

NICE SYSTEMS LTD  
Form 6-K  
November 01, 2006

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13A-16 OR 15D-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the month of November 2006 (report no.1)

Commission File Number: 0-27466

NICE-SYSTEMS LTD.

*(Translation of Registrant's Name into English)*

8 Hapnina Street, P.O. Box 690, Ra'anana, Israel

*(Address of Principal Executive Offices)*

Indicate by check mark whether the Registrant files or will file annual reports under cover Form 20-F or Form 40-F.

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Form 20-F  Form 40-F

Indicate by check mark if the Registrant is submitting this Form 6-K in paper as permitted by Regulations S-T Rule 101(b)(1):

Yes  No

Indicate by check mark if the Registrant is submitting this Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes  No

Indicate by check mark whether by furnishing the information contained in this Form 6-K, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to the Registrant in connection with Rule 12g3-2(b): 82-  
\_N/A\_

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THE GAAP FINANCIAL STATEMENTS ATTACHED TO THE PRESS RELEASE IN EXHIBIT 99.1 OF THIS REPORT ON FORM 6-K ARE HEREBY INCORPORATED BY REFERENCE INTO NICE-SYSTEMS LTD.'S ("NICE") REGISTRATION STATEMENTS ON FORM F-3 (REGISTRATION STATEMENTS NOS. 333-127883, 333-11250, 333-12996, AND 333-109766) AND NICE'S REGISTRATION STATEMENTS ON FORM S-8 (REGISTRATION STATEMENT NOS. 333-11842, 333-9352, 333-11154, 333-13686, 333-111112, 333-111113 AND 333-134355), AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS SUBMITTED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

## CONTENTS

This Report on Form 6-K of NICE consists of the following documents, which are attached hereto and incorporated by reference herein:

99.1 Press Release: Record Results for Third Quarter 2006 Reported by NICE Systems - Revenues Reach \$112.2 Million, dated November 1, 2006

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**NICE-SYSTEMS LTD.**

By: /s/ Yechiam Cohen

Name: Yechiam Cohen

Title: General Counsel

Dated: November 1, 2006

EXHIBIT INDEX

Press Release: Record Results for Third Quarter 2006 Reported by NICE Systems - Revenues Reach \$112.2 Million, dated November 1, 2006



Record Results for Third Quarter 2006  
Reported by NICE Systems - Revenues Reach \$112.2 Million

*Company delivers record gross margins, operating margins and net income*

**Ra'anana, Israel, November 01, 2006 - NICE Systems (NASDAQ: NICE)**, the global provider of advanced solutions that enable organizations to extract Insight from Interactions(TM) to drive performance, today announced results for the third quarter of 2006.

Third quarter 2006 pro-forma revenue was a record \$112.2 million, representing a 35.6% increase from \$82.7 million in the third quarter of 2005.

Pro-forma gross margin in the third quarter was a record 60.6%, or \$67.9 million pro-forma gross profit, up from 56.6%, or \$46.8 million respectively in the third quarter 2005.

The company reported a record pro-forma operating margin for the quarter of 15.9% and operating profit of \$17.8 million, compared with 11.5% and \$9.5 million, respectively, in the third quarter of 2005.

Third quarter 2006 pro-forma net income was a record \$16.0 million, up 78.5% from \$9.0 million in the third quarter of 2005. Pro-forma earnings per fully diluted share were at \$0.31, up from \$0.22 in the same quarter of 2005.

On a GAAP basis: Third quarter 2006 revenue was \$107.5 million, up from \$82.7 million in the third quarter of 2005. Third quarter 2006 gross margin was 56.2%, compared with 55.9% in the third quarter of 2005; operating loss was \$6.9 million, compared with operating profit of \$8.4 million, in the third quarter of 2005; and third quarter 2006 net loss was \$5.4 million, or \$0.11 per fully diluted share, compared with net income of \$7.9 million, or \$0.19 per share, on a fully diluted basis, for the third quarter of 2005.

Q3 2006 operating cash flow was a record \$25.3 million, Total cash and equivalents at September 30, 2006 was \$244.2 million, with no debt, compared with \$421.1 million on June 30, 2006. This follows the \$200 million that were paid for IEX during the quarter.

Commenting on the results, Haim Shani, Chief Executive Officer of NICE said, "Third quarter results reflect the successful execution of our long term plan and the continually growing demand for our Insight from Interactions

solutions both in the enterprise and security sectors. They are also the clearest testament to the success of the paradigm shift we introduced to the enterprise sector with the acquisitions of IEX and Performix and implementation of our best-of-breed strategy for the contact center. Together with our global services, and worldwide footprint our offering enables us to achieve quick and measurable results. We continue to lead our markets going into 2007 and beyond."

Ran Oz, NICE's Corporate Vice President and Chief Financial Officer, stated, "Further to the outstanding results of the last three quarters and the strong momentum we are seeing in both the enterprise and security sectors, we are raising our full year guidance and providing first time Q4 guidance as follows: We expect Q4 revenues to be between \$115 and \$120 million, and pro-forma EPS per fully diluted share in the range of 32 - 37 cents. For the year we expect revenues at \$413- \$418 million, up from \$408 - \$417 million, and pro-forma EPS at a range of \$1.12 - \$1.17, up from \$1.06 - \$1.15 per fully diluted share."

Mr. Oz continued "Looking forward to 2007 we expect the growth in our revenues to continue. This will allow us to enjoy the leverage of our business model, further improving margins and driving stronger bottom line growth. We introduce first time 2007 revenue guidance at \$485 - \$500 million; and first time pro-forma EPS per fully diluted share guidance of \$1.35 - 1.45."

### **Conference Call**

NICE will host a conference call to discuss the results and its business outlook today at 8:30 a.m. EST (15:30 Israel). Participants may access the conference call by dialing US toll-free 1-866-860-9642; international: +972-3-918-0610; Israel: 03-918-0610. The call will also be broadcast live on the internet via NICE's website at [www.nice.com](http://www.nice.com). A telephone replay will be available for up to 72 hours three hours after the call. The replay information: US Toll-free: 1-866-527-8676; international: + 972-3-925-5930; Israel: 03-925-5930.



## Pro-forma

Pro-forma results exclude the fair value adjustment on acquired deferred revenues of \$3.5 million net of taxes, and the amortization of acquired intangible assets of \$3.5 million net of taxes in Q3 2006 and \$1.1 million in Q3 2005, in process research and development write off in relation to the IEX acquisition in the amount of \$12.7 million, expensing of options of \$2.2 million net of taxes for Q3 2006, and legal settlement income of \$0.4 million. Reconciliation between the results on a GAAP and pro-forma basis is provided in a table immediately following the Consolidated Statement of Operations (Pro-Forma Basis).

## About NICE

NICE Systems (NASDAQ: NICE) is the leading provider of Insight from Interactions(TM), offering comprehensive performance management and interaction analytics solutions for the enterprise and security markets. Advanced interaction analytics are performed on unstructured multimedia content - from telephony, web, radio and video communications. NICE brings the power of Insight from Interactions to IP contact centers, branches, and command and control centers. NICE`s solutions are changing the way organizations make decisions, enabling them to proactively improve business and operational performance and address security threats. NICE has over 24,000 customers in 100 countries, including over 75 of the Fortune 100 companies. More information is available at [www.nice.com](http://www.nice.com) .

## Media

|               |  |                 |
|---------------|--|-----------------|
| Galit Belkind | NICE Systems   | +1 877 245 7448 |
|               | <a href="mailto:galit.belkind@nice.com">galit.belkind@nice.com</a> |                 |

## Investors

|               |  |                 |
|---------------|--|-----------------|
| Daphna Golden | NICE Systems                                 | +1 877 245 7449 |
|               | <a href="mailto:ir@nice.com">ir@nice.com</a> |                 |

*Trademark Note: Insight from Interactions(TM), 3600 View(TM), Executive Connect&reg, Executive Insight(TM)\*, Freedom&reg, Investigator&reg, Mirra&reg, Universe&reg, My Universe(TM), NICE&reg, NiceCall&reg, NiceCall Focus(TM), NiceCLS(TM), NICE Learning(TM), eNiceLink(TM), NiceLog&reg, Playback Organizer(TM), Renaissance&reg, ScreenSense(TM), NiceScreen(TM), NICE Storage Center(TM), NiceTrack(TM), NiceUniverse&reg, NiceVision&reg, NiceVision Harmony(TM), NiceVision Mobile(TM), NiceVision Pro(TM), NiceVision NVSAT(TM), NiceVision Alto(TM), Scenario Replay(TM), Tienna&reg, Wordnet&reg, NICE Perform(TM), NICE Inform(TM), NICE Analyzer(TM), Last Message Replay(TM), NiceUniverse Compact(TM),*

*Customer Feedback(TM), Interaction Capture Unit(TM), Dispatcher Assessment(TM), Encorder(TM), Freedom Connect&reg, FAST&reg, FAST Alpha Silver(TM), FAST Alpha Blue(TM) and Alpha&reg, Emvolve Performance Manager(TM), Performix Technologies(TM), IEX&reg, TotalNet&reg, TotalView&reg and other product names and services mentioned herein are trademarks and registered trademarks of NICE Systems Ltd. All other registered and unregistered trademarks are the property of their respective owners.*

*\*in Australia only*

*This press release contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements are based on the current expectations of the management of NICE Systems Ltd. (the Company) only, and are subject to a number of risk factors and uncertainties, including but not limited to changes in technology and market requirements, decline in demand for the Company's products, inability to timely develop and introduce new technologies, products and applications, difficulties or delays in absorbing and integrating acquired operations, products, technologies and personnel, loss of market share, pressure on pricing resulting from competition, and inability to maintain certain marketing and distribution arrangements, which could cause the actual results or performance of the Company to differ materially from those described therein. We undertake no obligation to update these forward-looking statements. For a more detailed description of the risk factors and uncertainties affecting the company, refer to the Company's reports filed from time to time with the Securities and Exchange Commission.*

**NICE SYSTEMS LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

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

|  | <b>Three months ended</b> |            | <b>Nine months ended</b> |           |
|--|---------------------------|------------|--------------------------|-----------|
|  | <b>September 30,</b>      |            | <b>September 30,</b>     |           |
|  | 2005                      | 2006       | 2005                     | 2006      |
|  | Unaudited                 | Unaudited  | Unaudited                | Unaudited |
| Revenue                                    |                           |            |                          |           |
| Product                                    | \$54,078                  | \$69,353   | \$149,028                | \$188,171 |
| Services                                   | 28,639                    | 38,126     | 72,041                   | 104,925   |
| Total revenue                              | 82,717                    | 107,479    | 221,069                  | 293,096   |
| Cost of revenue                            |                           |            |                          |           |
| Product                                    | 18,077                    | 23,266     | 48,980                   | 62,133    |
| Services                                   | 18,414                    | 23,846     | 48,648                   | 66,006    |
| Total cost of revenue                      | 36,491                    | 47,112     | 97,628                   | 128,139   |
| Gross Profit                               | 46,226                    | 60,367     | 123,441                  | 164,957   |
| Operating Expenses:                        |                           |            |                          |           |
| Research and development, net              | 7,771                     | 11,909     | 21,527                   | 32,329    |
| Selling and marketing                      | 19,247                    | 25,167     | 53,226                   | 66,593    |
| General and administrative                 | 10,245                    | 15,666     | 27,486                   | 41,815    |
| Amortization of acquired intangible assets | 545                       | 1,843      | 789                      | 3,069     |
| In-process research and development        | -                         | 12,670     | -                        | 12,882    |
| Total operating expenses                   | 37,808                    | 67,255     | 103,028                  | 156,688   |
| Operating income (loss)                    | 8,418                     | (6,888)    | 20,413                   | 8,269     |
| Financial income, net                      | 1,259                     | 2,138      | 3,562                    | 10,069    |
| Other income (expense), net                | (2)                       | 374        | (8)                      | 451       |
| Income (loss) before taxes on income       | 9,675                     | (4,376)    | 23,967                   | 18,789    |
| Income tax expenses                        | 1,806                     | 1,027      | 3,521                    | 6,332     |
| Net income (loss)                          | \$7,869                   | \$ (5,403) | \$20,446                 | \$12,457  |
| Basic income per share                     | \$0.21                    | \$ (0.11)  | \$0.54                   | \$0.25    |
| Diluted income per share                   | \$0.19                    | \$ (0.11)  | \$0.50                   | \$0.24    |

Weighted average number of shares  
outstanding used to compute:

Investors Created Using Viltech Software

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|                          |        |        |        |        |
|--------------------------|--------|--------|--------|--------|
| Basic income per share   | 38,248 | 49,649 | 37,536 | 49,209 |
| Diluted income per share | 41,506 | 49,649 | 40,612 | 51,666 |

During May 2006, the Company effected a 2 to 1 stock split on its Ordinary shares. All Ordinary share, options and per share

amounts have been adjusted to give retroactive effect to the stock split for all periods presented.

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## NICE SYSTEMS LTD. AND SUBSIDIARIES

## NON-GAAP CONSOLIDATED STATEMENTS OF INCOME - QUARTER

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

|   | <u>Three months ended</u><br><u>September 30,</u> |         |                  | <u>Three months ended September</u><br><u>30,</u> |             |                  |
|---|---|---------|------------------|---|-------------|------------------|
|   | 2005<br>Reported                                  | Adj.    | 2005<br>Non-GAAP | 2006<br>Reported                                  | Adj.        | 2006<br>Non-GAAP |
| Revenue                                       |   |         |                  |   |             |                  |
| Product                                       | \$54,078  |         | \$54,078         | \$69,353  | \$2,268 a   | \$71,621         |
| Services                                      | 28,639  |         | 28,639           | 38,126  | 2,406 a     | 40,532           |
| Total revenue                                 | 82,717  | -       | 82,717           | 107,479   | 4,674       | 112,153          |
| Cost of revenue                               |   |         |                  |   |             |                  |
| Product                                       | 18,077  | (522) b | 17,555           | 23,266  | (2,634) b,c | 20,632           |
| Services                                      | 18,414  | (46) b  | 18,368           | 23,846  | (262) c     | 23,584           |
| Total cost of revenue                         | 36,491  | (568)   | 35,923           | 47,112  | (2,896)     | 44,216           |
| Gross Profit                                  | 46,226  | 568     | 46,794           | 60,367  | 7,570       | 67,937           |
| Operating Expenses:                           |   |         |                  |   |             |                  |
| Research and development, net                 | 7,771   |         | 7,771            | 11,909  | (309) c     | 11,600           |
| Selling and marketing                         | 19,247  |         | 19,247           | 25,167  | (789) c     | 24,378           |
| General and administrative                    | 10,245  |         | 10,245           | 15,666  | (1,490) c   | 14,176           |
| Amortization of acquired intangible assets    | 545   | (545) b | -                | 1,843   | (1,843) b   | -                |
| In-process research and development and other | -   |         | -                | 12,670  | (12,670) d  | -                |
| Total operating expenses                      | 37,808  | (545)   | 37,263           | 67,255  | (17,101)    | 50,154           |
| Operating income (loss)                       | 8,418   | 1,113   | 9,531            | (6,888)   | 24,671      | 17,783           |
| Financial income, net                         | 1,259   |         | 1,259            | 2,138   |             | 2,138            |
| Other income (expense), net                   | (2)   |         | (2)              | 374   | (350) f     | 24               |
| Income (loss) before taxes on income          | 9,675   | 1,113   | 10,788           | (4,376)   | 24,321      | 19,945           |
| Income tax expenses                           | 1,806   |         | 1,806            | 1,027   | 2,885 e     | 3,912            |
| Net income (loss)                             | \$7,869   | \$1,113 | \$8,982          | \$(5,403)   | \$21,436    | \$16,033         |
| Basic income per share                        | \$0.21  |         | \$0.23           | \$(0.11)  |             | \$0.32           |
| Diluted income per share                      | \$0.19  |         | \$0.22           | \$(0.11)  |             | \$0.31           |

Weighted average number of shares  
outstanding used to compute:

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|                              |        |        |        |        |
|------------------------------|--------|--------|--------|--------|
| Basic income per share       | 38,248 | 38,248 | 49,649 | 49,649 |
| Diluted income per share (g) | 41,506 | 41,506 | 49,649 | 52,248 |

During May 2006, the Company effected a 2 to 1 stock split on its Ordinary shares. All Ordinary share, options and per share amounts have

been adjusted to give retroactive effect to the stock split for all periods presented.

a US GAAP valuation adjustment on acquired deferred revenue

b Amortization of acquired intangible assets

c Compensation expense for stock options

d In-process research and development acquired in connection with the acquisition of IEX Corporation

e Tax benefit associated with the amortization of acquired intangible assets, FAS 123R options compensation and acquired deferred revenue

f legal settlement

g For Non-GAAP income per share the diluted weighted average number of shares outstanding were calculated excluding the effects

of expensing stock options under Statement 123R

**NICE SYSTEMS LTD. AND SUBSIDIARIES****NON-GAAP CONSOLIDATED STATEMENTS OF INCOME - YEAR TO DATE**

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

|  | Nine months ended September 30, |         |                  | Nine months ended September 30, |          |                  |
|--|---------------------------------|---------|------------------|---------------------------------|----------|------------------|
|  | 2005<br>Reported                | Adj.    | 2005<br>Non-GAAP | 2006<br>Reported                | Adj.     | 2006<br>Non-GAAP |
| Revenue                                    |                                 |         |                  |                                 |          |                  |
| Product                                    | \$149,028                       |         | \$149,028        | \$188,171                       | \$2,280  | a \$190,451      |
| Services                                   | 72,041                          |         | 72,041           | 104,925                         | 2,406    | a 107,331        |
| Total revenue                              | 221,069                         | -       | 221,069          | 293,096                         | 4,686    | 297,782          |
| Cost of revenue                            |                                 |         |                  |                                 |          |                  |
| Product                                    | 48,980                          | (868)   | b 48,112         | 62,133                          | (4,924)  | b,c 57,209       |
| Services                                   | 48,648                          | (140)   | b 48,508         | 66,006                          | (730)    | c 65,276         |
| Total cost of revenue                      | 97,628                          | (1,008) | 96,620           | 128,139                         | (5,654)  | 122,485          |
| Gross Profit                               | 123,441                         | 1,008   | 124,449          | 164,957                         | 10,340   | 175,297          |
| Operating Expenses:                        |                                 |         |                  |                                 |          |                  |
| Research and development, net              | 21,527                          |         | 21,527           | 32,329                          | (894)    | c 31,435         |
| Selling and marketing                      | 53,226                          |         | 53,226           | 66,593                          | (2,134)  | c 64,459         |
| General and administrative                 | 27,486                          |         | 27,486           | 41,815                          | (4,075)  | c 37,740         |
| Amortization of acquired intangible assets | 789                             | (789)   | b -              | 3,069                           | (3,069)  | b -              |
| In-process research and development        | -                               |         | -                | 12,882                          | (12,882) | d -              |
| Total operating expenses                   | 103,028                         | (789)   | 102,239          | 156,688                         | (23,054) | 133,634          |
| Operating income                           | 20,413                          | 1,797   | 22,210           | 8,269                           | 33,394   | 41,663           |
| Financial income, net                      | 3,562                           |         | 3,562            | 10,069                          |          | 10,069           |
| Other income (expense), net                | (8)                             |         | (8)              | 451                             | (350)    | f 101            |
| Income before taxes on income              | 23,967                          | 1,797   | 25,764           | 18,789                          | 33,044   | 51,833           |
| Income tax expenses                        | 3,521                           |         | 3,521            | 6,332                           | 4,100    | e 10,432         |
| Net income                                 | \$20,446                        | \$1,797 | \$22,243         | \$12,457                        | \$28,944 | \$41,401         |
| Basic income per share                     | \$0.54                          |         | \$0.59           | \$0.25                          |          | \$0.84           |
| Diluted income per share                   | \$0.50                          |         | \$0.55           | \$0.24                          |          | \$0.80           |

Weighted average number of shares  
outstanding used to compute:

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|                              |        |        |        |        |
|------------------------------|--------|--------|--------|--------|
| Basic income per share       | 37,536 | 37,536 | 49,209 | 49,209 |
| Diluted income per share (g) | 40,612 | 40,612 | 51,666 | 52,075 |

During May 2006, the Company effected a 2 to 1 stock split on its Ordinary shares. All Ordinary share, options and per share amounts have

been adjusted to give retroactive effect to the stock split for all periods presented.

a US GAAP valuation adjustment on acquired deferred revenue

b Amortization of acquired intangible assets

c Compensation expense for stock options

d In-process research and development acquired in connection with the acquisition of IEX Corporation and Fast Video Security A.G.

e Tax benefit associated with the amortization of acquired intangible assets, FAS 123R options compensation and acquired deferred revenue

f legal settlement

g For Non-GAAP income per share the diluted weighted average number of shares outstanding were calculated excluding the effects of

*expensing stock options under Statement 123R*



**NICE SYSTEMS LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

|   | <b>December 31,<br/>2005<br/>Audited</b> | <b>September 30,<br/>2006<br/>Unaudited</b> |
|---|--|---|
| <b>ASSETS</b>                               |  |   |
| <b>CURRENT ASSETS:</b>                      |  |   |
| Cash and cash equivalents                   | \$254,956                                | \$60,773                                    |
| Short-term investments                      | 36,261                                   | 74,305                                      |
| Trade receivables                           | 66,153                                   | 77,449                                      |
| Other receivables and prepaid expenses      | 9,544                                    | 12,062                                      |
| Inventories                                 | 23,172                                   | 14,849                                      |
| Deferred tax assets                         | 3,360                                    | 13,644                                      |
| Total current assets                        | 393,446                                  | 253,082                                     |
| <b>LONG-TERM ASSETS:</b>                    |  |   |
| Marketable securities                       | 120,342                                  | 109,116                                     |
| Other long-term assets                      | 9,755                                    | 11,521                                      |
| Deferred Tax Assets                         | 4,976                                    | 3,906                                       |
| Property and equipment, net                 | 14,888                                   | 15,602                                      |
| Other intangible assets, net                | 23,990                                   | 114,894                                     |
| Goodwill                                    | 49,853                                   | 212,881                                     |
| Total long-term assets                      | 223,804                                  | 467,920                                     |
| <b>TOTAL ASSETS</b>                         | <b>\$617,250</b>                         | <b>\$721,002</b>                            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |  |   |
| <b>CURRENT LIABILITIES:</b>                 |  |   |
| Trade payables                              | \$18,194                                 | \$16,905                                    |
| Accrued expenses and other liabilities      | 100,544                                  | 129,265                                     |
| Total current liabilities                   | 118,738                                  | 146,170                                     |
| <b>LONG-TERM LIABILITIES:</b>               |  |   |
| Deferred tax liabilities                    | 2,493                                    | 34,198                                      |
| Other long-term liabilities                 | 8,978                                    | 11,165                                      |

|   |                  |                  |
|---|------------------|------------------|
| Total long-term liabilities                       | 11,471           | 45,363           |
| <b>SHAREHOLDERS' EQUITY</b>                       | 487,041          | 529,469          |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>\$617,250</b> | <b>\$721,002</b> |

**NICE SYSTEMS LTD. AND SUBSIDIARIES**  
**CONSOLIDATED CASH FLOW STATEMENTS**

U.S. dollars in thousands

|   | <b>Three months ended</b> | <b>September 30,</b> | <b>September 30,</b> |
|---|---------------------------|----------------------|----------------------|
|   | 2005                      | 2006                 | 2005                 |
|   | Unaudited                 | Unaudited            | Unaudited            |
| <u>Cash flows from operating activities:</u>  |                           |                      |                      |
| Net income (loss)   | \$7,869                   | \$(5,403)            | \$20,446             |
| Adjustments required to reconcile net income to net cash provided by operating activities:  |                           |                      |                      |
| Depreciation and amortization   | 3,558                     | 6,871                | 9,519                |
| Accrued severance pay, net  | 11                        | (83)                 | 210                  |
| Amortization of discount (premium) and accrued interest on marketable securities            | 132                       | (48)                 | 578                  |
| Stock based compensation  | -                         | 2,930                | -                    |
| In-process research and development   | -                         | 12,670               | -                    |
| Increase in trade receivables   | (1,691)                   | (4,724)              | (2,157)              |
| Increase in other receivables and prepaid expenses  | (53)                      | (730)                | (131)                |
| Decrease (increase) in inventories  | (1,458)                   | 4,822                | (2,811)              |
| Increase (decrease) in trade payables   | 11                        | (2,811)              | 4,734                |
| Increase in accrued expenses and other liabilities  | 6,849                     | 13,313               | 16,671               |
| Deferred taxes, net   | -                         | (1,475)              | -                    |
| Other   | 134                       | (38)                 | 206                  |
| <i>Net cash provided by operating activities</i>  | 15,362                    | 25,294               | 47,265               |
| <u>Cash flows from investing activities:</u>  |                           |                      |                      |
| Purchase of property and equipment  | (1,673)                   | (2,010)              | (4,392)              |
| Proceeds from sale of property and equipment  | 3                         | 35                   | 48                   |
| Investment in short-term bank deposits  | (11)                      | (31)                 | (35)                 |
| Proceeds from short-term bank deposits  | 23                        | 17                   | 90                   |
| Proceeds from maturity of marketable securities   | 9,510                     | 8,383                | 158,970              |
| Investment in marketable securities   | (36,639)                  | (2,012)              | (187,762)            |
| Proceeds of call of long-term held-to-maturity marketable securities                        | 1,500                     | -                    | 7,630                |
| Capitalization of software development costs  | (140)                     | (428)                | (567)                |
| Payment for the acquisition of certain assets and liabilities of Dictaphone CRS division    | (781)                     | -                    | (39,720)             |
| Final settlement related to the purchase of Dictaphone CRS division                         | -                         | -                    | -                    |
| Payment for the acquisition of Fast Video Security AG                                       | -                         | -                    | -                    |
| Payment for the acquisition of certain assets and liabilities of Performix                  | -                         | (314)                | -                    |
| Payment for the acquisition of certain assets and liabilities of Hannamax Hi-Tech Pty. Ltd. | (1,833)                   | -                    | (1,833)              |
| Payment for the acquisition of IEX Corporation  | -                         | (202,475)            | -                    |

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|--|----------|-----------|----------|
| Payment of earn-out related to the acquisition of Hannamax Hi-Tech Pty. Ltd. | -        | -         | -        |
| Decrease in accrued acquisition costs  | -        | -         | -        |
| Proceeds from related party in respect of TCS acquisition                    | -        | -         | 2,531    |
| Other investment activity, net   | -        | -         | -        |
| <i>Net cash used by investing activities</i>                                 | (30,041) | (198,835) | (65,040) |
| <u>Cash flows from financing activities:</u>                                 |          |           |          |
| Proceeds from issuance of shares and exercise of share options, net          | 4,750    | 3,082     | 16,219   |
| Tax benefit from exercised options   | -        | (41)      | -        |
| Decrease in accrued expenses associated with the 2005 offering               | -        | -         | -        |
| Decrease in short-term bank credit assumed in the acquisition of Fast        | -        | -         | -        |
| <i>Net cash provided by financing activities</i>                             | 4,750    | 3,041     | 16,219   |
| Effect of exchange rate changes on cash                                      | 48       | (136)     | 49       |
| Decrease in cash and cash equivalents  | (9,881)  | (170,636) | (1,507)  |
| Cash and cash equivalents at beginning of period                             | 34,953   | 231,409   | 26,579   |
| Cash and cash equivalents at end of period                                   | \$25,072 | \$60,773  | \$25,072 |

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