	2007	2008
Deferred tax assets:		
Net operating losses carryforward	\$ 10,510	\$ 11,890
Acquired intangibles	6,244	5,340
Share based payments	2,809	4,977
Other	9,927	13,648
	<u>29,490</u>	<u>35,855</u>
Deferred tax assets before valuation allowance	29,490	35,855
Valuation allowance	(6,182)	(17,760)
	<u>23,308</u>	<u>18,095</u>
Deferred tax assets	23,308	18,095
Deferred tax liabilities:		
Acquired intangibles	(48,075)	(39,382)
	<u>(48,075)</u>	<u>(39,382)</u>
Deferred tax liabilities, net	\$ (24,767)	\$ (21,287)

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

The increase in the valuation allowance in 2008 amounted to \$11,578 related to operations.

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

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

	Year ended December 31,		
	2006	2007	2008
Income before taxes on income, as reported in the consolidated statements of income	\$ 30,992	\$ 47,634	\$ 48,587
Statutory tax rate in Israel	31%	29%	27%
Approved and Privileged Enterprise benefits *)	(14.6)%	(10.1)%	(11.9)%
Changes in valuation allowance	3.8%	(1.4)%	6.2%
Earnings taxed under foreign law	(7.4)%	(2.6)%	1.4%
Acquired in-process research and development	14.6%	2.3%	
Other	0.3%	4.3%	(3.2)%
Effective tax rate	27.7%	21.5%	19.5%
*) Net earnings per Ordinary share - amounts of the benefit resulting from the Approved and Privileged Enterprise status			
Basic	\$ 0.09	\$ 0.09	\$ 0.10
Diluted	\$ 0.09	\$ 0.09	\$ 0.09

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

	Year ended December 31,		
	2006	2007	2008
Domestic	\$ 33,629	\$ 27,506	\$ 36,000
Foreign *)	(2,637)	20,128	12,587

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\$	30,992	\$	47,634	\$	48,587
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*) The loss before taxes in 2006 arose as a result of write off of acquired in-process research and development of approximately \$13,000.

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- TAXES ON INCOME (Cont.)

g. Taxes on income are comprised as follows:

	Year ended December 31,		
	2006	2007	2008
Current	\$ 6,404	\$ 10,516	\$ 14,290
Deferred	2,187	(262)	(4,810)
	<u>\$ 8,591</u>	<u>\$ 10,254</u>	<u>\$ 9,480</u>
Domestic	\$ 5,892	\$ 4,254	\$ 4,646
Foreign	2,699	6,000	4,834
	<u>\$ 8,591</u>	<u>\$ 10,254</u>	<u>\$ 9,480</u>

h. Uncertain tax positions:

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

	December 31,	
	2007	2008
Uncertain tax positions, beginning of the year	\$ 10,702	\$ 14,919
Increases in tax positions for prior years	1,315	3,080
Decreases in tax positions for prior years	(734)	(391)
Increases in tax positions for current year	3,805	7,848
Settlements	(169)	
	<u>\$ 14,919</u>	<u>\$ 25,456</u>

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Unrecognized tax benefits included \$24,820 of tax benefits, which if recognized, would reduce the Company's annual effective tax rate. The Company has further accrued \$625 of accrued interest related to uncertain tax positions as of December 31, 2008.

As of December 31, 2008, the Company is subject to Israeli income tax audits for the tax years 2002 through 2008, to U.S. federal income tax audits for the tax years of 2003 through 2008 and to other income tax audits for the tax years of 2002 through 2008.

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- SHAREHOLDERS EQUITY

- a. The Ordinary shares of the Company are traded on the Tel-Aviv Stock Exchange and its ADS s are traded on NASDAQ.

In 2007 the Company completed a secondary public offering of its ADS s on NASDAQ. The Company issued 5,175,000 shares at a price of \$35.02 per share before issuance expenses. Total net proceeds from the issuance amounted to approximately \$180,829.

- b. Share option plans:

In 1995, the Company adopted an employee share option plan (the 1995 Option Plan). Under the 1995 option plan, employees and officers of the Company may be granted options to acquire Ordinary shares. The options to acquire Ordinary shares are granted at an exercise price of not less than the fair market value of the Ordinary shares on the grant date, subject to certain exceptions, which may be determined by the Company s Board of Directors. 16,691,132 options of the 1995 Option Plan were granted.

Under the terms of the 1995 Option Plan, 25% of each stock option granted becomes exercisable on each of the first, second, third and fourth anniversaries of the date of grant so long as the grantee is, subject to certain exceptions, employed by the Company at the date the stock option becomes exercisable. As of February 15, 2000, the Board of Directors of the Company adopted a resolution amending the exercise terms of the 1995 Option Plan whereby 25% of the stock options granted become exercisable on the first anniversary of the date of grant and 6.25% becomes exercisable once every quarter during the subsequent three years. The options expire 6 years from the date of grant.

In 2003, the Company adopted the 2003 Stock Option Plan (the 2003 Option Plan). Under the 2003 option plan, employees and officers of the Company may be granted options to acquire Ordinary shares. The options to acquire Ordinary shares are granted at an exercise price of not less than the fair market value of the Ordinary shares on the grant date, subject to certain exceptions, which may be determined by the Company s Board of Directors. Generally, under the terms of the 2003 Plan, 25% of the stock options granted become exercisable on the first anniversary of the date of grant and 6.25% becomes exercisable once every quarter during the subsequent three years. Stock options expire six years after the date of grant.

Pursuant to the terms of the acquisition of Actimize Ltd. in August 2007, the Company assumed and replaced the stock options and restricted shares granted by Actimize. In 2003, Actimize adopted the 2003 Omnibus Stock Option and Restricted Stock Incentive Plan (the 2003 Actimize Plan). Under the 2003 Actimize Plan, the grantees could be granted options to acquire Actimize s ordinary shares, restricted shares and shares. Incentive stock options to acquire ordinary shares of Actimize were granted at an exercise price not less than the fair market value of the ordinary shares of Actimize on the date of grant or as determined by Actimize s board of directors or by a committee thereof. In addition, the options were granted at an exercise price of not less than the par value of the ordinary shares of Actimize.

Generally, under the terms of the 2003 Actimize Plan, 25% of the options granted become exercisable on the first anniversary of the date of grant and 6.25% become exercisable following the lapse of every consecutive quarter thereafter during the subsequent three years. Options generally expire ten years after the date of grant.

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- SHAREHOLDERS EQUITY (Cont.)

In June 2008, the Company adopted the 2008 Share Incentive Plan (the 2008 Plan), to provide incentives to employees, directors, consultants and/or contractors by rewarding performance and encouraging behavior that will improve the Company's profitability. Under the 2008 Plan, the Company's employees, directors, consultants and/or contractors may be granted any equity-related award, including any type of an option to acquire the Company's ordinary shares and/or share appreciation right and/or share and/or restricted share and/or restricted share unit and/or other share unit and/or other share-based award and/or other right or benefit under the 2008 Plan (each an Award). The options to acquire ordinary shares are granted at an exercise price of not less than the fair market value of the ordinary shares on the date of the grant, subject to certain exceptions which may be determined by the Company's board of directors, including in some cases options granted with an exercise price of zero.

Generally, under the terms of the 2008 Plan, 25% of an Award granted becomes exercisable on the first anniversary of the date of grant and 6.25% becomes exercisable once every quarter during the subsequent three years. Specifically with respect to restricted share units, unless determined otherwise by the board of directors, 25% of the restricted share units granted becomes vested on each of the four consecutive annual anniversaries following the date of grant. Awards with a vesting period expire six years after the date of grant. The 2008 Plan provides that the maximum number of shares that may be subject to Awards granted under the 2008 Plan shall be an amount per calendar year, equal to 3.5% of the Company's issued and outstanding share capital as of December 31 of the preceding calendar year. Such amount is reset for each calendar year. For 2008, the aforementioned amount was reduced by the number of shares subject to Awards granted by the Company during the 2008 calendar year under the 2003 Plan.

The fair value of the Company's stock options granted to employees and directors for the years ended December 31, 2006, 2007 and 2008 was estimated using the following assumptions:

	2006	2007	2008
Expected volatility	33.9%-40.6%	32.5%-37.9%	32.5%-39.8%
Weighted average volatility	40.0%	37.5%	34.2%
Risk free interest rate	4.6%-4.9%	3.3%-4.6%	1.7%-3.1%
Expected dividend	0%	0%	0%
Expected term (in years)	2.3-3.7	2.5-3.7	2.5-3.7

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- SHAREHOLDERS EQUITY (Cont.)

A summary of the Company's stock options activity and related information for the year ended December 31, 2008, is as follows:

	Number of options	Weighted-average exercise price	Weighted- average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2008	6,460,595	\$ 23.64	4.3	\$ 70,697
Granted	1,846,266	\$ 29.06		
Exercised	(1,015,649)	\$ 14.50		
Forfeited	(419,997)	\$ 25.17		
Cancelled	(50,241)	\$ 29.22		
Outstanding at December 31, 2008	6,820,974	\$ 26.33	4.3	15,745
Exercisable at December 31, 2008	2,868,747	\$ 23.23	3.4	\$ 11,200

The weighted-average grant-date fair value of options granted during the years 2006, 2007 and 2008 was \$9.20, \$11.8 and \$8.6, respectively.

The total intrinsic value of options exercised during the years 2006, 2007 and 2008 was \$41,249, \$40,735 and \$16,818, respectively.

The options outstanding under the Company's Stock Option Plans as of December 31, 2008 have been separated into ranges of exercise price as follows:

Ranges of exercise price	Options outstanding as of December 31, 2008	Weighted average remaining contractual term (Years)	Weighted average exercise price	Options exercisable as of December 31, 2008	Weighted Average Exercise price of Options Exercisable
\$ 0.02	4,692	8.66	\$ 0.02	2,930	\$ 0.02
\$ 0.27	20,366	5.67	0.27		

Explanation of Responses:

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\$	2.46-2.89	52,442	5.98	2.84	44,544	2.83
\$	6.00-6.87	141,337	7.58	6.59	52,394	6.59
\$	9.67-14.04	409,946	2.31	10.52	375,592	10.32
\$	14.60-21.76	1,547,497	3.43	17.94	915,008	17.15
\$	22.33-32.31	2,591,827	4.83	28.72	601,533	26.48
\$	34.78-38.44	2,052,867	4.30	35.07	876,746	34.99
		<u>6,820,974</u>	4.27	\$ 26.33	<u>2,868,747</u>	\$ 23.23

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:- SHAREHOLDERS EQUITY (Cont.)

A summary of the Company's Restricted Stock Awards (RSA) activity and related information for the year ended December 31, 2008, is as follows:

	Number of RSA	Weighted-average exercise price
Outstanding at January 1, 2008	412,841	\$ 1.09
Vested	(221,638)	\$ 1.04
Forfeiture	(5,139)	\$ 0.02
Outstanding at December 31, 2008	186,064	\$ 0.93

As of December 31, 2008, there was approximately \$21,361 and \$7,590 of unrecognized compensation expense related to non-vested stock options and restricted stock awards, respectively, expected to be recognized over four years.

A summary of the Company's Restricted Stock Units (RSU) activity and related information for the year ended December 31, 2008, is as follows:

	Number of RSU	Weighted-average exercise price
Outstanding at January 1, 2008		\$
Issued	6,500	\$ 0.26
Outstanding at December 31, 2008	6,500	\$ 0.26

c. Employee Stock Purchase Plan (ESPP):

Eligible employees under the Employee Stock Purchase Plan (the Purchase Plan) can have up to 10% of their earnings withheld, up to certain maximums, to be used to purchase Ordinary shares. Commencing January 1, 2006, the price of Ordinary shares purchased under the Purchase Plan is equal to 95% of the fair market value of the Ordinary shares.

During 2006, 2007 and 2008, employees purchased 8,570, 16,041 and 17,613 shares at average prices of \$26.73, \$31.08 and \$30.14 per share, respectively.

d. Stock split:

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On May 17, 2006, the Company effected a two-for-one stock split on its Ordinary shares which was effected in the form of a 100% stock dividend. Shareholders of record at the close of business on May 30, 2006, the record date, received one additional Ordinary share/ADS for each Ordinary share/ADS held. All Ordinary share options and per share amounts have been adjusted to give retroactive effect to the stock split for all periods presented.

e. Dividends:

Dividends, if any, will be paid in NIS. Dividends paid to shareholders outside Israel may be converted to dollars on the basis of the exchange rate prevailing at the date of the conversion. The Company does not intend to pay cash dividends in the foreseeable future.

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- REPORTABLE SEGMENTS, PRODUCT LINES AND MAJOR CUSTOMER DATA

a. Reportable segments:

The Company operates under several reportable segments. The following tables present the financial information of the Company's reportable segments.

Year ended December 31, 2008

	Americas	EMEA*)	APAC**)	Actimize	Not allocated	Total
Revenues	\$ 311,884	\$ 170,097	\$ 84,029	\$ 58,152	\$	\$ 624,162
Gross profit (loss)	\$ 205,824	\$ 111,496	\$ 62,085	\$ 28,946	\$ (22,935)	\$ 385,416
Operating expenses	\$ 71,936	\$ 34,366	\$ 15,024	\$ 50,456	\$ 176,283	\$ 348,065
Operating income (loss)	\$ 133,888	\$ 77,130	\$ 47,061	\$ (21,510)	\$ (199,218)	\$ 37,351

Year ended December 31, 2007

	Americas	EMEA*)	APAC**)	Actimize	Not allocated	Total
Revenues	\$ 283,009	\$ 149,913	\$ 72,894	\$ 11,558	\$	\$ 517,374
Gross profit (loss)	\$ 176,678	\$ 98,184	\$ 51,818	\$ 4,110	\$ (19,758)	\$ 311,032
Operating expenses	\$ 63,779	\$ 34,272	\$ 13,426	\$ 20,127	\$ 146,594	\$ 278,198
Operating income (loss)	\$ 112,899	\$ 63,912	\$ 38,392	\$ (16,017)	\$ (166,352)	\$ 32,834

Year ended December 31, 2006

Explanation of Responses:

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	<u>Americas</u>	<u>EMEA*)</u>	<u>APAC**)</u>	<u>Not allocated</u>	<u>Total</u>
Revenues	\$ 241,308	\$ 112,541	\$ 55,795	\$	\$ 409,644
Gross profit (loss)	\$ 141,797	\$ 70,028	\$ 37,097	\$ (13,492)	\$ 235,430
Operating expenses	\$ 59,766	\$ 30,326	\$ 10,169	\$ 118,072	\$ 218,333
Operating income (loss)	\$ 82,031	\$ 39,702	\$ 26,928	\$ (131,564)	\$ 17,097

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

***) Includes Asia Pacific

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- REPORTABLE SEGMENTS, PRODUCT LINES AND MAJOR CUSTOMER DATA (Cont.)

The following presents long-lived assets of December 31, 2007 and December 31, 2008:

	Year ended December 31,	
	2007	2008
Americas	\$ 254,826	\$ 241,739
EMEA	77,916	88,167
APAC	4,101	3,608
Actimize	287,383	280,786
	<u>\$ 624,226</u>	<u>\$ 614,300</u>

b. Product lines:

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

	Year ended December 31,		
	2006	2007	2008
Enterprise interaction solutions	\$ 300,920	\$ 382,893	\$ 417,454
Public safety and security sector	108,724	122,923	148,556
Operational risk management solutions		11,558	58,152
	<u>\$ 409,644</u>	<u>\$ 517,374</u>	<u>\$ 624,162</u>

c. Major customer data as a percentage of total revenues:

	Year ended December 31,		
	2006	2007	2008

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Customer A

_____	_____	_____
16%	13%	13%
_____	_____	_____

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15:- SELECTED STATEMENTS OF INCOME DATA

- a. Research and development, net:

	Year ended December 31,		
	2006	2007	2008
Total costs	\$ 47,963	\$ 63,271	\$ 83,296
Less - grants and participations	(1,858)	(2,677)	(3,573)
Less - capitalization of software development costs	(1,225)	(962)	(1,278)
	\$ 44,880	\$ 59,632	\$ 78,445

- b. Financial income and other, net:

	Year ended December 31,		
	2006	2007	2008
Financial income:			
Interest and amortization/accretion of premium/discount on marketable securities	\$ 6,848	\$ 10,875	\$ 7,739
Realized gain on marketable securities		5	3,054
Interest	7,101	5,499	4,809
Foreign currency translation	1,434	1,581	6,088
	15,383	17,960	21,690
Financial expenses:			
Realized loss on marketable securities		(262)	(4,107)
Interest	(40)	(668)	(613)
Foreign currency translation	(1,455)	(1,548)	(4,568)
Other	(616)	(658)	(1,113)
	(2,111)	(3,136)	(10,401)

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Other income (expenses), net	623	(24)	(53)
	<u> </u>	<u> </u>	<u> </u>
	\$ 13,895	\$ 14,800	\$ 11,236
	<u> </u>	<u> </u>	<u> </u>

c. Net earnings per share:

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

1. Numerator:

	Year ended December 31,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net income available to Ordinary shareholders	\$ 22,401	\$ 37,380	\$ 39,107
	<u> </u>	<u> </u>	<u> </u>

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NICE SYSTEMS LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

2. Denominator (in thousands):

Denominator for basic net earnings per share -			
Weighted average number of shares	49,572	53,921	60,088
Effect of dilutive securities:			
Add - Employee stock options and RSA	2,429	2,005	1,180
Add - ESPP	1		
	<u> </u>	<u> </u>	<u> </u>
Denominator for diluted net earnings per share - adjusted weighted average shares	52,002	55,926	61,268
	<u> </u>	<u> </u>	<u> </u>

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SIGNATURES

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

NICE-SYSTEMS LTD.

By: /s/ Haim Shani

Haim Shani
Chief Executive Officer

Date: April 5, 2009

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