

NICE SYSTEMS LTD  
Form 20-F  
March 29, 2012

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

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2011

OR

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

OR

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

Commission file number 0-27466

NICE-SYSTEMS LTD.

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(Exact name of Registrant as specified in its charter)

N/A

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(Translation of Registrant's name into English)

Israel

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(Jurisdiction of incorporation or organization)

8 Hapnina Street, P.O. Box 690, Ra'anana 43107, Israel

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(Address of principal executive offices)

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

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

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

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

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

None

\_\_\_\_\_  
(Title of Class)

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

None

\_\_\_\_\_  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 61,807,169 Ordinary Shares, par value NIS 1.00 Per Share (which excludes 2,997,561 treasury shares and 6,659 treasury shares resulting from cancelled restricted shares)

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

Large accelerated filer   
filer

Accelerated  
Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17  Item 18

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

Yes  No

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PRELIMINARY NOTE

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

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

In this annual report, all references to "NICE," "we," "us" or "our" are to NICE-Systems Ltd., a company organized under the laws of the State of Israel, and its wholly owned subsidiaries. For a list of our significant subsidiaries, please refer to page 52 of this annual report.

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

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PART I

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

Not Applicable.

Item 2. Offer Statistics and Expected Timetable.

Not Applicable.

Item 3. Key Information.

Selected Financial Data

The following selected consolidated balance sheets data as of December 31, 2010 and 2011 and the selected consolidated statements of income data for years ended December 31, 2009, 2010 and 2011 have been derived from our audited Consolidated Financial Statements. These financial statements have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP, and audited by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global. The selected consolidated statement of income data as of December 31, 2007, and 2008 and the selected consolidated balance sheet data for the years ended December 31, 2007, 2008 and 2009 have been derived from other Consolidated Financial Statements not included in this annual report and have also been prepared in accordance with U.S. GAAP and audited by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5, "Operating and Financial Review and Prospects" and the Consolidated Financial Statements and notes thereto and other financial information included elsewhere in this annual report

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Year Ended December 31,

2007                      2008                      2009                      2010                      2011  
(U.S. dollars in thousands, except per share data)

**OPERATING DATA:**

Revenues

|          |            |            |            |            |            |
|----------|------------|------------|------------|------------|------------|
| Products | \$ 316,888 | \$ 351,680 | \$ 281,783 | \$ 325,429 | \$ 355,760 |
|----------|------------|------------|------------|------------|------------|

|          |         |         |         |         |         |
|----------|---------|---------|---------|---------|---------|
| Services | 200,486 | 272,482 | 301,332 | 364,022 | 438,071 |
|----------|---------|---------|---------|---------|---------|

|                |         |         |         |         |         |
|----------------|---------|---------|---------|---------|---------|
| Total revenues | 517,374 | 624,162 | 583,115 | 689,451 | 793,831 |
|----------------|---------|---------|---------|---------|---------|

Cost of revenues

|          |        |        |        |         |         |
|----------|--------|--------|--------|---------|---------|
| Products | 89,373 | 95,861 | 88,030 | 107,190 | 116,256 |
|----------|--------|--------|--------|---------|---------|

|          |         |         |         |         |         |
|----------|---------|---------|---------|---------|---------|
| Services | 116,969 | 142,885 | 149,175 | 161,885 | 191,049 |
|----------|---------|---------|---------|---------|---------|

|                        |         |         |         |         |         |
|------------------------|---------|---------|---------|---------|---------|
| Total cost of revenues | 206,342 | 238,746 | 237,205 | 269,075 | 307,305 |
|------------------------|---------|---------|---------|---------|---------|

|              |         |         |         |         |         |
|--------------|---------|---------|---------|---------|---------|
| Gross profit | 311,032 | 385,416 | 345,910 | 420,376 | 486,526 |
|--------------|---------|---------|---------|---------|---------|

Operating expenses:

Research and development, net

|  |        |        |        |        |         |
|--|--------|--------|--------|--------|---------|
|  | 59,632 | 78,445 | 77,382 | 97,083 | 109,127 |
|--|--------|--------|--------|--------|---------|

|                       |         |         |         |         |         |
|-----------------------|---------|---------|---------|---------|---------|
| Selling and marketing | 120,592 | 147,879 | 141,526 | 178,407 | 199,044 |
|-----------------------|---------|---------|---------|---------|---------|

|                            |        |        |        |        |        |
|----------------------------|--------|--------|--------|--------|--------|
| General and administrative | 85,089 | 97,378 | 72,791 | 76,345 | 95,650 |
|----------------------------|--------|--------|--------|--------|--------|

|  |       |        |        |        |        |
|--|-------|--------|--------|--------|--------|
| Amortization of acquired intangible assets | 9,175 | 14,493 | 16,012 | 19,489 | 23,677 |
|--|-------|--------|--------|--------|--------|

|   |       |   |   |   |   |
|---|-------|---|---|---|---|
| In process research and development write-off | 3,710 | - | - | - | - |
|---|-------|---|---|---|---|

|                                 |   |       |   |   |   |
|---------------------------------|---|-------|---|---|---|
| Settlement and related expenses | - | 9,870 | - | - | - |
|---------------------------------|---|-------|---|---|---|

|                          |         |         |         |         |         |
|--------------------------|---------|---------|---------|---------|---------|
| Total operating expenses | 278,198 | 348,065 | 307,711 | 371,324 | 427,498 |
|--------------------------|---------|---------|---------|---------|---------|

|                  |        |        |        |        |        |
|------------------|--------|--------|--------|--------|--------|
| Operating income | 32,834 | 37,351 | 38,199 | 49,052 | 59,028 |
|------------------|--------|--------|--------|--------|--------|

|                       |        |        |       |       |        |
|-----------------------|--------|--------|-------|-------|--------|
| Financial income, net | 14,824 | 11,289 | 7,712 | 9,135 | 10,018 |
|-----------------------|--------|--------|-------|-------|--------|

|                     |       |       |        |        |        |
|---------------------|-------|-------|--------|--------|--------|
| Other expenses, net | (24 ) | (53 ) | (115 ) | (154 ) | (162 ) |
|---------------------|-------|-------|--------|--------|--------|

|                               |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|
| Income before taxes on income | 47,634 | 48,587 | 45,796 | 58,033 | 68,884 |
|-------------------------------|--------|--------|--------|--------|--------|

|                 |        |       |       |       |        |
|-----------------|--------|-------|-------|-------|--------|
| Taxes on income | 10,254 | 9,480 | 3,040 | 9,326 | 11,621 |
|-----------------|--------|-------|-------|-------|--------|

|            |        |        |        |        |        |
|------------|--------|--------|--------|--------|--------|
| Net income | 37,380 | 39,107 | 42,756 | 48,707 | 57,263 |
|------------|--------|--------|--------|--------|--------|

|                          |         |         |         |         |         |
|--------------------------|---------|---------|---------|---------|---------|
| Basic earnings per share | \$ 0.69 | \$ 0.65 | \$ 0.70 | \$ 0.78 | \$ 0.91 |
|--------------------------|---------|---------|---------|---------|---------|

Weighted average number of shares used in computing basic earnings per share (in thousands)

|  |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|
|  | 53,921 | 60,088 | 61,395 | 62,652 | 62,924 |
|--|--------|--------|--------|--------|--------|

|                            |         |         |         |         |         |
|----------------------------|---------|---------|---------|---------|---------|
| Diluted earnings per share | \$ 0.67 | \$ 0.64 | \$ 0.68 | \$ 0.76 | \$ 0.89 |
|----------------------------|---------|---------|---------|---------|---------|

Weighted average number of shares used in computing diluted earnings per share (in thousands)

|  |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|
|  | 55,926 | 61,268 | 62,490 | 64,132 | 64,241 |
|--|--------|--------|--------|--------|--------|

At December 31,

2007                      2008                      2009                      2010                      2011



**BALANCE SHEET DATA:**

|                      |            |            |            |            |            |
|----------------------|------------|------------|------------|------------|------------|
| Working capital      | \$ 152,883 | \$ 217,511 | \$ 184,460 | \$ 173,909 | \$ 173,543 |
| Total assets         | 1,192,334  | 1,283,015  | 1,399,677  | 1,534,418  | 1,581,836  |
| Shareholders' equity | 903,794    | 970,822    | 1,062,754  | 1,160,760  | 1,158,644  |

## Risk Factors

### General Business Risks Relating to Our Business and Market

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

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

New potential entrants to our markets may lead to the widespread availability and standardization of some of the products and services, which could result in the commoditization of our products and services, reduce the demand for our products and services and drive us to lower our prices. System integrators, as well as infrastructure vendors, may decide to enter our market space and compete with us by offering comprehensive solutions, which may result in a substantial decline in our sales. Moreover, major enterprise software vendors may decide to enter our market space, either by internal development or through acquisition of any of our existing competitors. Such competition could have a material adverse effect on our business, financial condition or results of operations.

While the market for our software applications is constantly growing, successful positioning and sales execution of our products is a critical factor in our ability to successfully compete and maintain growth. New potential entrants from the traditional enterprise business intelligence and business analytics sector, in addition to Customer Relationship Management (or CRM), and infrastructure players (mostly telephony or switch vendors), may develop solutions and compete with us in this emerging opportunity. As a result, we expect to continue making significant expenditures on research and development and marketing. In addition, our software solutions may compete with software developed internally by potential clients, as well as software and other solutions offered by competitors. We cannot ensure that the market awareness or demand for our new products or applications will grow as rapidly as we expect, or that the introduction of new products or technological developments by others will not adversely impact the demand for our products.

In addition, the transition to VoIP platforms is continuing, and may allow one or more of our competitors to take a leadership position with respect to this technology. Strategic partners may change their vendor preference as a result or may develop embedded VoIP recording as part of the VoIP switch or networking infrastructure. Successful marketing of our products and services to our customers and partners will be critical to our ability to maintain growth. We cannot assure you that our products or existing partnerships will permit us to compete successfully.

The market for some of our solutions is highly fragmented and includes products offering a broad range of features and capabilities. Consolidation through mergers and acquisitions, or alliances formed, among our competitors in this market, who may have greater resources than we have, could substantially influence our competitive position.

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

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

Adverse economic conditions in markets in which we operate can harm our business. Global financial conditions during the past few years have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. These economic factors lead to decreased credit availability, as well as declines in economic growth and employment levels in almost all sectors. These financial conditions may still exist in certain jurisdictions and may expand with a much broader impact. Among these uncertainties are the financial conditions of certain governments in Europe, which may have an impact on the entire Euro zone.

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

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

We depend on the stability of the financial sector

Approximately half of our sales are directed at the financial sector. As a result of the recent financial crisis, there has been increased focus on reforms to the structure and regulation of the financial sector in an effort to prevent and mitigate a future crisis, in the event that there is further deterioration or a future crisis in the financial industry, which could result in reduced spending by financial institutions or delay or postponement of orders, all of which may have a negative impact on our sales to this sector. This may materially adversely affect our results of operations and may increase the difficulty for us to accurately forecast and plan our future business.

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

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

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

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

Our failure to adequately adapt to IT industry trends and customers consolidation could negatively impact our future operating results.

Technological trends, such as the evaluation of virtualization technologies, the need for IT efficiency (converting IT costs from capital expenses to operating expenses) and the increased demand for business agility are all contributing to the move of cloud computing into the mainstream.

If enterprise customers embrace cloud computing, it will change the way they source business solutions, preferring hosted and cloud-based Software-as-a-Service (or SaaS). Although we are adapting and evolving our delivery options to include on-premise, hosted, cloud-based SaaS, or blended-hybrid deployment offerings, we may not be able to timely and adequately meet customer needs, which could have an adverse affect on our business, financial condition and results of operations. Furthermore, the business model of SaaS differs from the business model for the sale of products and services, and could, as a result, impact our revenues and cash generation. In addition, cloud computing could make it easier for new competitors (such as telecom carriers) to enter our markets due to the lower up-front technology costs. Such increased competition is likely to heighten the pressure to decrease pricing. Such increased competition and the abovementioned change in business model may negatively impact our revenues.

Furthermore, some of our enterprise customers have increased in size, partly due to consolidation in the financial market. If our technology is not scalable enough to support these changes, it may have a material adverse affect on our business, financial condition and results of operation.

Our inability to successfully compete with infrastructure vendors may materially adversely affect our financial results.

The economic climate has forced many organizations to reassess their contact center solutions' infrastructure. For the contact center, the enterprise and the remote and mobile workforce, an all-in-one contact center platform may be a preferred alternative to a multi-point system, as it may result in a reduction in the Total Cost of Ownership (TCO) and the enablement of new cross systems business processes. Although we may benefit from this trend, at the same time, we are observing that there are infrastructure players, for the most part, telephony or switch vendors, that are potentially looking to introduce a "contact center in a box" type of solution that will include features and functionality on top of the legacy Work Force Optimization (WFO) capabilities that we and other WFO vendors support. With the emergence of this trend, and in the event that we are not able to create an integrated experience for our customers in the form of an integrated suite, we may be faced with a new type of competition, which could have a material adverse effect on our business, financial condition or results of operations.

Our inability to develop or maintain relationships with existing and new distribution channels and key strategic partners may materially adversely affect our financial results.

We have agreements in place with many distributors, dealers and resellers to market and sell our products and services in addition to our direct sales force. Our financial results could be materially adversely affected if our contracts with distribution channel partners or our other partners were terminated, if our relationship with our distribution channel partners or our other partners were to deteriorate or if the financial condition of our distribution channel partners or our other partners were to weaken. Moreover, our current distribution channel partners or our strategic partners may decide to enter into our markets in competition with us, which will likely result in the termination of our relationship and may lead to a significant reduction in sales through related channels.

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

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

As our market opportunities change, our reliance on particular distribution channels or strategic partners may increase, which may negatively impact our gross margins. There can be no assurance that we will be successful in maintaining or expanding these channels or partnerships. If we are not successful, we may lose sales opportunities, customers and market share.

Risks associated with direct competition from one of our global distribution channels may materially adversely affect our financial results.

Avaya, one of our largest global distribution channels, and the leading provider of infrastructure for contact center operations, accounted for less than 5% of our revenues in 2010 and 2011. We may continue to see a decline in the volume of business with Avaya and growing competition from Avaya during 2012, in comparison to the previous year.

Avaya has made changes in its business model over the last couple of years, including the sale of Avaya branded products, which are currently based on its relationship with our largest competitor. Avaya's offering of telephony solutions, including by way of bundling the products of our largest competitor, is in direct competition with our offering, and is directed at the market also served by Avaya and NICE together. While Avaya continues to also sell and support NICE products, its focus on selling the Avaya-branded suite, may continue to change the scope and nature of its relationship with us or terminate it, and result in the displacement of NICE's offering. In addition, Avaya may further its direct competition with us by offering recording as a standard functionality in the telephony infrastructure systems (recording at the switch). All of the above factors may have a substantial negative impact on our business and our relationship with Avaya, and may result in a significant reduction of our sales.

In addition, Avaya is shifting its business model to a channel centric distribution model with a focus on indirect sales through Avaya's business partners. While we are constantly shifting to a direct sales model and expanding our relationships with our other distribution channels, including with certain of Avaya's distribution business partners, we may be unsuccessful in our direct sales efforts and in maintaining or expanding our relationship with such partners. With respect to Avaya's business partners specifically, as a result of Avaya's direct competition with us, these business partners may abandon their relationship with us and shift to sale of Avaya branded products.

Furthermore, we also sell our products, either directly or through our other distribution channels, to customers who use Avaya's infrastructure or operate in Avaya's environment. To the extent that Avaya does not allow or support our integration with its infrastructure or products or uses other means to prevent us from selling our products to such customers, we may experience a reduction in sales to these customers, which is broader than Avaya's direct business with us. This could, of course, influence our ability to continue rendering maintenance services and other services and generate recurring sales to these customers.

As a result of all of these factors, including our inability to maintain our relationship with Avaya on the one hand, and successfully compete with Avaya on the other hand, we may sustain loss of sales opportunities, customers and market share, which may have a material adverse effect on our business, financial condition or results of operations.

We depend on a small number of significant customers.

While we do not have a single customer that we regularly depend on, we do have a small number of significant customers in each sector of our business, each of which could be material to a particular area of our business. We expect that sales of our products and services to relatively few significant customers could continue to account for a substantial percentage of our sales in the foreseeable future. There can be no assurance that we will be able to retain these key customers or that such customers will not cancel purchase orders, reschedule, or decrease their level of purchases. Loss, cancellation or deferral of business to such customers could have a material adverse affect on our business and operating results.

We face risks relating to large projects.

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

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

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

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

Operating globally exposes us to additional and unpredictable risks.

We sell our products and solutions throughout the world and intend to continue to increase our penetration of international markets. In 2009 and 2010, approximately 98% of our total sales were derived from sales to customers outside of Israel. In 2011 approximately 99% of our total sales were derived from sales to customers outside of Israel. Our future results could be materially adversely affected by a variety of factors relating to international transactions, including:

- γοπερνμενταλ χοντρολσ ανδ ρεγυλατιονσ, ινχλυδινη ιμπορτ ορ εξπορτ λιχενσε ρεθυιρεμεντσ, τραδε προτεχτιον μεασυρεσ ανδ χηανγες ιν ταριφφσ;



- changes in the general political and economic conditions in the countries where we operate, particularly in emerging markets;
- compliance with applicable laws and regulations in the various jurisdictions, including the Foreign Corrupt Practices Act and similar laws and regulations in other jurisdictions;
- tax structures or changes in tax laws or practices;
- changes in foreign currency exchange rates;
- longer payment cycles in certain countries in our geographic areas of operations; and
- general difficulties in managing our global operations.

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

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

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

As part of our growth strategy, we have made a number of acquisitions over the past few years, including a total of six acquisitions in 2010 and 2011 (see Item 5, “Operating and Financial Review and Prospects—Recent Acquisitions” in this annual report), and expect to continue to make acquisitions. We frequently evaluate the tactical or strategic opportunity available related to complementary businesses, products or technologies. The process of integrating an acquired company’s business into our operations and/or of investing in new technologies, may result in unforeseen operating difficulties and large expenditures and may absorb significant management attention that would otherwise be available for the ongoing development of our business, and which may result in the loss of key customers and/or personnel and expose us to unanticipated liabilities.

Other risks commonly encountered with acquisitions include the effect of the acquisition on our financial and strategic position, the inability to successfully integrate or commercialize acquired technologies and achieve expected synergies or economies of scale on a timely basis and the potential impairment of acquired assets. Further, we may not be able to retain the key employees that may be necessary to operate the business we acquire, and, we may not be able to timely attract new skilled employees and management to replace them. From time to time, we may also need to acquire complementary technologies, whether to execute our strategies or in order to comply with customer needs. There are no assurances that we will be able to acquire or successfully integrate an acquired company, business or technology, or successfully leverage such complementary technology in the market.

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

There can be no assurance that we will be successful in making additional acquisitions or effective in integrating such acquisitions into our existing business. We may also compete with others to acquire companies, and such competition may result in decreased availability of, or increased prices for, suitable acquisition candidates. In addition, for possible commercial and economic considerations, we may not be able to consummate acquisitions that we have identified as crucial to the implementation of our strategy. We may not be able to obtain the necessary regulatory approvals, including those of competition authorities and foreign investment authorities, in countries where we seek to consummate acquisitions. For those and other reasons, we may ultimately fail to consummate an acquisition, even if we announce that we plan to acquire a company.

In addition, if we consummate one or more significant acquisitions in which the consideration consists, in whole or in part, of ordinary shares or American Depositary Shares (ADSs), representing our ordinary shares, shareholders would suffer dilution of their interests in us. We have also invested in companies which can still be considered in the start-up or development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire initial investment in these companies. Due to changes in the industry and market conditions, we could also be required to realign our resources and consider restructuring or other action, which could result in an impairment of goodwill.

We may not be able to sustain growth.

We cannot assure you that we will be able to sustain our growth in future years. The failure to successfully implement our growth strategy could affect our ability to sustain growth and could materially adversely affect our results of operations.

Our evolving business strategy could adversely affect our business.

Historically we have supplied the hardware and some software for implementing multimedia recording solutions. Our shift towards providing business solutions and a multi-product offering has required and will continue to require substantial investment and change in our business model, including the move to a more direct sales model, including customer installations. While this new business model has so far affected our business positively in terms of growth and profitability, it leads to longer sales cycles and higher customization requirements. In addition, the sale of a multi-product offering is usually subject to a prolonged process of product testing and acceptance only once all components of the product offering are proven to be working together as a complete system. All of the above factors could result in a delay in revenue recognition and materially adversely affect our results of operations.



We depend on the success of our recording solutions.

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

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

If the pace of spending by government and security organizations slows, our security business may be adversely affected, perhaps materially.

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

We face foreign exchange currency risks.

We are impacted by exchange rate fluctuations. We are likely to face risks from fluctuations in the value of the NIS, EUR, GBP and other currencies compared to the dollar, the functional currency in our financial statements. A significant portion of the expenses associated with our Israeli operations, including personnel and facilities related expenses, are incurred in NIS, whereas most of our business and revenues are generated in dollars, and to a lesser extent, in GBP, EUR and other currencies. If the value of the dollar decreases against the NIS, our earnings may be negatively impacted. In addition, a significant portion of the expenses associated with our European, operations are incurred in GBP and EUR. As a result, we may experience increase in the costs of our operations, as expressed in dollars, which could adversely impact our earnings. Furthermore, if the Israeli inflation rate exceeds the rate of the NIS devaluation against foreign currencies, or otherwise increases, and we will be required to keep our expenses in line with the rate of inflation, then our NIS expenses may grow.

We monitor foreign currency exposure and may use various instruments to preserve the value of sales transactions, expenses and commitments; however, this cannot assure our full protection against risks of currency fluctuations that could affect our financial results. For information on the market risks relating to foreign exchange, please see Item 11, “Quantitative and Qualitative Disclosures about Market Risk” in this annual report.

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

The sales cycle for our products and services is variable, typically ranging between a few weeks to several months from initial contact with the potential client to the signing of a contract. Frequently, sales orders accumulate towards the latter part of a given quarter. Looking forward, given the lead-time required by our contract manufacturer, if a large portion of sales orders are received late in the quarter, we may not be able to deliver products within the quarter and thus such sales will be deferred to a future quarter. There can be no assurance that such deferrals will result in sales in the near term, or at all. Thus, delays in executing client orders may affect our revenue and cause our operating results to vary widely. Additionally, as a high percentage of our expenses, particularly employee compensation, is relatively fixed, a variation in the level of sales, especially at or near the end of any quarter, may have a material adverse impact on our quarterly operating results.

In addition, our quarterly operating results may be subject to significant fluctuations due to other factors, including the timing and size of orders and shipments to customers, variations in distribution channels, mix of products, new product introductions, competitive pressures and general economic conditions. It is difficult to predict the exact mix of products for any period between hardware, software and services as well as within the product category between interaction related platforms and related applications, transactional related platforms and applications, digital video, physical security information management and communications intelligence. Because a significant portion of our overhead consists of fixed costs, our quarterly results may be adversely impacted if sales fall below management’s expectations. Further, the period of time from order to delivery of our platforms and applications is short, and therefore our backlog for such products is currently, and is expected to continue to be, small and substantially unrelated to the level of sales in subsequent periods. As a result, our results of operations for any quarter may not necessarily be indicative of results for any future period, and may be below our forecasts. .

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

Historically, our revenues have reflected seasonal fluctuations related to slower spending activities in the first quarter, and the increased activity related to the year-end purchasing cycles of many users of our products. We believe that we will continue to encounter quarter-to-quarter seasonality.

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

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

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

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

We invest most of our cash in a variety of financial instruments. If the obligor of any of the instruments we hold defaults or undergoes reorganization in bankruptcy, we may lose a portion of such investment and our financial income may decrease. In addition, a downturn in the credit markets could adversely affect the liquidity of our investments, or the downgrading of the credit rating of our investments could cause us to recognize some loss. For information on the types of our investments, see Item 11, "Quantitative and Qualitative Disclosures About Market Risk" in this annual report.

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

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

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

We integrate various third party software products as components of our products. We utilize third party software products to enhance the functionality of our products. Our business could be disrupted if functional versions of this software were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required to spend additional capital to either redesign our software to function with alternate third party software or develop these components ourselves. We might as a result be forced to limit the features available in our current or future product offerings and the commercial release of our products could be delayed.

Undetected problems in our products could directly impair our financial results and we could face potential product liability claims against us.

If flaws in the design, production, assembly or testing of our products and solutions (by us or our suppliers) were to occur, we could experience a rate of failure in our products or solutions that would result in substantial repair, replacement or service costs and potential liability and damage to our reputation. There can be no assurance that our efforts to monitor, develop, modify and implement appropriate test and manufacturing processes for our products or solutions will be sufficient to permit us to avoid a rate of failure in our products or solutions that results in substantial delays in shipment, significant repair or replacement costs or potential damage to our reputation, any of which could have a material adverse effect on our business, results of operations and financial condition.

We may be subject to claims that our products are defective or that some function or malfunction of our products caused or contributed to property, bodily or consequential damages. We attempt to minimize this risk by incorporating provisions into our distribution and standard sales agreements that are designed to limit our exposure to potential claims of liability. No assurance can be given that all claims will be barred by the contractual provisions limiting liability or that the provisions will be enforceable. We carry product liability insurance in the amount of \$25,000,000 per occurrence and \$25,000,000 overall per annum. No assurance can be given that the amount of any individual claim or all claims will be covered by the insurance or that the amount of any individual claim or all claims in the aggregate will not exceed insurance policy coverage limits. A significant liability claim against us could have a material adverse effect on our results of operations and financial position.

Any undetected errors or malfunctions in our products could adversely affect our reputation, result in significant costs to us, impair our ability to market our products and expose us to legal liability.

Our software products are highly complex. Despite extensive testing by us and by our clients, we have in the past discovered errors, failures, bugs or other weaknesses in our software applications and will likely continue to do so in the future. Such errors, failures, bugs or other weaknesses in products released by us could result in product returns, loss of or delay in market acceptance of our products, loss of competitive position, or claims by clients or others, which would seriously harm our revenues, financial condition and results of operations. Correcting and repairing such errors, failures or bugs could also require significant expenditures of our capital and other resources and could cause interruptions, delays or cessation of our product licensing.

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

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

Inadequate intellectual property protections could prevent us from enforcing or defending our intellectual property and we may be subject to liability in the event our products infringe on the proprietary rights of third parties and we are not successful in defending such claims.

Our success is dependent, to a significant extent, upon our proprietary technology. We currently hold 87 U.S. patents and 75 patents issued in additional countries covering substantially the same technology as the U.S. patents. We have over 97 patent applications pending in the United States and other countries. We rely on a combination of patent, trade secret, copyright and trademark law, together with non-disclosure and non-competition agreements, as well as third party licenses to establish and protect the technology used in our systems. However, we cannot assure you that such measures will be adequate to protect our proprietary technology, that competitors will not develop products with features based upon, or otherwise similar to our systems, or that third party licenses will be available to us or that we will prevail in any proceeding instituted by us in order to enjoin competitors from selling similar products. In most of the areas in which we operate, third parties also have patents which could be found applicable to our technology and products. Such third parties may include competitors, as well as large companies, which invest millions of dollars in their patent portfolios, regardless of their actual field of business. Although we believe that our products do not infringe upon the proprietary rights of third parties, we cannot assure you that one or more third parties will not make a contrary claim or that we will be successful in defending such claim.

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

From time to time, we receive “cease and desist” letters alleging patent infringements. However, no formal claims or other actions have been filed with respect to such alleged infringement, except for past claims which have since been settled and dismissed, and a claim filed by Fair Isaac Corporation (for further information please see Item 8, “Financial Information—Legal Proceedings” in this annual report). We cannot assure you, however, that we will be successful in defending against the pending claim that has been asserted or any other claims that may be asserted. We also cannot assure you that such claim will not have a material adverse effect on our business, financial condition, or operations. Defending infringement claims or other claims could involve substantial costs and diversion of management resources.



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

We use certain “open source” software tools that may be subject to intellectual property infringement claims, the assertion of which could impair our product development plans, interfere with our ability to support our clients or require us to pay licensing fees.

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

As a result of our use of open source software, we could be subject to suits by parties claiming ownership of what we believe to be open source code and we may incur expenses in defending claims that we did not abide by the open source code license. If we are not successful in defending against any such claims that may arise, we may be subject to monetary damages or be required to remove the open source code from our products. Such events could disrupt our operations and the sales of our products, which would negatively impact our revenues and cash flow.

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

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

We depend upon outsourcers for the manufacture of our products. The failure of our product manufacturers to meet our quality or delivery requirements would likely have a material adverse effect on our business, results of operations and financial condition.

Pursuant to our manufacturing agreement with Flextronics Israel Ltd., a subsidiary of Flextronics, a global electronics manufacturing services provider, Flextronics provides us with a comprehensive manufacturing solution that covers all aspects of the manufacture of our products from order receipt to product shipment, including purchasing, manufacturing, testing, configuration, and delivery services. Although in recent years we made a shift towards an enterprise software business model, we still sell certain hardware based products that are covered by this agreement. As a result of this arrangement, we are dependent on Flextronics to process orders and manufacture our hardware products. Consequently, the manufacturing process of our products is not in our direct control.

We may from time to time experience delivery delays due to the inability of Flextronics or any other manufacturers to consistently meet our quality or delivery requirements and we may experience production interruptions if Flextronics or another manufacturer is for any reason unable to continue the production of our products. Should we have on-going performance issues with our contract manufacturers, the process to move from one contractor to another is a lengthy and costly process that could affect our ability to execute customer shipment requirements and/or might negatively affect revenue and/or costs. If this manufacturer or any other manufacturer were to cancel contracts or commitments with us or fail to meet the quality or delivery requirements needed to satisfy customer orders for our products, we could lose time-sensitive customer orders and have significantly decreased quarterly revenues and earnings, which would have a material adverse effect on our business, results of operations and financial condition.

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

Certain components and subassemblies that are used in the manufacture of our existing products are purchased from a single or a limited number of suppliers. In the event that any of these suppliers are unable to meet our requirements in a timely manner, we may experience an interruption in production until an alternative source of supply can be obtained. Any disruption, or any other interruption of a supplier's ability to provide components to us, could result in delays in making product shipments, which could have a material adverse effect on our business, financial condition and results of operations. In addition, some of our major suppliers use proprietary technology and software code that could require significant redesign of our products in the case of a change in vendor. Further, as suppliers discontinue their products, or modify them in manners incompatible with our current use, or use manufacturing processes and tools that could not be easily migrated to other vendors, we could have significant delays in product availability, which would have a significant adverse impact on our results of operations and financial condition. Although we generally maintain an inventory for some of our components and subassemblies to limit the potential for an interruption and we believe that we can obtain alternative sources of supply in the event our suppliers are unable to meet our requirements in a timely manner, we cannot assure you that our inventory and alternative sources of supply would be sufficient to avoid a material interruption or delay in production and in availability of spare parts.

If we lose our key personnel or cannot recruit additional personnel, our business may suffer.

Due to growth, or as a result of regular recruitment, we will be required to hire and integrate new employees. Recruiting and retaining qualified engineers and computer programmers to perform research and development and to commercialize our products, as well as qualified personnel to market and sell those products, are critical to our success. As of December 31, 2011, approximately 23% of our employees were devoted to research and product development and approximately 22% were devoted to marketing and sales. There can be no assurance that we will be able to successfully recruit and integrate new employees. There is often intense competition to recruit highly skilled employees in the technology industry. We have suffered from attrition in our workforce in previous years and we believe that such attrition will continue in the future. We may not be able to offer current and potential employees a compensation package that is satisfactory in order to keep them within our employ. An inability to attract and retain highly qualified employees may have an adverse effect on our ability to develop new products and enhancements for existing products and to successfully market such products, all of which would likely have a material adverse effect on our results of operations and financial position. Our success also depends, to a significant extent, upon the continued service of a number of key management, sales, marketing and development employees, the loss of any of whom could materially adversely affect our business, financial condition and results of operations.

If we are unable to maintain the security of our systems, our business, financial condition and operating results could be harmed.

The occurrence, or perception of occurrence, of security breaches in the operation of our business or by third parties using our products could harm our business, financial condition and operating results. Some of our customers use our products to compile and analyze highly sensitive or confidential information. We may come into contact with such information or data when we perform service or maintenance functions for our customers. While we have internal policies and procedures for employees in connection with performing these functions, the perception or fact that any of our employees has improperly handled sensitive information of a customer or a customer's customer could negatively impact our business. If, in handling this information, we fail to comply with our privacy policies or privacy and security laws, we could incur civil liability to government agencies, customers and individuals whose privacy was compromised. If personal information is received or used from sources outside the United States, we could be subject to civil, administrative or criminal liability under the laws of other countries. In addition, third parties may attempt to breach our security or inappropriately use our products through computer viruses, electronic break-ins and other disruptions. If successful, confidential information, including passwords, financial information, or other personal information may be improperly obtained and we may be subject to lawsuits and other liability. Any internal or external security breaches could harm our reputation and even the perception of security risks, whether or not valid, could inhibit market acceptance of our products.

Our business could be materially adversely affected by changes in the legal and regulatory environment.

Our business, results of operations and financial condition could be materially adversely affected if laws, regulations or standards relating to our products, us or our employees (including labor laws and regulations) are newly implemented or changed. In addition, our revenues would be harmed if we fail to adapt our products to changes in regulations applicable to the business of certain of our clients, such as securities trading, broker sales compliance and anti-money laundering laws and regulations.

There are growing compliance and regulatory initiatives and changes for corporations and public organizations around the world that include both internal and external regulations and are driven by events and concerns such as accounting scandals, security threats and economic conditions. While we attempt to prepare in advance for these new initiatives and standards, we cannot assure you that we will be successful in our efforts, that such changes will not negatively affect the demand for our products and services, or that our competitors will not be more successful or prepared than us.

With respect to the telecommunications industry specifically, there may be increased regulations, including with respect to privacy and protection of personal information. Adoption of such regulations may require that we invest in the modification of our solutions to comply with such regulations, cause a reduction in the use of our solutions or subject us or our customers to liability resulting from a breach of such regulations. The adoption of these types of regulations could materially adversely affect our business and results of operations.

In recent years, the European Union issued directives on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, or “RoHS,” and Waste Electrical and Electronic Equipment, or “WEEE”. We are making every effort in order to maintain compliance with these directives, without otherwise adversely affecting the quality and functionalities of our products. The countries of the European Union, as a single market for our products, accounted in 2010 and 2011 for approximately 18% and 17% of our revenues, respectively. If our products fail to comply with WEEE or RoHS directives or any other directive issued from time to time by the European Union, we could be subject to penalties and other sanctions that could have a material adverse effect on our results of operations and financial condition. In addition, similar regulations are being formulated in other parts of the world. We may incur substantial costs in complying with other similar programs that might be enacted outside Europe in the future.

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

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

If we fail to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, it could have a material adverse effect on our business, operating results and share price.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us. Our efforts to comply with the requirements of Section 404, which first applied to our financial statements for 2006, have resulted in increased general and administrative expenses and a devotion of management time and attention to compliance activities, and we expect these efforts to require the continued commitment of significant resources. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. In addition, we may identify material weaknesses or significant deficiencies in our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation and/or sanctions by regulatory authorities, and could have a material adverse effect on our business and operating results, investor confidence in our reported financial information, and the market price of our ordinary shares and ADSs.

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

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

#### Risks relating to Israel

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

Our headquarters, research and development and main manufacturing facilities, as well as the facilities of Flextronics Israel Ltd., our key manufacturer, are located in the State of Israel, and we are directly affected by the political, economic and security conditions to which Israel is subject. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. A state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. In past years there was a high level of violence between Israel and the Palestinians, including continuous rocket and missile attacks on certain areas of the country over the last couple of years. There can be no assurance that such attacks shall not hit or our premises or major infrastructure and transport facilities in the country, which may have a material adverse affect on our ability to conduct business. Recent political events and continuous unrest in various countries in the Middle East, including Israel's neighboring countries, have shaken and continue to impact the stability of those countries. In addition, Iran has threatened to attack Israel and is known to have long range missiles, which could hit every location in Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon, which could result in rocket and missile shooting towards Israel. Any of these situations could escalate in the future and turn violent, which could affect the Israeli economy generally and us in particular, and have a severe impact on our ability to operate. In addition, acts of terrorism, armed conflicts or political instability in the region could negatively affect global and local economic conditions and harm our results of operations. We cannot predict the effect on the region of any diplomatic initiatives or political developments involving Israel or the Palestinians or other countries in the Middle East or North Africa. Furthermore, several countries restrict doing business with Israel and Israeli companies, and additional companies may restrict doing business with Israel and Israeli companies or boycott Israel as a result of an increase in

hostilities or due to disagreement with Israel's policies and agenda. This may also seriously harm our operating results, financial condition and the ability to expand our business. Our products are heavily dependent upon components imported from, and most of our sales are made to, countries outside of Israel. Accordingly, our business, financial condition and results of operations could be materially adversely affected if trade between Israel and its present trading partners were interrupted or curtailed.

Our results of operations may be negatively affected by the obligation of our personnel to perform military service.

Some of our officers and employees are obligated to perform military reserve duty from time to time. In the event of a military conflict, including the ongoing conflict with the Palestinians, these persons could be required to serve in the military for extended periods of time and on very short notice. The absence of a number of our officers and employees for significant periods could disrupt our operations and harm our business. We cannot assess the full impact of these requirements on our workforce or business and we cannot predict the effect on us of any expansion or reduction of these obligations.

Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

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

Our results may be affected by the availability of government grants and tax benefits. Our participation in these programs restricts our ability to freely transfer manufacturing rights and technology out of Israel.

We derive and expect to continue to derive significant benefits from various programs including Israeli tax benefits relating to our “Approved and Privileged Enterprise” programs and certain grants from the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor, (“OCS”), for research and development. To be eligible for these grants, programs and tax benefits, we must continue to meet certain conditions, including making certain specified investments in fixed assets and conducting the research, development, manufacturing of products developed with such OCS grants in Israel (unless a special approval has been granted for performing manufacturing activities outside Israel) and, as of 2011, providing the OCS with an undertaking that the know how to be funded and any derivatives thereof is wholly owned by us, upon its creation. From time to time, the Israeli Government has discussed reducing or eliminating the availability of these grants, programs and benefits and there can be no assurance that the Israeli Government’s support of grants, programs and benefits will continue. If grants, programs and benefits available to us or the laws, rules and regulations under which they were granted are eliminated or their scope is further reduced, or if we fail to meet the conditions of existing grants, programs or benefits and are required to refund grants or tax benefits already received (together with interest and certain inflation adjustments) or fail to meet the criteria for future “Approved or Privileged Enterprises,” our business, financial condition and results of operations could be materially adversely affected including an increase in our provision for income taxes.

On April 1, 2005, an amendment to the Israeli law which deals with Approved Enterprises came into force. Pursuant to the amendment, a company’s facility will be granted the status of “Approved Enterprise” only if it is proven to be an industrial facility (as defined in such law) that contributes to the economic independence of the Israeli economy and is a competitive facility that contributes to the Israeli gross domestic product. The amendment incorporates certain changes to both the criteria and procedure for obtaining “Approved Enterprise” status for an investment program, and changes to the tax benefits afforded in certain circumstances to “Approved Enterprises” under such law (which is referred to as a “Privileged Enterprise” following such amendment). As of December 31, 2011, we have six Approved Enterprise programs and seven Privileged Enterprise programs, which are covered by the amendment. While we believe that we meet the statutory conditions as set out in the amendment, there can be no assurance that the tax authorities in Israel will concur. Should it be determined that these Privileged Enterprise programs do not meet the statutory conditions, our provision for income taxes will increase materially.

As a result of the amendment, tax-exempt income generated under the provisions of the amended law, will subject us to taxes upon dividend distribution (which under the amendment includes the repurchase of our shares – See Item 16E, “Purchases of Equity Securities by the Issuer and Affiliated Purchasers” in this annual report, for additional information about repurchase programs) or complete liquidation.

We do not intend to distribute any amounts of our undistributed tax exempt income as dividends as we intend to reinvest our tax-exempt income. Accordingly, no deferred income taxes have been provided on income attributable to our Approved or Privileged Enterprise programs as the undistributed tax exempt income is essentially permanent in duration.



On December 29, 2010, the Israeli parliament approved a further amendment to the law (“Amendment”) dealing with Approved and Privileged Enterprise programs effective as of January 1, 2011. This amendment generally abolishes the previous tax benefit routes that were afforded under the law, specifically the tax-exemption periods previously allowed, and introduces certain new tax benefits for industrial enterprises meeting the criteria of the law.

The Company became subject to the Amendment commencing January 1, 2012. We do not believe that the Amendment will have a material effect on our provision for taxes, as long as we meet all of the criteria mentioned therein.

Under Israeli law, products incorporating know-how developed with grants from the OCS are required to be manufactured in Israel, unless prior approval of a governmental committee is obtained. As a condition to obtaining this approval, we may be required to pay to the OCS up to 300% of the grants we received and to repay these grants on an accelerated basis, depending on the portion of manufacturing performed outside Israel. In addition, we are prohibited from transferring to third parties the know-how developed with these grants without the prior approval of a governmental committee and, possibly, the payment of a fee. See Item 4, “Information on the Company—Research and Development” in this annual report, for additional information about OCS programs.

Provisions of Israeli law may delay, prevent or impede an acquisition of us, which could prevent a change of control.

Israeli corporate law regulates mergers and tender offers, requires tender offers for acquisitions of shares above specified thresholds and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to some of our shareholders. These provisions could delay, prevent or impede an acquisition of us. See Item 10, “Additional Information—Mergers and Acquisitions” in this annual report, for additional discussion about some anti-takeover effects of Israeli law.

#### Risks related to our Ordinary Shares and ADSs

Our share price is volatile and may decline.

Numerous factors, some of which are beyond our control, may cause the market price of our ordinary shares or our ADSs, each of which represents one ordinary share, to fluctuate significantly. These factors include, among other things, announcements of technological innovations, development of or disputes concerning our intellectual property rights, customer orders or new products by us or our competitors, currency exchange rate fluctuations, earnings releases by us, our partners or our competitors, general economic and market conditions, political changes and unrest in regions, natural catastrophes, market conditions in the industry and the general state of the securities markets, with particular emphasis on the technology and Israeli sectors of the securities markets.

Future sales of our ADSs may impact the market price of our ADSs.

If we or our shareholders sell substantial amounts of our ADSs in the public market, the market price of our ADSs could decline. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Following an acquisition, our ADSs held by new holders may become freely tradable.

Item 4. Information on the Company.

#### History and Development of the Company

Our legal and commercial name is NICE-Systems Ltd. We are a company limited by shares organized under the laws of the State of Israel. We were originally incorporated as NICE Neptun Intelligent Computer Engineering Ltd. on September 28, 1986 and were renamed NICE-Systems Ltd. on October 14, 1991. Our principal executive offices are located at 8 Hapnina Street, P.O. Box 690, Ra'anana 43107, Israel and the telephone number at that location is +972-9-775-3030. Our agent for service in the United States is our subsidiary, Nice Systems Inc., 301 Route 17 North, 10th Floor, Rutherford, New Jersey 07070.

For a summary of our recent acquisitions, please see Item 5, "Operating and Financial Review and Prospects—Recent Acquisitions" in this annual report.

## Business Overview

We are a leading provider of software solutions that enable organizations to take the Next-Best-Action to improve customer experience and business results, ensure compliance, prevent financial crime, and safeguard people and assets. We operate an Enterprise business which is comprised of Customer Interactions Solutions and Financial Crime and Compliance Solutions, and a Security business.

Across our businesses, our solutions capture structured and unstructured data from different types of interactions, transactions and events, including interactions at various customer touch points, financial transactions and security-related sensors. Such data is captured from phone calls, the web, emails, chat, video, radio and many others. Through cross-channel analytics, the intent that underlies the data is revealed, providing the organization with insights on the interactions, transactions and events. The extraction of insights through advanced analytics on the captured data enables organizations to take action and make an impact in real time and offline by driving a personalized response to these insights before, during and after the interactions, transactions or events. This allows organizations to improve business performance, increase operational efficiency, prevent financial crime, ensure compliance, and enhance safety and security.

Our Customer Interactions Solutions are implemented by contact centers of all sizes, back office operations, retail branches and financial trading floors, to improve operational efficiency, ensure regulatory compliance, enhance customer experience and grow revenue. Enterprise customers of our Customer Interaction solutions span a variety of industries, such as financial services, telecommunications, healthcare, outsourcers, retail, media, travel, service providers, utilities, and others.

Enterprise customers of our Financial Crime and Compliance Solutions are primarily financial services organizations, government agencies and related organizations. Our solutions enable such customers to fight financial crime, prevent fraud and money laundering and ensure trading compliance.

NICE Security Solutions are deployed worldwide in public transportation systems, critical facilities, city centers, banks, airports, public safety agencies, law enforcement and intelligence agencies and organizations and national and internal security agencies. Our Security Solutions offer complete incident life-cycle management, including prevention, prediction, real-time and post-incident analysis for security and safety operations. We also offer solutions for the interception, collection, processing and analysis of communications data.

For a breakdown of total revenues by products and services and by geographic markets, for each of the last three years, please see Item 5, “Operating and Financial Review and Prospects—Results of Operations.”

## Industry Background and Trends

A growing need of organizations to analyze and respond to vast amounts of structured and unstructured data

Individuals today have greater choices and are able to make more informed decisions because they are empowered by technology, connectivity and access to information. As a result, organizations are overwhelmed with an enormous amount of structured and unstructured data. There is a growing need by organizations to analyze and respond to all of this so called Big Data to help them make rapid and informed decisions.

Heightened and more complex regulatory and compliance requirements and the need for dispute resolution.

The need to record customer interactions is constantly growing as compliance and regulatory pressures are increasing for corporations and public organizations worldwide. Many companies are implementing call recording as a cornerstone of regulatory compliance. The requirements that call recording address include both internal and external regulations. One example is the Payment Card Industry Data Security Standard (PCI-DSS), which bans the audio recording and storage of sensitive cards validation codes. NICE's recording solutions are being designed to meet these security requirements.

Global financial institutions are required to adhere to complex compliance requirements across multiple jurisdictional and geographic regions. This increases the need for enterprise-wide compliance systems and technology. Furthermore, they are often required to implement effective programs to address these requirements within very demanding timeframes. Emerging global regulatory requirements create the need for new or enhanced compliance monitoring. Failure to address these requirements puts banks at risk of fines, losses, or reputational damage.

In addition, it is important to be able to eliminate and/or resolve communication disputes, such as between counterparties in a securities trade. Existing business intelligence and other IT solutions have addressed these growing challenges to some degree. However, institutions require improved solutions that not only provide better compliance and surveillance, but also more current, real-time information with increased operational visibility. Advanced compliance related solutions enable the reduction of costs associated with ongoing compliance and help improve customer service, while creating the required audit trail for regulatory purposes.

Regulatory compliance is expected to continue to be a top concern for security-conscious organizations. These organizations are expected to continue to adopt solutions to meet regulatory requirements for increased physical security and reliability as well as security for electronic access. One Example is the North American Electric Reliability Corporation Critical Infrastructure Protection (CIP) standards in the US, which sets physical security standards for electric facilities.

Customer Interactions business background and trends

An increased focus on improving customer experience (“voice of the customer”) and business performance.

Customer-centric organizations are seeking customer-centric work force optimization solutions, which include a wide range of applications (e.g., capture, quality management, interaction analytics, performance management, etc.), to drive interaction effectiveness and improve operational efficiency.

Customers are looking to have a consistent level of service excellence regardless of the communication channel (e.g., phone, web, chat and social media). They are also seeking more opportunities for effective self-service.

As a result, companies are seeking to gain deeper insights into customer behaviors and motives. Speech analytics and cross-channel interaction analytics are perceived as strategic solutions for improving customer service and business performance.

Contact centers are seeking to impact customer interactions in real time.

Organizations are seeking to improve the customer experience and increase revenues through their contact centers by delivering the right services and products to customers in real time. Uncovering customer intent and gaining insights during the actual interaction enables organizations to deliver exactly what customers need in real time. It also enables organizations to close the gap between growing customer demands for immediate and relevant service regardless of the contact center agent's experience and knowledge. This is the key to securing the customer relationship, improving satisfaction and loyalty, and ultimately driving revenue growth.

The evolution of contact centers into strategic customer interaction hubs requires advanced applications.

Contact centers are key focus areas for organizations to help them achieve top business goals, which include high customer satisfaction, customer retention and revenue generation. A package of tailored business solutions powered by advanced analytics that uncovers customer intent and identifies the motivations behind customer behaviors and preferences is becoming essential. These solutions need to be able to capture customer and business intent, analyze it and provide insights that lead to a powerful, positive business impact.

Adoption of contact center hosted solutions continues to gain momentum, particularly at the very low end of the market.

The introduction of Internet Protocol (IP) and Session Initiation Protocol (SIP)-based technologies have eliminated physical telecommunications constraints. Enterprises are looking for ways to leverage these new technologies, making contact center hosting a good and effective fit. Among other advantages, these solutions require relatively lower investment and provide quick deployment, scalability and agility, and a reduced maintenance burden.

Enterprises are expanding their operational efficiency activities beyond the contact center.

The quality of customer experiences is indirectly influenced by the performance of back-office employees. Inefficiencies and suboptimal staffing in the back office drive up costs and increase the risk of customer attrition and lost business opportunities. Thus, enterprises are looking to align back-office employees and activities with customer service requests, and relieve the contact center from a significant percentage of call volume and the associated costs, which help contribute to a better customer experience.

Financial Crime and Compliance business industry background and trends

New opportunities from industry changing technology in the financial services market.

Financial crime and compliance is becoming more complex in today's environment. Rapidly changing and increasing risk requires a demand for new and innovative solutions such as voice-print identification and security surveillance. This provides the opportunity to repackage and leverage time-tested, proven, and existing technologies to address new business challenges. The ability to deliver solutions that seamlessly integrate with complementary technologies already in use across the industry, provides financial institutions with a more effective means to address emerging and critical needs in the financial services market.

Continued focus on enterprise-wide financial crime technology and strategy.

The volume, value, speed, and complexity of financial transactions create an opportunity for criminals to exploit the gaps created by information silos at individual lines of business or regional segmentations. Therefore, as financial crime crosses traditional business boundaries, a multi-dimensional, enterprise-wide financial crime prevention strategy is becoming more effective against complex criminal schemes compared to point solutions. The ability to correlate activity and create a holistic view of activity across the entire organization provides firms the opportunity to significantly mitigate risk and prevent losses. In addition, the ability to centralize financial crime management supports operational consistency and adherence to regulations across the enterprise, further reducing the risk of regulatory scrutiny.

Strong growth in emerging markets

There continues to be significant opportunities in emerging geographic markets, and in businesses outside the traditional banking vertical. In order to establish themselves as global institutions, financial institutions in emerging economies are increasingly adopting more sophisticated financial crime and compliance programs to establish their legitimacy and prevent reputational harm. The growth of demand from emerging markets, including Latin America, Eastern Europe, Asia Pacific and Africa, has introduced the opportunity to expand coverage into these regions. In addition, new and increased regulatory scrutiny facing hedge funds, energy trading firms, and other industry verticals has expanded the scope of surveillance requirements beyond the established areas of banking and brokerage.

Security business industry background and trends

Persistent physical security challenges for public safety, homeland security and intelligence agencies.

Terrorist attacks around the world have significantly changed the geopolitical landscape and created long-term consequences for public safety, security and intelligence agencies. In addition, transportation organizations, municipalities and governmental entities have become increasingly aware of the benefits technology can provide in the areas of crime prevention and public safety. These organizations face new challenges in detecting, protecting against and effectively responding to more sophisticated and complex threats. Organizations are also facing vast amounts of information from different sources, which make it more difficult to 'connect the dots' and act efficiently. As a result of these global trends, the challenge of storing, managing and analyzing vast amounts of multimedia content generated by traditional and IP-based communications captured by an increasing variety of detection devices is growing. In addition, emergency services and public organizations require increasingly sophisticated solutions to analyze content in order to strengthen the measures they take for public safety and security.

Emerging needs for holistic situational awareness and event management in the security market.

The number and variety of physical security sensors is growing substantially, with public and private organizations deploying security systems, such as surveillance cameras and access control and intrusion detection sensors. Organizations, municipalities and governmental entities are struggling to eliminate the number of information silos created by deployment of redundant security systems. Consolidation of companies, as seen in the banking industry for example, creates more information silos and disparate systems in the organization. These silos limit the control room operators' ability to gain a cohesive and unified picture of situations. The lack of unified solutions undermines the ability to take decisive actions; furthermore, the lack of adequate tools for sharing information in real time between the various field security personnel, emergency forces and law enforcement agencies, among others, can substantially prolong response time and reduce the probability of successful event mitigation.

Increased focus on physical corporate security.

Companies operating throughout the world have recognized that threats to their facilities, IT networks and personnel need to be addressed at all times. For example, many companies have determined that they need to establish measures for personnel screening and observation, invest in enhanced physical security measures and incident response capability, and deploy a variety of systems to address network-based vulnerabilities. As a result of these global trends in security needs, more companies face the growing challenge of storing and analyzing vast amounts of content, such as voice, video and other IP-based communications, captured by an increasing variety of detection devices, such as closed circuit television.

Increased urbanization raises rates of crime and risks of terror attacks.

Increased urbanization in both developed and developing countries results in higher rates of various types of crime (such as robbery, theft, murder and other assaults) and greater fears of terror attacks in city centers and other metropolitan areas and systems (such as mass transit). These growing concerns are driving large-scale security projects in these areas, aiming at improving the security of the citizens. These large-scale projects include installation and implementation of wide-scale security systems, which better synchronize and correlate multimedia data sources in order to assist law enforcement officials to detect and prevent crimes and terror attacks and investigate quickly in order to apprehend the suspects.





Requirement for increased service level, operational efficiency and business continuity.

Organizations leverage investments made in systems originally assigned to handle security and safety to also address operations, improvement of service-levels, and maximizing of business continuity. As a result, organizations are willing to invest in higher-end solutions that provide insights, relevancy and decision making capabilities.

#### Our Strategy

The key elements of our strategy include the following:

Drive adoption of cross-channel and cross-sensor analytics solutions.

With our solutions, we intend to continue to address the growing unmet need to more accurately capture, manage and analyze structured and unstructured data from multiple channels in a wide variety of businesses and operational environments.

In our enterprise business, we aim to provide our customers with insight in real-time and off-line in order to positively impact the customer processes while they occur, which in turn has a positive impact on their businesses. More specifically, such insights enable our customers to improve operational efficiency and customer experience, grow revenues and minimize losses, enhance regulatory compliance and prevent fraud and financial crime. In order to provide our customer with such insights and the ability to impact their businesses most effectively, we aim to offer our customers with market leading, best-of-suite analytics solutions.

In our security business, we intend to leverage the expansion of the physical security domain into other areas, by continued investment in an integrated product portfolio that addresses security, safety and operational risks. As part of this integrated portfolio, we continue to invest in cross-sensor analytics solutions, which are meaningful in both the security control room, and the operational environment, providing tools for situational awareness, post-event debriefing and data and trend analysis reports for decision makers.

Accordingly, we plan to continue to target these opportunities through focused sales and marketing, by developing industry specific applications that are enabled or greatly enhanced by convergence analytics, and by providing value-added services that facilitate the implementation of our solutions. Moreover, we plan to continue to invest in research and development and strategic alliances to enhance our industry-leading solutions and deliver superior insight to drive improved operational and business results, as well as increased security and safety. We will continue to leverage the technology, operational and partnership synergies we derive from serving the enterprise, financial and security markets.

Expand and leverage our existing customer base, strategic alliances and global infrastructure.

We believe there are abundant opportunities to up-sell and cross-sell within our existing customer base by increasing our customers' use of the full breadth of our solutions and by migrating them to our next-generation portfolio. We also have strong strategic relationships with industry leaders in each of our sectors of operations, including contact center infrastructure and telephony vendors, financial trading floor solution providers, and security solution providers. We intend to continue to leverage these relationships and invest in nurturing new strategic alliances to increase the value of our solutions to our customers, to strengthen our channels to market and to enhance our market position.

Continue to pursue selective acquisitions.

We have a history of successful acquisitions, comprised of approximately ten transactions over the past three years. We intend to continue augmenting our organic growth through additional acquisitions that broaden our product and technology portfolio, expand our presence in selected vertical markets and geographic areas, broaden our customer base, and increase our distribution channels and vertical market access.

Expand our business offering with SaaS and Hosting.

We have expanded the delivery model of our products to provide Software as a Service (SaaS) and hosting offerings. Some customers prefer these models as they lower the costs of deployment and allow them to scale the solutions faster while reducing capital investments. We see a growing demand for these models and they could enhance our penetration into smaller sized customers as well as enable our existing customers to broaden their use of our products. We will continue to broaden our offering delivered through these models.

Further enhance the integration between our businesses.

We intend to continue increasing synergies between our Enterprise Customer Interactions, Financial Crime and Compliance and Security business units. We are aligning our field operations, creating joint product offerings and improving our systems and infrastructure. We will continue making efforts in this area, as we believe that a higher level of integration, knowledge sharing and alignment will enable us to increase revenues and improve our performance.

Drive deployment of our solutions through value-added services.

Our customers face diverse business and deployment challenges. We continuously develop our professional services organization that helps our customers capture the full value from our solutions. We help our customers analyze their business issues and re-engineer critical processes to address their specific needs. These value-added services should allow us to accelerate the market penetration of our advanced solutions and expand our offering to our installed base.

Continue to lead the evolution of the contact center beyond its traditional market and expand our differentiated end-to-end suite.

With the increasing strategic importance and complexity of the contact center, customers have a growing need for comprehensive management solutions. We believe our end-to-end suite, which is comprised of integrated and modular tools and business solutions for contact center management represents a differentiated approach and value for our customers. We also aim to develop industry specific business solutions to enable our customers to better interact with their customers by taking advantage of industry-specific knowledge, best practices, and processes, increasing our ability to respond to industry specific needs. We intend to augment and expand our offering of end-to-end solutions to maintain our industry leadership position.

Furthermore, we have extended the value of our solutions outside the contact center to the back office and point of sale/retail and branches to enable real-time adherence as well as planning and optimization. Back office operations often employ a significantly larger workforce as compared to contact centers. Although the back office faces similar business issues to those faced by contact centers operations, it typically lacks solutions for effectively managing the workforce as well as ensuring efficiency and compliance.

Further enhance our position as the largest and broadest provider of a single financial crime, risk and compliance software platform for the financial services industry.

We continue to build the largest and broadest risk and financial crime solutions enterprise-wide platform. The consolidation of financial crime management, coupled with the industry's evolution towards enterprise risk and compliance systems, need to monitor all channels, growing regulatory pressure and focus on cost reduction and productivity improvement, all creating a growing need for a broader offering in this industry. We intend to augment and expand our offerings in this market to meet the growing needs of the industry and maintain our market leadership.

Drive deployment of end-to-end security solutions.

We are in a unique position to deliver a comprehensive solution that complements our proven surveillance, public safety and multimedia reconstruction capabilities, with an advanced security management solution that offers complete situational awareness, integrating information from multiple sensors. This end-to-end solution addresses market demand for a unified solution that eliminates information silos and enables security personnel to proactively mitigate risks through effective execution of optimal security operational procedures. We intend to leverage this broad solution portfolio to strengthen our market leadership and accelerate the penetration into public transportation, airports, financial services, critical facilities, city centers, public safety agencies, government institutes and corporate facilities markets, while expanding the offering to our existing installed base.

Address security, safety and operational risks in three dimensions

Our security solutions address security, safety and operational risks in three dimensions: Cross-time, Cross-organizational Roles, and Cross-vertical expertise. Cross-time impacts the entire lifecycle of an event—before, during and after—for real-time management, investigation, planning and improvement. Cross-organizational Roles means solutions for the operator in the control room, the investigator, as well tools for decision makers. Cross-vertical Expertise, enables us to tailor security solutions to the unique needs of organizations in various market segments, including public transport, airports, critical facilities, banking and public safety. Systems originally assigned by organizations to handle security and safety, are also being utilized to address operational risks. As a result, organizations are looking to adopt tools that are adequate not only to manage their security and safety situations, but such that can contribute to operational gains like increased efficiency and service-level.

Our Solutions and Products

I. NICE Enterprise Solutions

NICE Enterprise solutions are comprised of two offerings, the Enterprise Customer Interaction offering and the Financial Crime and Compliance offering (NICE Actimize).

A. Customer Interaction Solutions

The NICE Enterprise Customer Interactions offering enables businesses to capture customer interactions, transactions and feedback; analyze them to reveal business insights, and apply these insights in real time to achieve a positive impact on the interaction and the business. NICE provides an integrated suite of products and solutions that help businesses grow revenue, enhance customer experience, improve regulatory compliance, and optimize contact center and back office operations. NICE Enterprise Customer Interactions Solutions are implemented by contact centers of all sizes, back office operations, retail branches and financial trading floors.

The NICE Enterprise Customer Interactions offering is comprised of four solution suites: NICE SmartCenter, NICE Trading Suite, NICE Back Office Suite and NICE Solutions for Small & Mid-sized Contact Centers and Branch Offices.

1. NICE SmartCenter is a suite of targeted business solutions and best-in-class products that is aimed at providing contact centers and sales and marketing organizations with the ability to capture customer interactions across all communication channels, including phone, surveys, email and Web, analyze them to discover valuable insights – such as customer purchase preferences - and leverage these insights to maximize workforce utilization and performance, and impact interactions as they occur.

Our business solutions for contact centers encapsulate industry best practices, pre-built content and closed-loop workflows that are integrated with real-time speech analytics and real-time decisioning and agent guidance, enabling organizations to address strategic business issues such as those described below.

## NICE SmartCenter Business Solutions

### Optimizing Operational Efficiency

We provide solutions that help contact centers enhance operational efficiency that benefits the bottom line by optimizing handle time, improving agent productivity, reducing call volume, and effectively forecasting workloads and scheduling staff.

- NICE First Contact Resolution enables organizations to measure the rate at which customer issues are resolved during the first contact and identify why others result in repeat contacts. By analyzing this data, organizations can take real-time action to increase first contact resolution, improve operational efficiency and increase customer satisfaction.
- NICE Handle Time Optimization helps companies understand what drives high average handle time and then take action in real time to mitigate it, while preserving quality and customer service.
- NICE Quality Optimization uses real-time, interaction analytics to analyze all customer interactions and measure key performance indicators (KPIs) for improving the quality of service provided by contact center agents. KPIs can be derived from telephony-based metrics such as average handle time, hold time and call transfers, as well as from speech analytics, such as customer dissatisfaction and first contact resolution.

### Growing Revenue

NICE SmartCenter Revenue Growth Solutions help businesses increase the number of sales attempts made by their contact center agents and improve sales conversion rates, identify and promote best practices for improving debt collection, and extract business intelligence from customer interactions to enhance marketing effectiveness.

- NICE Service-to-Sales uses real-time, interaction analytics technologies along with desktop analytics and text mining, to analyze and measure agents' sales attempt and success rates, identifying the root causes of customer objections, sales best-practices and agents struggling with poor sales skills. Based on this input, it defines business rules to identify sales opportunities, and leverages real-time, next-best-offer guidance to assist agents in maximizing them.
- NICE Collections Effectiveness identifies high performing collection agents and analyzes their interactions in order to uncover best practices and techniques. Based on these insights, it provides real-time, next-best-action guidance to agents and identifies training opportunities for agents with a low contact rate or collection performance. The solution also helps companies understand the main reasons why customers don't pay their debts, use that insight to improve agent negotiation skills, and deliver real-time objection handling guidance. In addition, the solution analyzes all collection interactions in order to assure regulatory compliance.
- NICE Marketing Effectiveness mines interactions for customer references to marketing campaigns and promotions and enables organizations to compare the effectiveness of different campaigns across different media. These insights are used to adjust and improve marketing campaigns and maximize their return on investment. The solution also collects valuable business intelligence.

### Enhancing Customer Experience

NICE SmartCenter Customer Experience solutions enables organizations to provide a consistent and compelling customer experience across all communication channels, deliver a customer experience that differentiates them from their competitors, and drive customer loyalty, which results in expanded wallet-share.

- NICE Churn Reduction enables organizations to proactively identify customers at risk to churn by leveraging cross-channel analytics to analyze customer satisfaction. By integrating voice-based intelligence with CRM and business intelligence transactional data, the solution identifies high-risk customers that would not be detected by a transactional model alone. It then guides retention agents in real time, helping them tailor retention offerings to the individual customer.
- NICE Customer Satisfaction provides a comprehensive, accurate understanding of customer satisfaction across channels – phone, email, chat, and social media. It leverages NICE’s technologies for speech analytics, emotion detection, social media analytics, web interactions analytics, call flow analytics and text mining, as well as direct customer feedback, to automatically measure various customer satisfaction-related key performance indicators (KPIs), such as Net Promoter Score. The solution provides stakeholders access to the KPIs via dashboards, and the tools to perform root-cause analysis to identify the drivers for customer dissatisfaction.

### Improving Regulatory Compliance

We provide a number of solutions that enable organizations to proactively capture and retain all customer interactions across multiple touch points to help ensure compliance with government regulations and internal policies, as well as resolve disputes, perform investigations and verify sales.

- NICE Process Enforcement, provides enterprise level support for ensuring compliance in real time, in contact centers, back offices and branches. It leverages the company's real-time decisioning technology to deliver context-sensitive instructions directly to employee desktops in real time, and ensure that such instructions are followed during every customer interaction.
- Other capabilities include ensuring compliance with Payment Card Industry Data Security Standard (PCI DSS) in real time; recording, management, and analysis of traders’ mobile phone interactions; enabling financial institutions and contact centers handling financial transactions further improve risk management and better avoid regulatory breaches.

## The NICE SmartCenter Core Products

NICE SmartCenter spans best-in-class capabilities for interaction capture, real-time cross-channel interaction analytics, workforce management, performance management, quality management, real-time process automation, and customer feedback.

- NICE Interaction Management records interactions from various communication channels into a central Cross-Channel Interaction Hub.
- NICE Quality Management delivers comprehensive tools for implementing a multifaceted quality program encompassing agents, supervisors, evaluators and managers, and the ability to improve the quality and effectiveness of customer interactions in contact centers.
- NICE Interaction Analytics utilizes a multi-dimensional analysis approach to analyze customer interactions across communication channels and in real time. It provides automated business insight and root cause analysis based on speech analytics, e-mail and chat analytics, desktop analytics, call flow analytics and integration with external business data such as CRM systems.
- NICE Real-time Process Optimization impacts interactions as they unfold through next-best-action agent guidance, cross-sell and up-sell recommendations and process automation. Helps contact centers to deliver efficient customer service, improve customer retention, and convert service calls into sales opportunities. It uses real-time decisioning technology to display relevant guidance to agents as they interact with customers on the phone.
- NICE IEX Workforce Management forecasts customer interactions, schedules agents with appropriate skills to manage and optimize the level of customer service and resources, measures agent and team performance and supports managing overall contact center performance.
- NICE Performance Management maps enterprise business objectives to group and individual goals and tracks and reports performance against these goals. It also automates critical managerial activities, including employee coaching, recognition, and performance improvement to allow front-line managers to become more effective and efficient in developing their teams. As a result, customer-facing operations are able to substantially improve productivity, boost revenue and increase customer satisfaction.
- NICE Incentive Compensation Management provides the end-to-end ability to create, manage and distribute all aspects of a commissions program. Automates the process of commission, bonus, and incentive administration in support of any type of variable pay strategy to deliver a pay-for-performance system which rewards employees for achieving targets that align with business strategy.
- NICE Fizzback enables customer service organizations to capture customer feedback immediately following an interaction with the brand at any service touch point, including contact center, branch, retail store, and web. NICE Fizzback analyzes the feedback in real time and initiates workflows to ensure that prompt action is taken on customers' comments and issues to help drive significant increases in customer advocacy, loyalty and satisfaction.

2. NICE Trading Suite delivers comprehensive, integrated capabilities to harness the complex, ongoing, high-risk exchange of interactions and transactions between traders, firms and their counterparties. The solutions enable organizations to capture, monitor and analyze interactions and transactions in real time to proactively minimize risks, detect potential regulatory breaches, counter fraudulent activities and improve investigative capabilities.

The NICE Trading Suite is comprised of a multi-channel capture platform, real-time interaction analytics, and business workflows.

3. NICE Back Office Suite extends front office operational efficiency into back office processing environments. It automates manual processes, integrates data collected directly from employee desktops, improves forecast accuracy, enables managers to view and manage resource capacity, and empowers employees to improve their own performance. In addition to these capabilities, the NICE Back Office Suite also provides tools to ensure internal and regulatory compliance, improve the quality of the work items being processed, and ultimately, elevate the level of service customers receive across the entire enterprise.

The NICE Back Office Suite combines NICE's workforce management solution with real-time guidance, process automation and compliance, as well as quality management and performance management.

4. NICE Solutions for Small & Mid-sized Contact Centers (SMCC) and Branch Offices. NICE Recording eXpress and NICE Quality eXpress are provided for small and medium-sized contact centers (SMCC) and branch offices that are also seeking a robust call recording to help ensure regulatory compliance and quality management. It is an easy-to-install, low-cost solution that is based on NICE's advanced interaction recording technology.

#### B. Financial Crime and Compliance Solutions (NICE Actimize)

NICE Actimize provides real-time financial crime, fraud prevention, anti-money laundering (AML), enterprise investigations, risk management, compliance and trading surveillance capabilities to financial institutions, government agencies, and related organizations across the globe. NICE Actimize's solutions monitor billions of transactions daily, enabling clients to mitigate financial crime risk, improve compliance, and reduce operational costs.

NICE Actimize's solutions are based on a scalable, proprietary software platform and flexible applications that address hundreds of compliance, fraud and money-laundering scenarios. Our solutions enable customers to detect anomalous transactions, generate alerts and facilitate corrective action.



1. NICE Actimize's Enterprise Risk Management technology enables a firm-wide approach to proactively addressing risk and compliance processes and investigations across the enterprise.

- Actimize Enterprise Risk Case Manager is a central platform for managing alerts, cases, investigations, link analysis, regulatory reporting, financial losses, oversight and more, depending on the individual solutions that are added to it. Through this modularity, it is able to meet the unique needs of securities compliance, financial crime, and corporate security organizations.

2. In the anti-fraud space, NICE Actimize offers integrated fraud management solutions to deliver customer-centric fraud prevention that support a holistic, enterprise-wide fraud management program. These focused fraud prevention solutions are available individually or as a comprehensive, integrated suite and can be used in both real time and batch processing to detect and prevent various types of fraud.

- The Actimize Card Fraud Solution enables card issuers, acquirers and processors to detect fraudulent transactions across a variety of card types including ATM/debit, credit, and prepaid, among others.
- The Actimize Remote Banking Fraud Solution monitors online banking, call center, IVR and mobile banking channels to detect and prevent fraud perpetrated against monetary and non-monetary activities in real time.
- The Actimize Employee Fraud solution automates detection of common types of insider fraud activity such as policy violations, embezzlement, collusion, theft of customer or bank assets, and theft of customer data.
- The Actimize Commercial Banking/Wire & ACH solution monitors electronic fund transfers (EFT) such as wire, ACH and external debit to detect suspicious activity and prevent commercial payment fraud with high-volume, real-time, transaction monitoring, alerting and blocking.
- The Actimize Deposit Fraud solution minimizes deposit fraud losses with comprehensive account activity monitoring for both 'On-Us' and deposit fraud risk.
- The Actimize Remote Brokerage Fraud solution prevents securities fraud attacks by analyzing a wide range of data including trading, market, and session information to detect attacks.

3. In the anti money laundering (AML) space, NICE Actimize offers an end-to-end suite of AML solutions, available individually or as an integrated whole. The 2009 acquisition of certain subsidiaries of Fortent, Inc. ("Fortent"), expanded and enriched the company's existing AML offering and further strengthened the firm's ability to apply proven best practices and technology to help financial institutions comply with anti-money laundering regulations from agencies around the world.

- The Actimize Suspicious Activity Monitoring solution provides end-to-end coverage to identify and report suspicious transactions related to money laundering and terrorist financing, ensuring firms can meet current regulations and quickly adapt to the evolving regulatory environment.

- The Actimize Watch List Filtering solution provides comprehensive screening against multiple watch lists, to identify and manage sanctioned or high-risk individuals and entities, with real-time name recognition capabilities.
- The Actimize Customer Due Diligence solution provides integrated risk-based rating and continuous monitoring of accounts throughout the entire customer life cycle - from initial applicant onboarding to ongoing customer due diligence.
- The Actimize CTR Processing & Automation solution provides seamless automated Currency Transaction Reporting (CTR) processing, reducing inaccuracies and manual effort by consolidating enterprise data, guiding analyst actions, and validating information prior to e-filing.
- The Actimize FATCA Compliance solution provides non-US financial institutions the ability to detect and manage US account holders that are liable for tax payments to comply with the FATCA regulation and prevent financial penalties.

4. In the brokerage compliance space, NICE Actimize offers solutions that enable brokerage firms and investment banks to effectively adhere to global regulatory requirements and organizational standards by monitoring a comprehensive range of financial products to prevent, detect, and deter non-compliant activities and improve risk and compliance performance.

- The Actimize Institutional Surveillance package provides comprehensive compliance solutions for sales and trading practices and control room surveillance including specific tools for desk supervision and trade reporting practices. The solutions provide hundreds of proven detection models to identify and manage scenarios such as market manipulation and abuse, fair dealings with customers, and insider trading.
- The Actimize Retail Surveillance package ensures sales practices compliance across the organization by monitoring transactions, accounts, sales representatives and branches. By providing electronic access and sign-off on individual trades, the solution enables comprehensive compliance across the organization and supports a broad range of Know Your Customer and Suitability matters, including FINRA 2090/2111.
- The Actimize Employee Conflict of Interest package mitigates employee conflicts of interest and trading fraud by helping identify and prevent conduct that can lead to significant corporate damage. The solutions provide comprehensive detection and management of employee activities by analyzing transactions against rules mapped to the organization's policies and procedures, and automating the submission, review and approval process for employees' personal trades, gifts, outside business activities and more.
- The Actimize Enterprise Conflicts Management solution suite goes beyond employee monitoring and offers a comprehensive approach to detect conflicts of interest on a global, enterprise-wide scale – before they occur. With out-of-the-box detection and investigation capabilities, automated surveillance, and end-to-end workflow management, audit, and reporting capabilities, the solution enables financial institutions to deploy consistent standards for detecting possible cases of conflicts of interest by monitoring for potentially unfair dealings, insider trading, inappropriate behavior, and personal dealing.

- The Actimize Rogue Trading solution is specifically designed to provide a comprehensive, unified view of desk and trader data, enabling broker/dealers to detect suspicious trading scenarios and mitigate the risk of rogue trading losses. The solution analyzes data from multiple functional areas such as trading, compliance, middle and back-office, and human resources to detect and prevent rogue trading in the earliest stages.
- The Actimize MiFID Surveillance package is comprised of context-specific solutions to ensure complete compliance with the Markets in Financial Instruments Directive (MiFID). The solutions address best execution, suitability, client order handling, transaction reporting and conflicts-of-interest allowing organizations to flag violations in real time, or near real time, where required by the regulations.
- The Actimize Energy Trading Compliance solution provides proactive surveillance to meet compliance oversight obligations across energy markets, including crude oil, refined products, natural gas, power, and more. The solution combines a proven energy data model, advanced detection capabilities, case management, and comprehensive query, audit, and reporting capabilities, enabling organizations to adhere to energy trading standards set by the CFTC, FERC, FTC, and other global regulatory agencies.

## II. NICE Security Solutions

The NICE Security offering addresses the needs of governments and enterprises to secure and leverage their most important business assets, and fight crime and terror by anticipating, managing and mitigating safety, security and operational risks. The offering enables the capture, analysis and correlation of data from multiple sensors and systems, including audio, video, radio, geo-location and web, providing a framework for fusing data silos into a single, holistic operational view. Using its superior integrated product portfolio, NICE Security Solutions empower organizations to address risks through detection, real time management, investigation, planning, improvement and prevention. Our solutions support different organizational roles: operators, managers and decision makers. NICE Security Solutions are deployed worldwide in public transportation systems, critical infrastructures, city centers, banks, airports and public safety agencies, among others.

The NICE Security offering is comprised of solutions that address the following needs:

### A. Situation Management

Our situation management solution, NICE Situitor, addresses the security operations needs of public transport, airports, critical infrastructure, city centers, banks and public safety agencies, among others, by enabling automatic situation planning, response and analysis in real time to improve situational awareness and incident handling. It does this by integrating a wide array of sensors and security systems into a common operating picture, analyzing and correlating this information, and then applying standard operating procedures and automated response plans. Designed to promote an interoperable and open security ecosystem, NICE Situitor is vendor agnostic, enabling security operations to leverage best of breed technologies that meet their specific needs. NICE Situitor provides approximately 200 gateways to different security and safety systems, including intrusion sensors, communication devices, web feeds, and databases, as well as access control, fire and safety, geo-location, building management and video surveillance systems.

B. Video Surveillance and Analytics Solutions

Our surveillance and analytics solutions protect people, operations and infrastructure by enabling organization to anticipate, identify and mitigate potential risk or unfolding events. They help minimize risks in real time as well as during the investigative process, helping the relevant professionals bring to justice, debrief and improve security.

The solution portfolio includes:

NiceVision: allows security professionals to maximize the benefits of video technology with an enterprise-class, open-platform IP-based solution that provides continuous surveillance coverage and control for any size environment.

- Part of the NiceVision family is NiceVision Net, a complete, end-to-end IP video surveillance solution. Each component of NiceVision Net 2.5, the latest version, is managed from the central NiceVision ControlCenter. This includes Smart Video Recorders (SVRs); advanced video analytics, 24x7 video capabilities, high-performance encoders and decoders, and feature-rich event management and control room visualization.
- The NiceVision Net solution is fully scalable and can grow from a few cameras in one location to hundreds or thousands over multiple sites — even for megapixel camera deployments.
- The solution has a flexible and open architecture and is ONVIF (Open Network Video Interface Forum) compliant, allowing seamless integration with new and existing edge devices, as well as security management and access control systems. Additionally, with no special client download needed, web and smartphone support allows access to surveillance systems from anywhere, anytime. There is also support for easy integration with third-party devices.
- NiceVision Fast Alpha Silver is an advanced, IP-based MPEG-2 and MPEG-4 and H.264 compression video and audio recording solution. It includes video recorders, encoders and decoders and a rich management application.

### C. Public Safety

We offer a comprehensive suite of public safety solutions. The solutions enable Emergency Services organizations worldwide and Communications and Command & Control Centers to be more effective at incident detection, verification, handling, investigation, resolution and prosecution.

- **Incident Information Management.** Our incident information management solution, NICE Inform, helps public safety agencies and security operations in transportation, utilities and other industries consolidate and manage multimedia incident information efficiently and effectively. It captures and processes event information from a variety of media: audio, video, text, Computer-Aided Dispatch (CAD) systems, and Geographic Information Systems (GIS and others). NICE Inform fuses these different types of media into a common application and interface. It provides structure to unstructured multimedia data, combining the information for a complete authentic, chronological audio/video timeline to accurately and efficiently reconstruct and investigate events.
- **Audio Recording.** We offer a wide range of recording platforms that address the needs of command and control centers. These solutions can automatically record, analyze, store, quickly retrieve and instantly replay Time-Division Multiplexing (TDM) and IP voice calls. TDM and VoIP recordings can be used to ensure compliance with regulations, provide audio evidence, and manage and improve departmental quality and productivity.

We also offer a trunked radio recording solution for recording the radio communications between emergency services personnel and the command and control center. The solution captures all traffic on the emergency services communication network, delivering instant verification, mission-critical reliability and resilience, legally admissible records, and accurate incident reconstruction.

We also offer capabilities for recording all types of voice communications between aircraft, Air Traffic Control operations and ground personnel.

• **Next Generation Emergency Call Management.** Our incident information management solution, NICE Inform, is next generation ready. It can reconstruct emergency calls and events using voice, text, data or any other type of media incident information that may come in. In addition, its open architecture and integration capabilities mean it can seamlessly support any current or future media formats and standards— text messaging (SMS) and multimedia messaging (MMS).

Our solutions for intelligence, law enforcement, and video surveillance are also benefitting the Public Safety sector, as well as other types of security areas, discussed in more detail below.

### D. Intelligence and Law Enforcement

NiceTrack is our solution suite that is used by law enforcement and intelligence agencies, national and internal security agencies, and Signals Intelligence (SIGINT) organizations to fight organized crime, drug trafficking and terrorist activities. It offers a unified platform for the interception, collection, processing and analysis of telephony and internet communications and data from of all types of networks and applications, and generates comprehensive and meaningful intelligence. NiceTrack constitutes a complete suite of operational tools and applications, which ensure that meaningful, mission-critical information is delivered on time to security decision makers and operational staff, enabling them to detect threats and achieve a fast and appropriate response.

## Strategic Relationships

We sell our solutions and products worldwide both directly to customers and indirectly through selected partners to better serve our global customers. We partner with companies in a variety of sales channels, including service providers, system integrators, distributors, value added resellers and complimentary technology vendors. They are industry leaders who form a vital network for selling and supporting NICE solutions and products. For our business partners, we have established the NICE Business Partner Program, which provides full support and a broad portfolio of sales supporting tools to help them promote and sell the NICE offering, driving mutual revenue growth and success.

Through a well-defined collaborative framework, the NICE Business Partner Program aligns and supports the business goals of both NICE and our business partners. Its multi-tiered structure recognizes both commercial achievement and certification in selling and supporting specific NICE offerings.

We also have strategic technology partnerships in place to ensure full integration with NICE's offerings to deliver value added capabilities that address a variety of environments.

For our contact center customers, we have entered into global distribution agreements as well as alliance and partnership programs with leading vendors, including Amdocs, Avaya, BT and Cisco. Our agreement with Avaya is a framework agreement with industry standard terms for transactions in the ordinary course of business. The agreement is non-exclusive and automatically renews for successive one year periods. In the financial institutions market, we have established marketing, sales and support arrangements with leading suppliers of complementary products and services, including, among others, BT Group PLC, FIS, IBM, IPC and Orange Business Services. These companies market and distribute our products to their customers either as stand-alone solutions or as integrated parts of their own solutions. In the security markets, we have formed alliances for the co-marketing, distribution and implementation of our products with leading companies, including Cassidian Communications, EADS, Honeywell, Motorola, Raytheon Company, SAIC, Siemens and Thales.

## Service and Support

The NICE Global Services organization delivers the following portfolio of end-to-end service to address all stages of the NICE technology lifecycle, including project planning and design, implementation and optimization, proactive maintenance and product support:

- **Business Consulting** - to help align NICE solutions and customer business processes and goals to accelerate return on investment, increase revenue and minimize business costs.
- **Customization Solutions** - to help extend the value of NICE technology by adding specialized capabilities and functions that can save users time, perform functions unique to the organization, or integrate seamlessly with other systems in the organization.

- Solution Delivery - to help optimize solution delivery planning with a view to enabling customers achieve their specific business and organizational goals, on time and on budget.
- Customer Education Services - to provide users with the necessary knowledge and skills to operate NICE solutions and leverage their capabilities to meet customer needs, before and after the rollout.
  - Support and Maintenance - to provide professional 24/7 global support for any hardware or software issue using the most advanced tools and methodologies.

NICE delivers proactive maintenance and upgrades for installed systems and offer flexible service level agreements (SLAs) to meet the level of service our customers need.

Our systems are generally sold with a warranty for repairs of hardware and software defects and malfunctions. Our customers may renew maintenance agreements from our dealers or directly from us. Software maintenance includes an enhancement support program with ongoing delivery of “like-for-like” unspecified upgrade releases, service packs and hot fixes.

#### Manufacturing and Source of Supplies

Our products are built in accordance with industry standard infrastructure and are PC compatible. The hardware elements in our products are based primarily on standard commercial off-the-shelf components and utilize proprietary in-house developed circuit cards and algorithms and digital processing techniques and software. We also have “software only” solutions for use on standard commercial servers.

We manufacture our products through subcontractors, with the exception of CyberTech products that are manufactured by us. Under manufacturing agreements with Flextronics Israel Ltd. ("Flextronics"), a subsidiary of a global electronics manufacturing services provider, and with Bynet Communications Ltd. (“Bynet”), Flextronics and Bynet provide us with turnkey manufacturing solutions including order receipt purchasing, manufacturing, testing, configuration, inventory management and delivery to customers. These agreements cover all of our product lines, including our voice recording family of products, our video product lines, our upgrade lines and our spare parts and return material authorization (RMA). NICE is entitled to, and exercises, various control mechanisms and supervision over the entire production process. In addition, Flextronics, the manufacturer of almost all of our products, is obligated to ensure the readiness of a back-up site in the event that the main production site is unable to operate as required. We believe these outsourcing agreements provide us with a number of cost advantages due to Flextronics’ and Bynet’s large-scale purchasing power, and greater supply chain flexibility.

Some of the components we use have a single approved manufacturer while others have two or more options for purchasing. In addition, for some of the components and subassemblies we maintain an inventory to limit the potential for interruption. We also carry out relationships directly with some of the more significant manufacturers of our components. Although certain components and subassemblies we use in our existing products are purchased from a limited number of suppliers, we believe that we can obtain alternative sources of supply in the event that such suppliers are unable to meet our requirements in a timely manner.

Quality control is conducted at various stages at our manufacturing outsourcers' facilities and at their subcontractors' facilities. We generate reports to monitor our operations, including statistical reports that track the performance of our products from production to installation. This comprehensive data allows us to trace failure and to perform corrective actions accordingly.

We have qualified for and received the ISO-9001:2000 quality standard for all of our products, as well as the ISO 27001 and ISO 14001:2004 certifications.

#### Research and Development

We believe that the development of new products and the enhancement of existing products are essential to our future success. Therefore, we intend to continue to devote substantial resources to research and new product development, and to continuously improve our systems and design processes in order to reduce the cost of our products. Our research and development efforts have been financed through our internal funds and programs sponsored through the Government of Israel and the European community. We believe our research and development effort has been an important factor in establishing and maintaining our competitive position. Gross expenditures on research and development in 2009, 2010 and 2011 were approximately \$82.5 million, \$102.2 million and \$113.7 million, respectively, of which approximately \$3.8 million, \$3.8 million and \$3.4 million, respectively, were derived from third-party funding, and \$1.3 million, \$1.3 million and \$1.2 million, respectively, were capitalized software development costs.

In 2011, we were qualified to participate in 12 programs funded by the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor ("OCS") to develop generic technology relevant to the development of our products. Such programs are approved pursuant to the Law for the Encouragement of Industrial Research and Development, 1984, or the Research and Development Law, and the regulations promulgated thereunder. We were eligible to receive grants constituting between 40% and 66% of certain research and development expenses relating to these programs. Some of these programs are members of programs approved for companies with large research and development activities and some of these programs are members of certain Magnet consortiums. Accordingly, the grants under these programs are not required to be repaid by way of royalties. However, the restrictions of the Research and Development Law described below apply to these programs. In 2009, 2010 and 2011, we received a total of \$3.6 million, \$3.5 million and \$3.1 million from the OCS programs, respectively, and we anticipate receiving approximately \$0.5 million in 2012 from 2011 approved programs.

The Research and Development Law generally requires that the product incorporating know-how developed under an OCS-funded program be manufactured in Israel. However, upon the approval of the OCS (or notification in the event set forth below, as the case may be), some of the manufacturing volume may be performed outside of Israel, provided that the grant recipient pays royalties at an increased rate, which may be substantial, and the aggregate repayment amount is increased, which increase might be up to 300% of the grant (depending on the portion of the total manufacturing volume that is performed outside of Israel). Following notification (rather than approval) to the OCS (and provided the OCS did not object), up to 10% of the grant recipient's approved Israeli manufacturing volume, measured on an aggregate basis, may be transferred out of Israel, subject to payment of the increased royalties referenced above. The OCS is also authorized to approve the transfer of manufacturing rights outside of Israel in exchange for an import of different manufacturing into Israel as a substitute, in lieu of the increased royalties. The Research and Development Law also allows for the approval of the program in cases in which the applicant declares that part of the manufacturing will be performed outside of Israel or by non-Israeli residents and the OCS is convinced that doing so is essential for the execution of the program. This declaration will be a significant factor in the determination of the OCS whether to approve a program and the amount and other terms of benefits to be granted. The increased royalty rate and repayment amount may be required in such cases.





The Research and Development Law also provides that know-how developed under an approved research and development program may not be transferred to third parties in Israel without the approval of the OCS. Such approval is not required for the sale or export of any products resulting from such research or development. The Research and Development Law further provides that the know-how developed under an approved research and development program may not be transferred to any third party outside Israel, except in certain circumstances and subject to prior OCS approval. The OCS prohibits the transfer of OCS-funded know-how outside Israel, unless OCS approval is obtained, which may be granted under certain circumstances, in the following cases: (a) the grant recipient pays to the OCS a portion of the sale price paid in consideration for such OCS-funded know-how or in consideration for the sale of the grant recipient itself, as the case may be (according to certain formulas)(the portion to be paid in respect of a sale of the grant recipient itself will change upon applicable rules coming into effect); (b) the grant recipient receives know-how from a third party in exchange for its OCS-funded know-how; (c) such transfer of OCS-funded know-how arises in connection with certain types of cooperation in research and development activities; or (d) if such transfer of know-how arises in connection with a liquidation by reason of insolvency or receivership of the subject company.

The Research and Development Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and non-Israeli interested parties to notify the OCS of any change in control of the recipient, or a change in the holdings of the means of control of the recipient that results in a non-Israeli becoming an interested party directly in the recipient, and requires the new non-Israeli interested party to undertake to the OCS to comply with the Research and Development Law. In addition, the rules of the OCS may require prior approval of the OCS or additional information or representations in respect of certain of such events. For this purpose, “control” is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. “Means of control” refers to voting rights or the right to appoint directors or the chief executive officer. An “interested party” of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Accordingly, any non-Israeli who acquires 5% or more of our ordinary shares or ADSs will be required to notify the OCS that it has become an interested party and to sign an undertaking to comply with the Research and Development Law. Furthermore, the Research and Development Law imposes reporting requirements in the event that proceedings commence against the grant recipient, including under certain applicable liquidation, receivership or debtor's relief law or in the event that special officers, such as a receiver or liquidator, are appointed to the grant recipient.

Failure to satisfy the Research and Development Law's requirements may subject us to mandatory repayment of grants received by us (together with interest and penalties), as well as expose us to criminal proceedings. In addition, the Government of Israel may from time to time audit sales of products which it claims incorporates technology funded through OCS programs which may lead to additional royalties being payable on additional products.

The funds available for OCS grants out of the annual budget of the State of Israel were reduced in recent years, and the Israeli authorities have indicated in the past that the government may further reduce or abolish OCS grants in the future. Even if these grants are maintained, we cannot presently predict what would be the amounts of future grants, if any, that we might receive.

We participate in the European Community Framework Programme for Research, Technological Development and Demonstration, which funds and promotes research. There are no royalty obligations associated with receiving such funding. From time to time we may apply for new grants under the Framework Programme. During 2010 and 2011 we were selected to participate in four FP-7 programs. The programs will continue for three and half years, with a total expected grant of approximately EUR 1.6 million. In addition, we were selected to coordinate one of these programs.

#### Intellectual Property

We currently rely on a combination of trade secret, patent, copyright and trademark law, together with non-disclosure and non-compete agreements, to establish and/or protect the technology used in our systems.

We currently hold 87 U.S. patents and 75 patents issued in additional countries covering substantially the same technology as the U.S. patents. We have over 97 patent applications pending in the United States and other countries. We believe that the improvement of existing products, and the development of new products are important in establishing and maintaining a competitive advantage. We believe that the value of our products is dependent upon our proprietary software and hardware continuing to be "trade secrets" or subject to copyright or patent protection. We generally enter into non-disclosure and non-compete agreements with our employees and subcontractors. However, there can be no assurance that such measures will protect our technology, or that others will not develop a similar technology or use technology in products competitive with those offered by us. In most of the areas in which we operate, third parties also have patents which could be found applicable to our technology and products. Such third parties may include competitors, as well as large companies, which invest millions of dollars in their patent portfolios, regardless of their actual field of business. Although we believe that our products do not infringe upon the proprietary rights of third parties, there can be no assurance that one or more third parties will not make a contrary claim or that we will be successful in defending such claim.

From time to time, we receive “cease and desist” letters claiming patent infringements. However, no formal claims or other actions have been filed with respect to such alleged infringement, except for past claims which have since been settled and dismissed, and a claim filed by Fair Isaac Corporation (for further information please see Item 8, “Financial Information—Legal Proceedings” in this annual report). We cannot assure you, however, that we will be successful in defending such claims, if asserted, or that infringement claims or other claims, if asserted, will not have a material adverse effect on our business, financial condition and results of operations. Defending infringement claims or other claims could involve substantial costs and diversion of management resources. In addition, to the extent we are not successful in defending such claims, we may be subject to injunctions with respect to the use or sale of certain of our products or to liabilities for damages and may be required to obtain licenses which may not be available on reasonable terms.

We own the following trademarks and/or registered trademarks in different countries: ACTIMIZE, Actimize logo, Alpha, Customer Feedback, eGlue Interact, FAST, FAST alpha Silver, Fortent, Fortent Logo, IEX, Insight from Interactions, Intent. Insight. Impact., Interaction Capture Unit, Know More, Risk Less, Last Message Replay, Mass Detection, Center, Mirra, My Universe, NICE, NICE Analyzer, NICE Inform, NICE Logo, NICE Perform, NICE Situater, NICE SmartCenter, NICE Storage Center, NICE Systems, NiceCall, NiceCall Focus, NiceLog, NiceTrack, NiceTrack IP Probe, NiceTrack Location Tracking, NiceTrack Mass Detection Center, NiceTrack Monitoring Center, NiceTrack Pattern Analyzer, NiceTrack Traffic Analysis, NiceVision, NiceVision Alto, NiceVision Analytics, NiceVision ControlCenter, NiceVision Digital, NiceVision Net, NiceVision NVSAT, NiceVision Pro, Open Situation Management, Playback Organizer, Scenario Replay, Searchspace, Syfact, Syfact Investigator, TotalView.

#### Regulation

#### Export Restrictions

The export of certain defense products from Israel, such as our NiceTrack line of products, requires a permit from the Israeli Ministry of Defense (MOD). In addition, the sale of products to certain customers, mostly armed forces, also requires a permit from the Israeli Ministry of Defense. In 2011, the vast majority of our sales were not subject to such permit requirements. To date, we have encountered no difficulties in obtaining such permits. However, the MOD notifies us from time to time not to conduct business with specific countries that are undergoing political unrest, violating human rights or exhibiting hostility towards Israel, or imposes certain requirements as a condition to NICE being permitted to export products which are under the control of the MOD. We may be unable to obtain permits for our intelligence products we could otherwise sell in particular countries in the future.

We may also be subject to applicable export control regulations in other countries from which we export goods and services, including the United States. Such regulations may apply with respect to product components that are developed or manufactured in the United States, or with respect to certain content contained in our products. There are restrictions that apply to software products that contain encryption functionality, especially in the United States and Israel. In the event that our products and services are subject to such controls and restrictions, we may be required to obtain an export license or authorization and comply with other applicable requirements pursuant to such regulations.

#### European Environmental Regulations

Our European activities require us to comply with Directive 2002/95/EC of the European Parliament on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (“RoHS”), which came into effect on July 1, 2006. This directive provides that producers of electrical and electronic equipment may not place new equipment containing lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls and polybrominated diphenyl ethers, in amounts exceeding certain maximum concentration values, on the market in the European Union. Our products meet the requirements of the RoHS directive and we are making every effort in order to maintain compliance, without adversely affecting the quality and functionalities of our products. If we fail to maintain compliance, including by reason of failure of our suppliers to comply, we may be restricted from conducting certain business in the European Union, which could adversely affect our results of operations.

Our European activities also require us to comply with Directive 2002/96/EC of the European Parliament on Waste Electrical and Electronic Equipment (“WEEE”). The WEEE directive covers the labeling, recovery and recycling of IT/Telecommunications equipment, electrical and electronic tools, monitoring and control instruments and other types of equipment, devices and items, and already partly came into effect on August 13, 2005. Our products fall within the scope of the WEEE directive, and we have set up the operational and financial infrastructure required for collection and recycling of WEEE, as stipulated in the WEEE directive, including product labeling, registration and the joining of compliance schemes. We are taking and will continue to take all requisite steps to ensure compliance with this directive. If we fail to maintain compliance, we may be restricted from conducting certain business in the European Union, which could adversely affect our results of operations.

Similar regulations are being formulated in other parts of the world. We may be required to comply with other similar programs that might be enacted outside Europe in the future.

#### Competition

The market for our Customer Interaction Solutions is highly competitive and includes numerous products offering a broad range of features and capabilities. As the market is still developing, we anticipate that a number of our existing and potential competitors will be introducing new and enhanced products. Some of our competitors in the digital voice recording and contact center solutions include, among others, Aspect Software, Inc., Interactive Intelligence Inc., Autonomy Corp. (formerly e-talk), eLoyalty, Genesys Telecommunications, Nexidia and Verint Systems.

We believe that competition in the evolving enterprise interaction solutions market is based on a number of factors related to the product offering and business model. With respect to products, we consider breadth of offering, application functionality, system performance and reliability, the ability to integrate with a variety of external computer and communications systems and ease of use as key factors. With respect to the business model, we consider marketing and distribution capacity, price and global service and support capacity as key factors. We believe that NICE solutions have a competitive advantage based on their ability to service large, multi-site, multi-channel, multi-touch point customer service organizations and their holistic integration and capture of various structured and unstructured data sources, their ability to extract insight with a multi-dimensional approach, and to drive cross-departmental action to impact business results. Furthermore, we believe that we have a competitive advantage because of the strength of our installed customer base, size and capabilities of our global distribution network, our business partners, and our global service and support capacity.

The market for financial crime and compliance risk management software, which has emerged only in recent years, is highly competitive and fragmented. The market is influenced by the introduction of new regulations and financial crime patterns impacting the financial services industry. While no single company competes with us across all of our solution areas, we face significant competition with respect to each solution that we offer. We believe that the principal competitive factors in our favor in this market include our dedication to the financial services (and related) market, deep domain expertise, speed of development, ability to provide service across the enterprise using one core platform and our ability to serve specific “point” solutions. Our software solutions compete with software internally developed by financial services institutions, as well as software and other solutions offered by commercial competitors, that include ACI Worldwide, FICO, BAE Systems, Oracle Corporation, SAS Institute Inc. and Sungard Data Systems.

Traditionally, public safety customer voice recording requirements for emergency phones and radio were relatively basic. As the command and control center is becoming more complex and advanced systems are being deployed, and as more trunk radio and IP-based systems are offered, the recording system has to be integrated with these systems. Our ability to deliver a more integrated and sophisticated recording system that can capture voice, video, data and meta-data information from trunk radio systems and computer aided dispatch, or CAD, systems, positions our products above the competition mainly in the large high-end emergency centers. In addition, we believe that applications for scenario reconstruction of an incident connecting multimedia sources (including voice), video, data, GIS and meta-data together give us an advantage over the competition. Some of our competitors in the public safety market include ASC Telecom, Redbox Recorders, Ultra Electornics AudioSoft and Verint Systems.

There are several competitors who have products that compete with our video platform, applications and analytics. Our main competitors in this market are Bosch Security Systems, Genetec Inc., IndigoVision Group, Milestone Systems A/S, On-Net Surveillance Systems, Schneider Electric (formerly Pelco) and Verint Systems. We believe that our approach to provide a full solution based on our self-developed recording, management software, networking devices and real-time content analysis, as well as open interfaces to third party devices and applications, creates a competitive advantage in this market.

There are a few competitors who have products in the Physical Security Information Management (PSIM) market that compete with our Situator platform. These include ADT Security Services, CNL Software, Verint Systems and VidsSys. We believe that there are substantial differentiators which offer significant advantage over the competition for PSIM and Situation Management. These include the comprehensive and integrated product portfolio, the wide array of system and sensor integrations our open platform enables, the specific added value and knowhow for each of our focus industry verticals and the wide and longstanding existing customer base.

There are a number of competitors in the telecommunications monitoring market, having products competing with our NiceTrack system, the major ones being Atis, BAE Systems, JSI Telecom, Pen-link Ltd., SS8 Networks, Inc., Trovicor and Verint Systems. We believe that our solution offers innovations that provide law enforcement agencies and intelligence organizations the tools and capabilities they require to meet the challenges of today's advanced telecommunications world.

### Organizational Structure

The following is a list of our significant subsidiaries, including the name, country of incorporation or residence, and the proportion of our ownership interest in each.

| Name of Subsidiary                            | Country of Incorporation or Residence | Percentage of Ownership Interest |
|---|---------------------------------------|----------------------------------|
| Nice Systems Australia PTY Ltd.               | Australia                             | 100%                             |
| NICE Systems Technologies Brasil LTDA         | Brazil                                | 100%                             |
| NICE Systems Canada Ltd.                      | Canada                                | 100%                             |
| Nice Systems China Ltd.                       | China                                 | 100%                             |
| Nice Systems S.A.R.L.                         | France                                | 100%                             |
| NICE Systems GmbH                             | Germany                               | 100%                             |
| NICE APAC Ltd.                                | Hong Kong                             | 100%                             |
| NICE Systems Kft                              | Hungary                               | 100%                             |
| Nice Interactive Solutions India Private Ltd. | India                                 | 100%                             |
| Nice Technologies Ltd.                        | Ireland                               | 100%                             |
| Actimize Ltd.                                 | Israel                                | 100%                             |
| Nice Japan Ltd.                               | Japan                                 | 100%                             |
| NICE Technologies Mexico S.R.L.               | Mexico                                | 100%                             |
| CyberTech B.V.                                | Netherlands                           | 100%                             |
| IEX Corporation B.V.                          | Netherlands                           | 100%                             |
| Nice Systems (Singapore) Pte. Ltd.            | Singapore                             | 100%                             |
| Nice Switzerland AG                           | Switzerland                           | 100%                             |
| Actimize UK Limited                           | United Kingdom                        | 100%                             |
| CyberTech UK Limited                          | United Kingdom                        | 100%                             |
| Fortent Limited                               | United Kingdom                        | 100%                             |
| Merced Systems Limited                        | United Kingdom                        | 100%                             |
| NICE Systems UK Ltd.                          | United Kingdom                        | 100%                             |
| River Projects Limited                        | United Kingdom                        | 100%                             |
| The Fizzback Group Limited                    | United Kingdom                        | 100%                             |
| Actimize Inc.                                 | United States                         | 100%                             |
| Cybertech North America L.L.C.                | United States                         | 100%                             |

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|                                  |               |      |
|----------------------------------|---------------|------|
| Fortent Americas Inc.            | United States | 100% |
| IEX Corporation                  | United States | 100% |
| Merced Systems Inc.              | United States | 100% |
| Nice Systems Inc.                | United States | 100% |
| Nice Systems Latin America, Inc. | United States | 100% |



## Property, Plants and Equipment

Our executive offices and engineering, research and development operations are located in Ra'anana, Israel, where we occupy the following facilities:

- Ra'anana Central Offices, which occupies approximately 129,000 square feet of space, pursuant to a lease expiring in January 2013. The annual rent and maintenance fee for the facility is approximately \$3.3 million, paid partially in NIS linked to the Israeli consumer price index and partially linked to the U.S. consumer price index.

A lease agreement was signed in December 2010 for our Northern Ra'anana facilities. Pursuant to this new arrangement, the North Ra'anana offices include two buildings, which occupy: (i) approximately 113,000 square feet, with an annual rent and maintenance fee of approximately \$2.9 million, paid in NIS and linked to the Israeli consumer price index, and (ii) approximately 63,700 square feet, with an annual rent and maintenance fee for this facility of approximately \$1.6 million, paid in NIS and linked to the Israeli consumer price index. An additional third building is still under construction (to be completed during 2012) and will provide for an additional 130,000 square feet, with an annual rent and maintenance fee of approximately \$3.5 million. The lease for these three buildings in our Northern Ra'anana facilities will expire in December 2022 and will fully replace the Ra'anana Central Offices as of January 2013.

We have leased various other offices and facilities in several other countries. Our material leased facilities consist of the following:

- Our North American headquarters in Rutherford, New Jersey, which occupy approximately 36,700 square feet. We also have additional offices in New York, which occupy 48,000 square feet;
  - Our office in Denver, Colorado, which occupies approximately 27,063 square feet;
  - Our office in Richardson, Texas, which occupies approximately 37,564 square feet;
  - Our office in Southampton, U.K., which occupies approximately 23,428 square feet;
  - Our office in Berkshire, U.K., which occupies approximately 10,158 square feet;
- Our office in Redwood Shores California, which occupies approximately 27,776 square feet;
- Our office in the Netherlands, which occupies approximately 32,290 square feet; and
  - Our office in Hong Kong, which occupies approximately 9,506 square feet.

We believe that our existing facilities are adequate to meet our current and foreseeable needs.

Item 4A. Unresolved Staff Comments.

None.

Item 5. Operating and Financial Review and Prospects.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related notes and other financial information included elsewhere in this annual report. This discussion contains certain forward-looking statements that involve risks, uncertainties and assumptions. As a result of many factors, including those set forth under Item 3, “Key Information Risk Factors” and elsewhere in this report, our actual results may differ materially from those anticipated in these forward-looking statements. For more information about forward-looking statements, see the Preliminary Note that precedes the Table of Contents of this annual report.

## Overview

We are a leading provider of software solutions that enable organizations to take the Next-Best-Action to improve customer experience and business results, ensure compliance, prevent financial crime, and safeguard people and assets. We operate an Enterprise business which is comprised of Customer Interactions solutions and Financial Crime and Compliance solutions, and a Security business.

Across our businesses, our solutions capture structured and unstructured data from different types of interactions, transactions and events, including interactions at various customer touch points, financial transactions and security-related sensors. Such data is captured from phone calls, the web, emails, chat, video, radio and many others. Through cross-channel analytics, the intent that underlies the data is revealed, providing the organization with insights on the interactions, transactions and events. The extraction of insights through advanced analytics on the captured data enables organizations to take action and make an impact in real time and offline by driving a personalized response to these insights before, during and after the interactions, transactions or events. This allows organizations to improve business performance, increase operational efficiency, prevent financial crime, ensure compliance, and enhance safety and security.

Our Customer Interactions solutions are implemented by contact centers of all sizes, back office operations, retail branches and financial trading floors, to improve operational efficiency, ensure regulatory compliance, enhance customer experience and grow revenue. Enterprise customers of our Customer Interaction solutions span a variety of industries, such as financial services, telecommunications, healthcare, outsourcers, retail, media, travel, service providers, utilities, and others.

Enterprise customers of our Financial Crime and Compliance solutions are primarily financial services organizations, government agencies and related organizations. Our solutions enable such customers to fight financial crime, prevent fraud and money laundering and ensure trading compliance.

NICE Security Solutions are deployed worldwide in public transportation systems, critical facilities, city centers, banks, airports, public safety agencies, law enforcement and intelligence agencies and organizations and national and internal security agencies. Our Security Solutions offer complete incident life-cycle management, including prevention, prediction, real-time and post-incident analysis for security and safety operations. We also offer solutions for the interception, collection, processing and analysis of communications data.

Our products are sold both through a global network of distributors, system integrators and strategic partners, and directly to end-users.

## Recent Acquisitions

The following acquisitions were accounted for by the acquisition method of accounting, and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values. The results of operations related to each acquisition are included in our consolidated statement of income from the date of acquisition.

On February 7, 2012, we completed the acquisition of Merced Systems, Inc. ("Merced"), the leading provider of performance management solutions that drive business execution in sales and service functions. We acquired Merced for total consideration of approximately \$150 million, net of cash acquired (approximately \$22 million). Additionally, we will pay Merced up to \$20 million in cash subject to Merced meeting certain performance targets. Merced's performance management solutions help drive sales effectiveness, superior customer experience and operating efficiency across a range of vertical industries. Merced's products serve Global 2000 customers, and include advanced analytics and reporting, incentive compensation management, coaching, and other performance execution applications. It is expected that integrating Merced and NICE capabilities will create a closed-loop performance management solution.

On October 26, 2011, we completed the acquisition of Fizzback Group (Holdings) Ltd. ("Fizzback"), a global provider of Voice of the Customer (VoC) solutions, providing software solutions for real-time customer feedback that drive customer loyalty and employee performance. The Fizzback solution helps companies listen, respond and act in real-time to their customers' comments. We acquired Fizzback for a total consideration of approximately \$80.9 million. The combination of Fizzback and NICE will both improve Customer Experience Management (CEM) as well as operationalize VoC both for the contact center and across the enterprise.

On March 4, 2011, we completed the acquisition of CyberTech Investments ("CyberTech"), a global provider of compliance recording solutions and value-added applications. We acquired CyberTech for total cash consideration of approximately \$59.4 million. The addition of CyberTech solutions to the NICE portfolio broadens our offering for financial institutions, strengthens our commitment to the small and medium size business sector, and adds to our public safety solutions.

On July 15, 2010, we completed the acquisition of e-Glue Software Technologies, Inc. ("e-Glue"), a leading provider of real-time decisioning and guidance solutions. The acquisition was for total consideration of approximately \$31.4, comprised of \$25.6 million in cash and \$5.8 million representing the fair value of earn out based on performance milestones amounting to additional payment of \$6 million.

On May 25, 2010, we completed the acquisition of Lamda Communication Networks Ltd. ("Lamda"), a provider of satellite communications interception technology based in Israel. The acquisition was for total consideration of approximately \$6.9 million, comprised of \$5.0 million in cash and \$1.9 million representing the fair value of a potential earn out based on performance milestones amounting to a maximum additional payment of up to \$3 million. Lamda's unique technology addresses the growing demand for satellite communication interception capabilities and enables law enforcement, internal security and intelligence agencies to fight crime and terror more effectively.

On January 11, 2010, we completed the acquisition of certain assets and liabilities of Orsus Solutions Limited and certain subsidiaries of Orsus (collectively, “Orsus”), a leading provider of Security Management Solutions. The acquisition was for total consideration of approximately \$21.5 million in cash. Orsus' flagship solution, Situator, provides a framework for fusing data silos from disparate security and safety systems as well as multiple command and control centers, into a single, holistic operational view and automating security procedures.

On August 31, 2009, we completed the acquisition of the voting securities of certain subsidiaries of Fortent, Inc., a leading provider of analytics based Anti-Money Laundering and financial crime prevention software solutions for the financial services industry. Fortent became part of our Actimize business, with the Fortent team becoming an integral part of the Actimize team. The acquisition was for total consideration of approximately \$73.1 million in cash. Fortent is known for its anti-money laundering deployments and expertise within the world's tier-one financial institutions and for its advanced statistical profiling analytics technology.

On August 31, 2009, we completed the acquisition of Hexagon System Engineering Ltd. (“Hexagon”), an Israel-based company that provides cellular location tracking technology, for approximately \$7.8 million in cash and additional contingent consideration of up to \$2.5 million in cash. Hexagon's unique technology enables law enforcement, internal security, and intelligence agencies to fight crime and terror more effectively.

On June 17, 2009, we completed the acquisition of the assets of Syfact, for approximately \$4.4 million in cash. Syfact is a pioneer of enterprise investigative case management solutions. Syfact provides innovative investigative case management solutions, best practices and technologies that simplify and enrich the most complex fraud, money laundering, customer due diligence and corporate security investigations.

We also completed the acquisition of certain assets of Composia Ltd. and MindCite (Israel) Ltd., in 2011 and 2012, respectively. The technologies acquired as part of these acquisitions add to both our Enterprise and Security offerings. These acquisitions were not material to our business and operations.

#### Off-Balance Sheet Transactions

We have not engaged in nor been a party to any off-balance sheet transactions, as defined in Item 5 of Form 20-F.

## Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that the significant accounting policies which affect its more significant judgments and estimates used in the preparation of the Consolidated Financial Statements and those that are the most critical to aid in fully understanding and evaluating our reported results include the following:

- Revenue recognition
- Allowance for doubtful accounts
- Impairment of long-lived assets
- Taxes on income
- Contingencies
- Business combination
- Stock-based compensation
- Valuation of investment in marketable securities

**Revenue Recognition.** We derive our revenues primarily from product revenues, which include hardware and software sales; and service revenues, which include support and maintenance, installation, project management, customization, consulting and training revenue. Revenue related to sales of our products is generally recognized when persuasive evidence of an agreement exists, the product has been delivered and title and risk of loss have passed to the buyer, the sales price is fixed or determinable, and collectability is probable. Sales agreements which include a provision for customer acceptance are not recognized as revenue until either the customer has confirmed that the product or service has been accepted or as the acceptance provision has lapsed.

For arrangements with multiple elements within the scope of software revenue recognition guidance, we allocate revenue to the different elements in the arrangement under the residual method when vendor specific objective evidence ("VSOE") exists for all undelivered elements and no VSOE exists for the delivered elements. This means that we defer the arrangement fee equivalent to the fair value of the undelivered elements and recognizes revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (software licenses) when the basic criteria in ASC 985-605 have been met. Any discount in the arrangement is allocated to the delivered element.

Starting January 1, 2011 we adopted the guidance of ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) ("ASU 2009-13") and ASU 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) ("ASU 2009-14"). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendment eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance in determining whether software

deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. As such, we prospectively applied these provisions to all revenue arrangements entered into or materially modified after January 1, 2011. This guidance does not generally change the units of accounting for our revenue transactions. Most products and services qualify as separate units of accounting and the revenue is recognized when the applicable revenue recognition criteria are met. Our arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue. While certain of our bundled products are now accounted for following ASC 605, the impact of the adoption of these standards was immaterial.

Our revenue recognition policies provide that, when a sales arrangement contains multiple elements, such as software and non-software components that function together to deliver the products' essential functionality, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its VSOE, if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. We establish VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. When VSOE cannot be established, we attempt to establish selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, our go-to-market strategy differs from that of our peers and our offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, we are unable to reliably determine what similar competitor products' selling prices are on a standalone basis. Therefore, we are typically not able to determine TPE. The best estimate of selling price is established considering several external and internal factors including, but not limited to, historical sales, pricing practices and geographies in which we offer our products. The determination of ESP is judgmental.

In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue, as amended.

For all periods presented, amounts billed to customers related to shipping and handling are classified as revenue, and our shipping and handling costs are included in cost of sales.

Our policy for establishing VSOE of fair value of maintenance services is based on the price charged when the maintenance is renewed separately. Establishment of VSOE of fair value of professional services is based on the price charged when these services are sold separately.

Revenues from maintenance and professional services are recognized ratably over the contractual period or as services are performed, respectively.

Revenues from fixed price contracts that require significant customization, integration and installation are recognized using the percentage-of-completion method of accounting based on the ratio of costs related to contract performance incurred to date to the total estimated amount of such costs. The amount of revenue recognized is based on the total fees under the arrangements and the percentage of completion achieved. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined, in the amount of the estimated loss on the entire contract.



To assess the probability of collection for revenue recognition, we have an established credit policy that determines the credit limit that reflects an amount that is deemed probably collectible for each customer. These credit limits are reviewed and revised periodically on the basis of new customer financial statement information and payment performance.

We record a provision for estimated sales returns in accordance with ASC 605, "Revenue Recognition" in the same period as the related revenues are recorded. We base these estimates on the historical sales returns ratio and other known factors. Actual returns could be different from our estimates.

**Allowance for Doubtful Accounts.** We regularly review our allowance for doubtful accounts by considering factors such as historical experience, age of the account receivable and current economic conditions that may affect a customer's ability to pay. We allocate a certain percentage for the provision based on the length of time the receivables are past due.

**Impairment of Long-Lived Assets.** Our long-lived assets include goodwill, property and equipment, In Process Research and Development (IPR&D), and identifiable other intangible assets that are subject to amortization. In assessing the recoverability of our goodwill, property and equipment and other identifiable intangible assets that are held and used, we make judgments regarding whether impairment indicators exist based on legal factors, market conditions and operating performances of our reporting units or asset groups. Future events could cause us to conclude that impairment indicators exist and that the carrying values of these long-lived assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations.

ASC 350 "Intangible – Goodwill and Other", requires that goodwill be tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition or sale or disposition of a significant portion of a reporting unit. We operate in three operation-based segments: Customer Interactions Solutions, Security Solutions and Financial Crime and Compliance Solutions - and these segments comprise our reporting units. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting units' goodwill over the implied fair value of that goodwill. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. The fair value of each reporting unit is estimated using a discounted cash flow methodology. This requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our reporting units, the period over which cash flows will occur and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit. We allocate goodwill to reporting units based on the reporting unit's expected benefit from the acquisition.

Our goodwill was tested for impairment during the fourth quarter of 2011. Based upon our annual impairment test, the estimated fair value of all of our reporting units were in excess of their respective carrying values and as such no impairment of goodwill existed and the second step of the goodwill impairment test was not required. The fair values of the Customer Interaction Solutions and Security Solutions reporting units were significantly in excess of their respective carrying values, while the fair value of the Financial Crime and Compliance Solutions reporting unit was slightly in excess of its carrying value. Therefore in the event of unfavorable changes in forecasted cash flows, terminal value multiples and/or weighted-average cost of capital, the Financial Crime and Compliance Solutions reporting unit is at risk of failing step one of the goodwill impairment test.

We are required to assess the impairment of long-lived assets, tangible and intangible, other than goodwill, under ASC 360 "Property, Plant, and Equipment", when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment indicators include any significant changes in the manner of our use of the assets or the strategy of our overall business, significant negative industry or economic trends and significant decline in our share price for a sustained period.

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flows to the carrying amount of the asset, an impairment charge is recorded for the excess of fair value over the carrying amount.

**Taxes on Income.** We record income taxes using the asset and liability method. Management judgment is required in determining our provision for income taxes in each of the jurisdictions in which we operate. The provision for income tax is calculated based on our assumptions as to our entitlement to various benefits under the applicable tax laws in the jurisdictions in which we operate. The entitlement to such benefits depends upon our compliance with the terms and conditions set out in these laws. We have considered future reversal of existing temporary differences, future taxable income, prudent and feasible tax planning strategies and other available evidence in determining the need for a valuation allowance. Although we believe that our estimates are reasonable and that we have considered future taxable income and ongoing prudent and feasible tax strategies in estimating our tax outcome, there is no assurance that the final tax outcome will not be different than those which are reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision, net income and cash balances in the period in which such determination is made.

We implement a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (on a cumulative basis) likely to be realized upon ultimate settlement.

We record interest on late tax payments as financial expenses and tax related penalties as general and administrative expenses.

Contingencies. From time to time, we are a defendant or plaintiff in various legal actions, which arise in the normal course of business. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the accrual required for these contingencies, if any, which would be charged to earnings, is made after careful and considered analysis of each individual action together with our legal advisors. The required reserves may change in the future due to new developments in each matter or changes in circumstances, such as a change in settlement strategy. A change in the required reserves would affect our earnings in the period the change is made.

Business Combination. We apply the provisions of ASC 805 "Business Combination", accordingly we are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed, as well as in-process research and development based on their estimated fair values. In allocating the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, we developed the required assumptions underlying the valuation work. Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows from customer contracts, customer lists, distribution agreements and acquired developed technologies; expected costs to develop the in-process research and development into commercially viable products and estimating cash flows from the projects when completed; the acquired company's brand awareness and market position, as well as assumptions about the period of time the brand will continue to be used in the combined company's product portfolio; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, utilizing a market participant approach, but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur. We were assisted by a third party appraiser in applying the required economic models (such as income approach and cost approach), in order to estimate the fair value of assets acquired and liabilities assumed in the business combination.

Stock-based Compensation. We account for stock-based compensation in accordance with the provisions of ASC 718 "Compensation - Stock Compensation". Under the fair value recognition provisions of ASC 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period of the award. We estimate the fair value of stock options granted using the Black-Scholes-Merton option-pricing model and values restricted stock based on the market value of the underlying shares at the date of grant. We recognize compensation costs using the graded vesting attribution method that results in an accelerated recognition of compensation costs.

The fair value of an award is affected by our stock price on the date of grant and other assumptions, including the estimated volatility of our stock price over the term of the awards and the estimated period of time that we expect employees to hold their stock options. Share-based compensation expense recognized in our consolidated statements of income was reduced for estimated forfeitures.

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

We apply the provisions of ASC 820, "Fair Value Measurements and Disclosures". ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, as set forth below, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 – Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 – Valuations based on unobservable inputs which are supported by little or no market activity and significant to the overall fair value measurement.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

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

The actual value at which such securities could actually be sold or settled with a willing buyer or seller may differ from such estimated fair values depending on a number of factors, including, but not limited to, current and future economic conditions, the quantity sold or settled, the presence of an active market and the availability of a willing buyer or seller.

#### Adoption of New Accounting Standards

In October 2009, the FASB issued an update to ASC 605-25, "Revenue Recognition - Multiple-Element Arrangements", that provides amendments to the criteria for separating consideration in multiple-deliverable arrangements to: (i) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated; (ii) require an entity to allocate revenue in an arrangement using estimated selling prices of deliverables if a vendor does not have VSOE of selling price or third-party evidence of selling price; (iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (iv) require expanded disclosures of qualitative and quantitative information regarding application of the multiple-deliverable revenue arrangement guidance. We adopted this update and applied these provisions to all revenue arrangements entered into or materially modified after January 1, 2011. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued an update to ASC 985-605, "Software-Revenue Recognition". In accordance with the update to the ASC, tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality are excluded from the scope of the software revenue recognition guidance. In addition, hardware components of a tangible product containing software component are always excluded from the software revenue guidance. We adopted this update and applied these provisions to all revenue arrangements entered into or materially modified after January 1, 2011. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

In December 2010, the EITF issued ASU 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations codified in ASC 805, "Business Combinations". This ASU responds to diversity in practice about the interpretation of the pro forma disclosure requirements for business combinations. When a public entity's business combinations are material on an individual or aggregate basis, the notes to its financial statements must provide pro forma revenue and earnings of the combined entity as if the acquisition date(s) had occurred as of the beginning of the annual reporting period. The ASU clarifies that if comparative financial statements are presented, the pro forma disclosures for both periods presented (the year in which the acquisition occurred and the prior year) should be reported as if the acquisition had occurred as of the beginning of the comparable prior annual reporting period only and not as if it had occurred at the beginning of the current annual reporting period. The ASU also expands the supplemental pro forma disclosure requirements to include a description of the nature and amount of any material non-recurring adjustments that are directly attributable to the business combination. As applicable to us, this update became effective in these annual financial statements. The adoption of this updated did not have a material effect on our financial position or results of operations.



#### Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board, or FASB issued ASU 2011-08, Testing Goodwill for Impairment, codified in ASC 350 "Intangibles – Goodwill and Other". The revised accounting standard update intended to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting standard update will be effective for us beginning January 1, 2012. We do not expect the adoption of this new guidance to have a material impact on our financial statements.

In June 2011, the FASB issued ASU 2011-05 Presentation of Comprehensive Income, codified in ASC 220 "Comprehensive Income". The guidance requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance also eliminates the option to present the components of other comprehensive income as part of the statement of equity. The adoption of the standard will have no impact on our financial position or results of operations, but will result in a change in the presentation of our basic consolidated financial statements. We are currently evaluating whether to present other comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements.

In May 2011, the FASB issued ASU 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, codified in ASC 820 "Fair Value Measurement". The guidance requires an entity to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements, and will become effective for us beginning January 1, 2012. We do not expect the adoption of this new guidance to have a material impact on our financial statements.

## Results of Operations

The following table sets forth our selected consolidated statements of income for the years ended December 31, 2009, 2010 and 2011 expressed as a percentage of total revenues. Totals may not add up due to rounding.

|                                      | 2009  | 2010   | 2011   |
|--------------------------------------|-------|--------|--------|
| Revenues                             |       |        |        |
| Products                             | 48.3  | % 47.2 | % 44.8 |
| Services                             | 51.7  | 52.8   | 55.2   |
|                                      | 100.0 | 100.0  | 100.0  |
| Cost of revenues                     |       |        |        |
| Products*                            | 31.2  | 32.9   | 32.7   |
| Services*                            | 49.5  | 44.5   | 43.6   |
|                                      | 40.7  | 39.0   | 38.7   |
| Gross Profit                         | 59.3  | 61.0   | 61.3   |
| Operating expenses                   |       |        |        |
| Research and development, net        | 13.3  | 14.1   | 13.8   |
| Selling and marketing                | 24.3  | 25.9   | 25.1   |
| General and administrative           | 12.5  | 11.1   | 12.0   |
| Amortization of acquired Intangibles | 2.7   | 2.8    | 3.0    |
| Settlement and related expenses      | -     | -      | -      |
| Total operating expenses             | 52.8  | 53.9   | 53.9   |
| Operating income                     | 6.5   | 7.1    | 7.4    |
| Financial income, net                | 1.3   | 1.3    | 1.3    |
| Income before taxes                  | 7.8   | 8.4    | 8.7    |
| Taxes on income                      | 0.5   | 1.3    | 1.5    |
| Net income                           | 7.3   | 7.1    | 7.2    |

(\*) Respective revenues



## Comparison of Years Ended December 31, 2010 and 2011

## Revenues

Our total revenues increased by approximately 15.1% to \$793.8 million in 2011 from \$689.5 million in 2010. Revenues from sales of Customer Interactions Solutions were \$477.6 million in 2011, an increase of 18.2% from 2010, revenues from sales of Security Solutions were \$191.8 million in 2011, an increase of 15.5% from 2010, and revenues from sales of Financial Crime and Compliance Solutions were \$124.4 million in 2011, an increase of 4.1% from 2010. Approximately 50% of the growth in revenues from Customer Interactions Solutions is attributed to organic growth driven by increasing transaction volume and complexity, data center consolidation, financial industry consolidation and accelerated demand for analytics based applications, approximately 35% is attributed to the inclusion of Cybertech and Fizzback results for the first time in 2011 and the remaining 15% of the growth in revenues from Customer Interactions Solutions is attributable to the inclusion of full year results of e-Glue compared with five and a half months of results included in 2010 and the increasing demand for real time interaction solutions. Approximately 77% of the growth in revenues from Security Solutions is attributable to organic growth as a result of our focus on strengthening our solutions, approximately 11% is attributable to the increase in sales of our situation management solutions and the remaining 12% of the growth in revenues from Security Solutions is attributed to the inclusion of Cybertech results for the first time in 2011. The increase in revenues from Financial Crime and Compliance Solutions is mainly attributed to organic growth driven by increasing regulation and the need for compliance, increasing fraud attempts and a clear shift from in-house to best-of-breed shelf solutions.

|                  | Years Ended December<br>31,<br>(U.S. dollars in millions) |         | Dollar<br>Change | Percentage<br>Change |   |
|------------------|---|---------|------------------|----------------------|---|
|                  | 2010  | 2011    |                  |                      |   |
| Product Revenues | \$325.5   | \$355.8 | \$30.3           | 9.3                  | % |
| Service Revenues | 364.0   | 438.0   | 74.0             | 20.3                 |   |
| Total Revenues   | \$689.5   | \$793.8 | \$104.3          | 15.1                 | % |

Approximately 58% of the increase in product revenues is attributed to the inclusion of Cybertech results for the first time in 2011. Approximately 42% of the increase in product revenues is due to organic growth driven by increased demand for our public safety solutions and real time interaction solutions, a growth in average transaction size, and substantial upgrades of systems.

Approximately 65% of the increase in service revenues is attributed to an increase in maintenance revenue resulting from an increase in the install base from previous years' sales and due to the inclusion of Cybertech and Fizzback results for the first time in 2011. Approximately 35% of the increase in service revenues is attributed to an increase in professional services revenues mainly as a result of an increase in sales of risk management and real time interaction services and due to the inclusion of Cybertech and Fizzback results for the first time in 2011.

## Revenue by Region

|   | Years Ended December<br>31,<br>(U.S. dollars in millions) |         | Dollar<br>Change | Percentage<br>Change |   |
|---|---|---------|------------------|----------------------|---|
|   | 2010  | 2011    |                  |                      |   |
| United States, Canada and Central and South America<br>("Americas") | \$429.9   | \$499.2 | \$69.3           | 16.1                 | % |
| Europe, the Middle East and Africa ("EMEA")                         | 182.8   | 196.6   | 13.8             | 7.5                  |   |
| Asia-Pacific ("APAC")   | 76.8  | 98.0    | 21.2             | 27.6                 |   |
| Total Revenues  | \$689.5   | \$793.8 | \$104.3          | 15.1                 | % |

The Americas revenues increased by 16.1%, approximately 45% of which is attributable to organic growth in the Security Solutions, approximately 21% is attributable to organic growth in the Customer Interactions Solutions, approximately 13% is attributable to organic growth in Financial Crime and Compliance Solutions revenues, approximately 11% of the increase is attributable to the inclusion of e-Glue results for a full year and the remaining 10% increase is due to the inclusion of Cybertech and Fizzback results for the first time in 2011.

The EMEA revenues increased by 7.5%. The increase is mainly attributable to the inclusion of Cybertech and Fizzback results for the first time in 2011 and to organic growth in the Customer Interactions Solutions, offset by a decrease in the Security Solutions and decrease in Financial Crime and Compliance Solutions revenues.

The APAC revenue increased by 27.6%, approximately 77% of which is attributable to organic growth in the Customer Interactions Solutions, approximately 15% is attributable to the inclusion of Cybertech results for the first time in 2011 and the remaining 8% increase is attributable to organic growth in Financial Crime and Compliance Solutions revenues offset by a decrease in the Security Solutions revenues.

## Cost of Revenues

|                          | Years Ended December<br>31,<br>(U.S. dollars in millions) |         | Dollar<br>Change | Percentage<br>Change |   |
|--------------------------|---|---------|------------------|----------------------|---|
|                          | 2010  | 2011    |                  |                      |   |
| Cost of Product Revenues | \$107.2   | \$116.3 | \$9.1            | 8.5                  | % |
| Cost of Service Revenues | 161.9   | 191.0   | 29.1             | 18.0                 |   |
| Total Cost of Revenues   | \$269.1   | \$307.3 | \$38.2           | 14.2                 | % |

Cost of product revenues increased on a dollar basis, while decreasing as a percentage of product revenues. The increase on a dollar basis is mostly a result of increase in product revenue and higher amortization of intangible assets in a total amount of \$30.2 million in 2011 compared to \$25.8 million in 2010, which is mainly a result of the acquisitions of Cybertech and Fizzback and the inclusion of Orsus, Lamda and e-Glue for a full year. The decrease as a percentage of product revenues is a result of a higher proportion of software in the product mix, which have lower cost of product. Cost of service revenues increased on a dollar basis mainly due to an increase of cost of wages as a result of additional headcount to support the growth in the business, while decreasing as a percentage of service revenues. The decrease in the percentage of cost of service from service revenues is attributed to better utilization of

headcount.

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## Gross Profit

|                                     | Years Ended December 31,<br>(U.S. dollars in millions) |          | Dollar<br>Change | Percentage<br>Change |
|-------------------------------------|--|----------|------------------|----------------------|
|                                     | 2010   | 2011     |                  |                      |
| <b>Gross Profit on Product</b>      |  |          |                  |                      |
| Revenues                            | \$ 218.3   | \$ 239.5 | \$ 21.2          | 9.7 %                |
| as a percentage of product revenues | 67.1 %   | 67.3 %   |                  |                      |
| <b>Gross Profit on Service</b>      |  |          |                  |                      |
| Revenue                             | 202.1  | 247.0    | 44.9             | 22.2                 |
| as a percentage of service revenues | 55.5 %   | 56.4 %   |                  |                      |
| <b>Total Gross</b>                  |  |          |                  |                      |
| Profit                              | \$ 420.4   | \$ 486.5 | \$ 66.1          | 15.7 %               |
| as a percentage of total revenues   | 61.0 %   | 61.3 %   |                  |                      |

The increase in gross profit margin on product revenues is a result of a higher proportion of software in the product mix as indicated in "Total Cost of Revenue," above. The improvement in gross profit margin on service revenues is mainly attributed to the improvement in headcount utilization.

## Operating Expenses

|  | Years Ended December<br>31,<br>(U.S. dollars in millions) |         | Dollar<br>Change | Percentage<br>Change |
|--|---|---------|------------------|----------------------|
|  | 2010  | 2011    |                  |                      |
| Research and development, net              | \$97.1  | \$109.1 | \$12.0           | 12.4 %               |
| Selling and marketing                      | 178.4   | 199.0   | 20.6             | 11.5                 |
| General and administrative                 | 76.3  | 95.6    | 19.3             | 25.3                 |
| Amortization of acquired intangible assets | 19.5  | 23.7    | \$4.2            | 21.5 %               |

**Research and Development, Net.** Research and development expenses, before capitalization of software development costs and government grants, increased to 113.7 million in 2011, as compared to \$102.2 million in 2010 and represented 14.3% and 14.8% of revenues in 2011 and 2010, respectively. The increase in research and development, net is attributed primarily to an increase in cost of wages and subcontractors, partially as a result of the Cybertech and Fizzback acquisitions.

Capitalized software development costs were \$1.2 million in 2011, as compared to \$1.3 million in 2010. Amortization of capitalized software development costs included in cost of product revenues were \$1.3 million and \$1.2 million in 2011 and 2010, respectively.

**Selling and Marketing Expenses.** Selling and marketing expenses increased to \$199.0 million in 2011, as compared to \$178.4 million in 2010, and represented 25.1% of total revenues in 2011, as compared to 25.9% in 2010. Approximately 82% of the increase in selling and marketing expense is attributed to an increase in cost of wages as a result of increased headcount. The remainder of the increase is mainly due to an increase in travel and exhibitions expenses.

**General and Administrative Expenses.** General and administrative expenses increased to \$95.6 million in 2011, as compared to \$76.3 million in 2010, and represented 12.0% of total revenues in 2011, as compared to 11.1% in 2010. The increase in general and administrative expense is due mainly to an increase in: (i) cost of wages which accounts for approximately 46% of the increase, (ii) legal fees which accounts for approximately 25% of the increase and an increase in rent and utilities costs which accounts for approximately 17% of the increase.

**Amortization of acquired intangible assets.** Amortization of acquired intangibles included in the operating expenses represent 3.0% and 2.8% of our 2011 and 2010 revenues, respectively. The increase in amortization of acquired intangible assets is mainly attributable to amortization of intangible assets related to the acquisitions of Cybertech and Fizzback.

#### Financial and Other Income

|                       | Years Ended December<br>31,<br>(U.S. dollars in millions) |        | Dollar<br>Change | Percentage<br>Change |   |
|-----------------------|---|--------|------------------|----------------------|---|
|                       | 2010  | 2011   |                  |                      |   |
| Financial income, net | \$9.1   | \$10.0 | \$0.9            | 10                   | % |
| Other expenses, net   | (0.1 )  | (0.1 ) | -                | -                    |   |

**Financial Income, Net.** The increase in financial income, net is attributable mainly to the increase in cash and cash equivalents and marketable securities average balance in 2011 as compared to 2010.

**Taxes on Income.** In 2011 taxes on income amounted to \$11.6 million, as compared to \$9.3 million in 2010. Our effective tax rate amounted to 16.9% in 2011 which is broadly in line with our effective tax rate of 16.1% in 2010.

The decline of the corporate tax rate in Israel from 25% in 2010 to 24% in 2011 had only a minor impact on our effective tax rate. This is because the majority of our income earned in Israel benefits from the reduced tax rates applicable to us as a result of our Approved and Privileged Enterprise programs.

Further information with regard to our Approved and Privileged Enterprise programs can be found in Item 3, “Risk Factors” under the caption “Our results may be affected by the availability of government grants and tax benefits. Our participation in these programs restricts our ability to freely transfer manufacturing rights and technology out of Israel” and in Note 13 of our Consolidated Financial Statements under the caption “Taxes on Income.”

Subject to unpredictable effects of any future settlements with tax authorities, unadjusted expiration of the statute of limitations, future changes in law or accepted practice and effects of potential mergers and acquisitions, we expect our effective tax rate (which includes effects of FIN No. 48 which has been incorporated into ASC 740) to be approximately 17% in the coming years.

Net Income. Net income was \$57.3 million in 2011, as compared to \$48.7 million in 2010. The increase in 2011 resulted primarily from the increase in revenues and an increase in gross margin.

#### Comparison of Years Ended December 31, 2009 and 2010

##### Revenues

Our total revenues increased by approximately 18.2% to \$689.5 million in 2010 from \$583.1 million in 2009. Revenues from sales of Customer Interactions Solutions were \$404.0 million in 2010, an increase of 11.1% from 2009, revenues from sales to the Security Solutions were \$166.0 million in 2010, increase of 12.3% from 2009, and revenues from sales of Financial Crime and Compliance Solutions were \$119.5 million in 2010, an increase of 66.7% from 2009. The increase in revenues from the Customer Interactions Solutions is mainly attributed to organic growth driven by increasing transaction volume and complexity, data center consolidation, financial industry consolidation and accelerated demand for analytics based applications. Approximately 60% of the growth in Financial Crime and Compliance Solutions revenue is attributable to organic growth driven by increasing regulation and the need for compliance, increasing fraud attempts and a clear shift from in-house to best-of-breed shelf solutions, and approximately 40% of the growth in Financial Crime and Compliance Solutions revenue is attributable to the inclusion of full year results of Fortent compared with four months results included in 2009. Approximately 80% of the growth in revenue from the Security Solutions is attributable to organic growth as a result of our focus on strengthening our distinctive solutions. The remaining 21% of the growth is attributed to the inclusion of Orsus results for the first time in 2010.

|                  | Years Ended December<br>31,<br>(U.S. dollars in millions) |         | Dollar<br>Change | Percentage<br>Change |   |
|------------------|---|---------|------------------|----------------------|---|
|                  | 2009  | 2010    |                  |                      |   |
| Product Revenues | \$281.8   | \$325.5 | \$43.7           | 15.5                 | % |
| Service Revenues | 301.3   | 364.0   | 62.7             | 20.8                 |   |
| Total Revenues   | \$583.1   | \$689.5 | \$106.4          | 18.2                 | % |

Approximately 92% of the increase in product revenues is due to organic growth driven by increased demand for our Financial Crime and Compliance Solutions and public safety solutions, a growth in average transaction size, and substantial upgrades of systems. The remaining 8% is attributed to the inclusion of Orsus and e-Glue results for the first time in 2010. Approximately 64% of the increase in product revenue is attributable to an increase in product sales in the Americas, 27% of the increase in product revenue is attributable to an increase in product sales in EMEA and 9% of the increase in product revenue is attributable to an increase in product sales in APAC.

The increase in service revenues is due to an increase in maintenance revenue resulting from an increase in the installation base from previous years' sales and the increase in professional services is mainly attributed to an increase in sales of risk management services. Our service revenues represented approximately 52.8% of total revenues, as compared to approximately 51.7% in 2009.

#### Revenue by Region

|   | Years Ended December<br>31,<br>(U.S. dollars in millions) |         | Dollar<br>Change | Percentage<br>Change |   |
|---|---|---------|------------------|----------------------|---|
|   | 2009  | 2010    |                  |                      |   |
| United States, Canada and Central and South America<br>("Americas") | \$365.8   | \$429.9 | \$64.1           | 17.5                 | % |
| Europe, the Middle East and Africa ("EMEA")                         | 150.4   | 182.8   | 32.4             | 21.5                 |   |
| Asia-Pacific ("APAC")   | 66.9  | 76.8    | 9.9              | 14.8                 |   |
| Total Revenues  | \$583.1   | \$689.5 | \$106.4          | 18.2                 | % |

The Americas revenues increased by 17.5%, approximately 44% of which is attributable to organic growth in the Customer Interactions Solutions, approximately 30% is attributable to organic growth in Financial Crime and Compliance Solutions revenues, approximately 10% of the increase is attributable to the inclusion of Fortent results for a full year and the remaining 16% increase is due to organic growth and revenues from acquisitions in the Security sector.

The EMEA revenue increased by 21.5%, approximately 35% is attributable mainly to the inclusion of Fortent results for a full year, approximately 30% is attributable to organic growth in the Customer Interactions Solutions, approximately 24% is attributable to organic growth in Financial Crime and Compliance Solutions and approximately 11% is attributable to organic growth and revenues from acquisitions in the Security sector.

The APAC revenue increased by 14.8%, approximately 43% of which is attributable to organic growth in the Security Solutions, approximately 27% is attributable to organic growth in the Customer Interactions Solutions, approximately 18% is attributable mainly to the inclusion of Fortent results for a full year, and approximately 12% is attributable to organic growth in Financial Crime and Compliance Solutions.

## Cost of Revenues

|                          | Years Ended December<br>31,<br>(U.S. dollars in millions) |         | Dollar<br>Change | Percentage<br>Change |   |
|--------------------------|---|---------|------------------|----------------------|---|
|                          | 2009  | 2010    |                  |                      |   |
| Cost of Product Revenues | \$88.0  | \$107.2 | \$19.2           | 21.8                 | % |
| Cost of Service Revenues | 149.2   | 161.9   | 12.7             | 8.5                  |   |
| Total Cost of Revenues   | \$237.2   | \$269.1 | \$31.9           | 13.4                 | % |

Cost of product revenues increased on a dollar basis and as a percentage of product revenues. The increase on a dollar basis is mostly a result of increase in product revenue and higher amortization of intangible assets in a total amount of \$24.6 million in 2010 compared to \$18.5 million in 2009, which is a result of the acquisitions of Orsus, Lamda, e-Glue and the inclusion of Fortent and Hexagon for a full year. The increase as a percentage of product revenues is mainly due to higher amortization of intangible assets. Cost of service revenues increased on a dollar basis due to additional investment to support the increase in the business, while decreasing as a percentage of service revenues. The decrease in the percentage of cost of service from service revenues is attributed to better utilization of headcount and change in service revenue mix.

## Gross Profit

|                                     | Years Ended December<br>31,<br>(U.S. dollars in millions) |         | Dollar<br>Change | Percentage<br>Change |   |
|-------------------------------------|---|---------|------------------|----------------------|---|
|                                     | 2009  | 2010    |                  |                      |   |
| Gross Profit on Product Revenues    | \$193.8   | \$218.3 | \$24.5           | 12.6                 | % |
| as a percentage of product revenues | 68.8  | % 67.1  | %                |                      |   |
| Gross Profit on Service Revenue     | 152.1   | 202.1   | 50.0             | 32.9                 |   |
| as a percentage of service revenues | 50.5  | % 55.5  | %                |                      |   |
| Total Gross Profit                  | \$345.9   | \$420.4 | \$74.5           | 21.5                 | % |
| as a percentage of total revenues   | 59.3  | % 61.0  | %                |                      |   |

The decrease in gross profit margin on product revenues is mainly attributable to the increase in amortization of intangible assets. The improvement in gross profit margin on service revenues is mainly attributed to the improvement in headcount utilization and change in service revenue mix.



## Operating Expenses

|  | Years Ended December<br>31,<br>(U.S. dollars in millions) |        | Dollar<br>Change | Percentage<br>Change |   |
|--|---|--------|------------------|----------------------|---|
|  | 2009  | 2010   |                  |                      |   |
| Research and development, net              | \$77.4  | \$97.1 | \$19.7           | 25.5                 | % |
| Selling and marketing                      | 141.5   | 178.4  | 36.9             | 26.1                 |   |
| General and administrative                 | 72.8  | 76.3   | 3.5              | 4.8                  |   |
| Amortization of acquired intangible assets | 16.0  | 19.5   | 3.5              | 21.9                 |   |

**Research and Development, Net.** Research and development expenses, before capitalization of software development costs and government grants, increased to \$102.2 million in 2010, as compared to \$82.4 million in 2009 and represented 14.8% and 14.1% of revenues in 2010 and 2009, respectively. Approximately 66% of the increase in research and development, net is attributed to an increase in cost of wages partially due to an increase in headcount following the Orsus and e-Glue acquisitions.

Capitalized software development costs remained at the same level of \$1.3 million in 2010, as compared to 2009. Amortization of capitalized software development costs included in cost of product revenues were \$1.2 million and \$0.9 million in 2010 and 2009, respectively.

**Selling and Marketing Expenses.** Selling and marketing expenses increased to \$178.4 million in 2010, as compared to \$141.5 million in 2009, and represented 25.9% of total revenues in 2010, as compared to 24.3% in 2009. Approximately 84% of the increase in selling and marketing expense is attributed to an increase in cost of wages and sales incentives resulting from high performance in our business and the inclusion of Orsus and e-Glue. The remainder of the increase is mainly due to an increase in travel and exhibitions expenses

**General and Administrative Expenses.** General and administrative expenses increased to \$76.3 million in 2010, as compared to \$72.8 million in 2009, and represented 11.1% of total revenues in 2010, as compared to 12.5% in 2009. The increase in general and administrative expense is due mainly to an increase in cost of wages and an increase in rent and utilities costs. The increase is partially offset by a reduction in doubtful accounts expenses.

**Amortization of acquired intangible assets.** Amortization of acquired intangibles included in the operating expenses represent 2.8% and 2.7% of our 2010 and 2009 revenues, respectively. Approximately 69% of the increase in amortization of acquired intangible assets is attributable to amortization of intangible assets related to the acquisition of Fortent and Syfact for the entire year of 2010. The remainder is mainly due to amortization of intangible assets related to the acquisitions of Orsus and e-Glue.

## Financial and Other Income

|                       | Years Ended December<br>31,<br>(U.S. dollars in millions) |       | Dollar<br>Change | Percentage<br>Change |   |
|-----------------------|---|-------|------------------|----------------------|---|
|                       | 2009  | 2010  |                  |                      |   |
| Financial income, net | \$7.7   | \$9.1 | \$1.4            | 18.2                 | % |

|                     |      |   |      |   |   |   |
|---------------------|------|---|------|---|---|---|
| Other expenses, net | (0.1 | ) | (0.1 | ) | - | - |
|---------------------|------|---|------|---|---|---|

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Financial Income, Net. The increase in financial income, net is attributable mainly to the increase in cash and cash equivalents and marketable securities balance in 2010 as compared to 2009.

Taxes on Income. In 2010 taxes on income amounted to \$9.3 million, as compared to \$3.0 million in 2009. Our effective tax rate amounted to 16.1% in 2010 compared with 6.6% in 2009. We experienced a relatively low effective tax rate in 2009 mainly due to the release of prior period provisions arising as a result of the unadjusted expiration of the statute of limitations for certain historic tax returns filed as well as the effects of a final settlement with a certain tax authority years prior to 2009. Our effective tax rate during 2010 returned to more normalized levels reflecting the geographical mix of where our profits are earned and the applicable tax rates thereon.

The decline of the corporate tax rate in Israel from 26% in 2009 to 25% in 2010 had a minor impact on our effective tax rate. This is because the majority of our income earned in Israel benefits from the reduced tax rates applicable to us as a result of our Approved and Privileged Enterprise programs.

Further information with regard to our Approved and Privileged Enterprise programs can be found in Item 3, "Risk Factors" under the caption "Our results may be affected by the availability of government grants and tax benefits. Our participation in these programs restricts our ability to freely transfer manufacturing rights and technology out of Israel" and in Note 13 of our Consolidated Financial Statements under the caption "Taxes on Income."

Subject to unpredictable effects of any future settlements with tax authorities, unadjusted expiration of the statute of limitations, future changes in law or accepted practice and effects of potential mergers and acquisitions, we expect our effective tax rate (which includes effects of FIN No. 48 which has been incorporated into ASC 740) to be approximately 18% in the coming years.

Net Income. Net income was \$48.7 million in 2010, as compared to \$42.8 million in 2009. The increase in 2010 resulted primarily from the increase in revenues and an increase in gross margin.

#### Liquidity and Capital Resources

In recent years, the cash generated from our operating activities has financed our operations. Generally, we invest our excess cash in highly liquid investment grade securities. At December 31, 2011, we had \$562.6 million of cash and cash equivalents and short-term and long-term investments, as compared to \$663.2 million at December 31, 2010 and \$548.5 million at December 31, 2009.

Cash provided by operating activities was \$154.4 million, \$145.0 million and \$119.7 million in 2011, 2010 and 2009, respectively. Net cash from operations in 2011 consisted primarily of net income of \$57.3 million and adjustments for non-cash activities including depreciation and amortization of \$67.0 million, increase in accrued expenses and other liabilities of \$35.6 million and stock-based compensation of \$21.2 million which were partially offset by an increase in trade receivables of \$20.6 million and deferred tax of \$8.8 million. Net cash from operations in 2010 consisted primarily of net income of \$48.7 million and adjustments for non-cash activities including depreciation and amortization of \$57.1 million, an increase in accrued expenses and other liabilities of \$25.9 million, stock-based compensation of \$21.1 million, and a decrease in trade receivables of \$6.3 million which were partially offset by a decrease in trade payables of \$7.1 and deferred tax of \$4.9 million. Net cash from operations in 2009 consisted primarily of net income of \$42.8 million and adjustments for non-cash activities including depreciation and amortization of \$47.2 million, stock-based compensation of \$18.2 million, a decrease in trade receivables of \$8.9 million, and an increase in accrued expenses and other liabilities of \$12.0 million, which were partially offset by deferred tax of \$7.0 million.



Net cash provided by investing activities was \$9.4 million in 2011. Net cash used in investing activities was \$276.7 million and \$71.3 million in 2010 and 2009, respectively. In 2011, net cash provided by investing activities consisted primarily of net proceeds from marketable securities of \$174.2 million which funded payment for the acquisitions of Fizzback, Cybertech and other acquisitions of \$143.4 million and purchase of property and equipment of \$17.3 million. In 2010, net cash used in investing activities consisted primarily of net investment in marketable securities of \$251.4 million, payment for the acquisitions of e-Glue, Orsus and other acquisitions of \$52.3 million, and purchase of property and equipment of \$11.7 million, which were partially offset by proceeds from short-term bank deposits of \$40.0 million. In 2009, net cash used in investing activities consisted primarily of payment for the acquisition of Fortent and other acquisitions of \$84.9 million and purchase of property and equipment of \$8.9 million, which were partially offset by net proceeds from short-term bank deposits of \$24.5 million.

Net cash used in financing activities was \$68.8 million in 2011. Net cash provided by financing activities was \$26.0 million and \$20.9 million in 2010 and 2009, respectively. In 2011, net cash used in financing activities was attributed primarily to the repurchase of our ordinary shares of \$95.9 million under the first program to repurchase ordinary shares in a total amount up to \$100 million which were offset by proceeds from the issuance of shares upon exercise of options and purchase of shares under employee share purchase plans of \$26.8 million. In 2010, net cash provided from financing activities consisted primarily of proceeds from the issuance of shares upon exercise of options and purchase of shares under employee share purchase plans of \$26.0 million. In 2009, net cash provided from financing activities consisted primarily of proceeds from the issuance of shares upon exercise of options and purchase of shares under employee share purchase plans of \$19.9 million. As of December 31, 2011, we had non-binding arrangements, for the rendering of credit lines from banks against our portfolio with those banks.

We believe that based on our current operating forecast, the combination of existing working capital and expected cash flows from operations will be sufficient to finance our ongoing operations for the next twelve months.

#### Research and Development

For information on our research and development policies, please see Item 4, “Information on the Company” in this annual report.

## Trend Information

Our development efforts are aimed at addressing several industry trends, including: the growing need of organizations to analyze and respond to vast amounts of structured and unstructured data; heightened and more complex regulatory and compliance requirements; and more sophisticated security threats. Our development efforts are also influenced by technology trends, such as the evolution of real-time analytics and the proliferation of alternate communication channels to voice, such as chat, email, and social media.

In connection with our Customer Interaction Solutions, such industry trends include the evolution of contact centers into strategic customer interaction hubs, an increased focus on improving customer experience across the enterprise, contact centers seeking to impact customer interactions in real time, enterprises expanding their operational efficiency activities beyond the contact center, and increased adoption of contact center hosting solutions.

In connection with our Financial Crime and Compliance Solutions, such trends include enterprise-wide risk and compliance technology consolidation; the changing technology in the financial services market; and growth in emerging markets.

In the Security sector there is an increase in challenges for public safety, homeland security and intelligence agencies. These include emerging needs for holistic situational awareness and event management in the security market; increased focus on physical corporate security; increased urbanization that raises rates of crime and risks of terror attacks; and a requirement for increased service level, operational efficiency and business continuity.

For more information on trends in our industry, please see Item 4, “Information on the Company—Business Overview—Industry Background and Trends.”

For more information on uncertainties, demands, commitments or events that are reasonably likely to have a material effect on revenue, please see Item 3, “Key Information—Risk Factors.”

## Contractual Obligations

Set forth below are our contractual obligations and other commercial commitments over the medium term as of December 31, 2011 (in thousands of U.S. dollars).

| Contractual Obligations            | Total   | Payments Due by Period |            |           |                      |
|------------------------------------|---------|------------------------|------------|-----------|----------------------|
|                                    |         | Less than 1<br>year    | 1- 3 years | 3-5 years | More than<br>5 years |
| Operating Leases                   | 113,242 | 16,676                 | 25,642     | 20,660    | 50,264               |
| Unconditional Purchase Obligations | 3,137   | 3,137                  |            |           |                      |
| Severance Pay*                     | 23,728  |                        |            |           |                      |
| Total Contractual Cash Obligations | 140,107 | 19,813                 | 25,642     | 20,660    | 50,264               |
| Uncertain Income Tax Positions **  | 43,435  |                        |            |           |                      |

\*Severance pay relates to accrued obligations to employees as required under applicable labor laws. These obligations are payable only upon termination, retirement or death of the respective employees.

\*\*Uncertain income tax positions under ASC 740 are due upon settlement and we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 13(h) of our Consolidated Financial Statements for further information regarding our liability under ASC 740.

| Other Commercial Commitments       | Total<br>Amounts<br>Committed | Amount of Commitment Expiration Per Period |            |           |                      |
|------------------------------------|-------------------------------|--|------------|-----------|----------------------|
|                                    |                               | Less than 1<br>year                        | 1- 3 years | 3-5 years | More than<br>5 years |
| Guarantees – continuing operations | 14,832                        | 13,448                                     | 789        | 175       | 420                  |

## Qualitative and Quantitative Disclosure About Market Risk

For information on the market risks relating to our operations, please see Item 11, “Quantitative and Qualitative Disclosures about Market Risk” in this annual report.

#### Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board, or FASB, issued ASU 2001-08, Testing Goodwill for Impairment, codified in ASC 350 "Intangibles – Goodwill and Other". The revised accounting standard update intended to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting standard update will be effective for us beginning January 1, 2012. We do not expect that the adoption of this new guidance to have a material impact on our financial statements.

In June 2011, the FASB issued ASU 2011-05 Presentation of Comprehensive Income, codified in ASC 220 "Comprehensive Income." The guidance requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance also eliminates the option to present the components of other comprehensive income as part of the statement of equity. The adoption of the standard will have no impact on our financial position or results of operations, but will result in a change in the presentation of our basic consolidated financial statements. We are currently evaluating whether to present other comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements.

In May 2011, the FASB issued ASU 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, codified in ASC 820 "Fair Value Measurement". The guidance requires an entity to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements, and will become effective for us beginning January 1, 2012. We do not expect that the adoption of this new guidance will have a material impact on our financial statements.



## Item 6. Directors, Senior Management and Employees.

## Directors and Senior Management

The following table sets forth, as of March 13, 2012, the name, age and position of each of our directors and executive officers:

| Name                       | Age | Position  |
|----------------------------|-----|---|
| Ron Gutler(1)(4)(5)        | 54  | Chairman of the Board of Directors  |
| Joseph Atsmon(1)(3)        | 64  | Vice-Chairman of the Board of Directors                                   |
| Rimon Ben-Shaoul(2)(4)     | 67  | Director  |
| Yoseph Dauber(2)(3)        | 76  | Director  |
| Dan Falk(1)(2)(3)(4)(5)(6) | 67  | Director  |
| Yocheved Dvir(1)(2)(3)(6)  | 59  | Director  |
| David Kostman(4)           | 47  | Director  |
| Zeev Bregman               | 50  | President and Chief Executive Officer                                     |
| Udi Ziv                    | 46  | President, Enterprise Group   |
| Yaron Tchwella             | 51  | President, Security Group and Executive Vice President Business Operation |
| Amir Orad                  | 36  | President and Chief Executive Officer, NICE-Actimize                      |
| Dafna Gruber               | 47  | Chief Financial Officer   |
| Yechiam Cohen              | 55  | Corporate Vice President, General Counsel and Corporate Secretary         |
| Eran Porat                 | 49  | Corporate Vice President, Finance   |
| Eran Liron                 | 44  | Executive Vice President, Corporate Development                           |
| Benny Einhorn              | 56  | Chief Marketing Officer   |
| Yochai Rozenblat           | 50  | President and Chief Executive Officer, NICE Americas                      |
| Ad Ketelaars               | 55  | President, NICE EMEA  |
| Raghav Sahgal              | 49  | President, NICE APAC  |
| Sigal Gillmore             | 42  | Executive Vice President, Human Resources                                 |

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- (1) Member of the Audit Committee.  
(2) Member of the Compensation Committee.  
(3) Member of the Internal Audit Committee.  
(4) Member of the Mergers and Acquisitions Committee.  
(5) Member of the Nominations Committee.  
(6) Outside Director. See Item 6, “Directors, Senior Management and Employees—Board Practices— Outside Directors.”

At our annual meeting of shareholders held on September 19, 2011, John Hughes announced that he would not stand for re-election to the Board of Directors.



Set forth below is a biographical summary of each of the above-named directors and executive officers of NICE. Each of our directors qualifies as an independent director under applicable NASDAQ rules.

Ron Gutler has served as one of our directors since May 2001 and he is the Chairman of the Board since May 2002. Mr. Gutler is currently a director of Psagot Investment House, Psagot Securities, Poalim Securities USA Inc., and a member of the Advisory Board of Poalim Real Estate (part of Poalim Capital Market Group). Between 2000 and 2011, he served as the Chairman of G.J.E. 121 Promoting Investment Ltd., a real estate company. Between 2000 and 2002, Mr. Gutler managed the Blue Border Horizon Fund, a global macro fund. Mr. Gutler is a former Managing Director and a Partner of Bankers Trust Company (currently part of Deutsche Bank). Between 1987 and 1999, he held various positions with Bankers Trust, where Mr. Gutler headed its trading and sales activities in Asia, South America and Emerging Europe. He also established and headed the Israeli office of Bankers Trust. Mr. Gutler holds a Bachelor's degree in Economics and International Relations and a Master's degree in Business Administration, both from the Hebrew University in Jerusalem.

Joseph Atsmon has served as one of our directors since September 2001 and Vice-Chairman of the Board since May 2002. Mr. Atsmon currently serves as a director of Ceragon Networks Ltd. and Radvision Ltd. From 1995 until 2000, Mr. Atsmon served as Chief Executive Officer of Teledata Communications Ltd., a public company acquired by ADC Telecommunications Inc. in 1998. Mr. Atsmon had a twenty-year career with Tadiran Ltd. In his last role at Tadiran Ltd., Mr. Atsmon served as Corporate VP for business development. Prior to that, he served as President of various military communications divisions. Mr. Atsmon holds a Bachelor's degree in Electrical Engineering from the Technion – Israel Institute of Technology.

Rimon Ben-Shaoul has served as one of our directors since September 2001. Since 2001, Mr. Ben-Shaoul has served as Co-Chairman, President, and Chief Executive Officer of Koonras Technologies Ltd., a technology investment company controlled by LEADER Ltd., an Israeli holding company. Mr. Ben-Shaoul also serves as a director of MIND C.T.I. Ltd. and several private companies, and served as a director of BVR Systems Ltd. In addition, he is the President and Chief Executive Officer of Polar Communications Ltd., which manages media and communications investments. Mr. Ben-Shaoul also serves as the Chairman of T.A.T Technologies Ltd., a public company listed on NASDAQ and TASE. Between 1997 and 2001, Mr. Ben-Shaoul was the President and Chief Executive Officer of Clal Industries and Investments Ltd., one of the largest holding companies in Israel with substantial holdings in the high tech industry. During that time, Mr. Ben-Shaoul also served as Chairman of the Board of Directors of Clal Electronics Industries Ltd., Scitex Corporation Ltd., and various other companies within the Clal Group. Mr. Ben-Shaoul also served as a director of ECI Telecom Ltd., Fundtech Ltd., Creo Products, Inc. and Nova Measuring Instruments Ltd. From 1985 to 1997, Mr. Ben-Shaoul was President and Chief Executive Officer of Clal Insurance Company Ltd. and a director of the company and its various subsidiaries. Mr. Ben-Shaoul holds a Bachelor's degree in Economics and Statistics and a Master's degree in Business Administration, both from Tel-Aviv University.

Yoseph Dauber has served as one of our directors since April 2002. Mr. Dauber has served in various senior positions at Bank Hapoalim since 1973. Until June 2002, Mr. Dauber was Deputy Chairman of the Board of Management and Joint Managing Director of Bank Hapoalim and was responsible for the commercial division of the bank. From 1994 to June 2002, Mr. Dauber served as Chairman of the Isracard Group. From 1995 to July 2002, Mr. Dauber also served as Chairman of Poalim American Express. From 2002 to 2003, he served as Chairman of the Israel Maritime Bank Ltd. and from 2003 to 2008 he served as a director of Bank Hapoalim. Mr. Dauber currently serves as a director of MagicJack Vocaltec Ltd., Orbit Technologies Ltd., Delek Group Ltd., S.Shlomo Holdings Ltd and Chairman of KCPS Manof Fund. Mr. Dauber holds a Bachelor's degree in Economics and Statistics from the Hebrew University in Jerusalem and a Master's degree in Law from Bar Ilan University.

Dan Falk has served as one of our statutory outside directors since 2001. From 1999 to 2000, Mr. Falk was President and Chief Operating Officer of Sapiens International Corporation N.V. From 1985 to 1999, Mr. Falk served in various positions in Orbotech Ltd., the last of which were Chief Financial Officer and Executive Vice President. From 1973 to 1985, he served in several executive positions in the Israel Discount Bank. Mr. Falk also serves as the Chairman of ORAD Hi-Tech Systems Ltd., and serves on the board of directors of Orbotech Ltd., Ormat Technologies Inc., Attunity Ltd., Nova Measuring Systems Ltd., Amiad Filtration Systems Ltd., Plastopil Ltd. and Oridion Medical Ltd. Mr. Falk holds a Bachelor's degree in Economics and Political Science and a Master's degree in Business Administration, both from the Hebrew University, Jerusalem.

Yocheved Dvir has served as one of our statutory outside directors since January 2008. Since 2000, Ms. Dvir has served as a strategic advisor in business development affairs to multiple companies and initiatives that were being founded. Ms. Dvir also serves on the board of directors of Alrov Real Estate, Visa Cal and Applisonix Ltd. Until recently, she served on the boards of Trendline Business Information & Communications Ltd., Menorah Insurance Company Ltd., Israel Corporation Ltd., ECI Telecom Ltd., Strauss Industries Ltd., Phoenix Holding and Phoenix Insurance Co. Between 1990 and 2000, Ms. Dvir served as a Senior Vice President of the Migdal Group. Ms. Dvir joined the Migdal Group in 1981 and, until late 2000, held a number of senior financial and managerial positions, including Head of the Group's Economics Department (1986-1988), Head of the Group's Corporate Office (1989-1992), Head of the Group's General Insurance Division and Corporate Office (1993-1997), Group CFO (1997-1999), Head of the Group's Strategic Development Division and Marketing Array and Risk Manager (2000). Ms. Dvir holds a Bachelor's degree in Economics and Statistics from the University of Haifa and a full second degree in Statistics from the Hebrew University of Jerusalem.

David Kostman has served as one of our directors since 2001, with the exception of a short period between June 2007 and July 2008. Mr. Kostman is currently Chairman and Chief Executive Officer of Nanoosh LLC, a restaurant operating company, and serves on the board of directors of Retalix Ltd. and The Selling Source, LLC. From 2006 until 2008, Mr. Kostman was a Managing Director in the investment banking division of Lehman Brothers, heading the Global Internet Group. From April 2003 until July 2006, Mr. Kostman was Chief Operating Officer and then Chief Executive Officer of Delta Galil USA, a subsidiary of Delta Galil Industries Ltd., a NASDAQ-listed apparel manufacturer. From 2000 until 2002, Mr. Kostman was President of the International Division and Chief Operating Officer of VerticalNet, Inc., a NASDAQ-listed internet and software company. Mr. Kostman holds a Bachelor's degree in Law from Tel Aviv University and a Master's degree in Business Administration from INSEAD.

Zeev Bregman has served as our President and Chief Executive Officer since September 2009. From 2001 to 2007, Mr. Bregman served as Chief Executive Officer of Comverse Inc. From 1987 to 2001, he served in various research and development, sales, marketing, and management positions within Comverse, including Vice President Head of the EMEA division, Vice President and Head of the Messaging division, and Chief Operating Officer. Mr. Bregman holds a Bachelor's degree in Mathematics and Computer Science from Tel-Aviv University, a Master's degree in Computer Science from Tel-Aviv University and a Master's degree in Business Administration from a joint program of Kellogg Business School and Tel Aviv University.

Udi Ziv has served as President of the Enterprise Group since January 2009. From 2001 until 2007, Mr. Ziv held several senior executive positions with SAP AG, a leading global enterprise software company, including General Manager of SAP's Small Business Solutions, Managing Director of SAP Labs Israel and Vice President responsible for the research and development of the SAP Portal product. Prior to joining SAP, Mr. Ziv was one of the original members, and the head of global research & development, of Top Tier Software, a leading enterprise portal company (acquired by SAP in 2001). Mr. Ziv holds a Bachelor of Science degree in Computer Engineering from the Technion – Israel Institute of Technology.

Yaron Tchwellia has served as President of the Security Group and Executive Vice President, Business Operation since June 2011. Prior to joining NICE he served as chief executive officer of Blue Phoenix Solutions Ltd. During 2007 and 2008 Mr. Tchwellia served as President of Comverse Inc. Prior to this position and as part of his 10 years at Comverse, Mr. Tchwellia served as president of the Messaging Division and a member of the executive management team at Comverse. Mr. Tchwellia also held various executive managerial positions within the product, services and customer-facing organizations at Comverse. Prior to joining Comverse, Mr. Tchwellia held engineering and managerial positions over a 13-year period in the security and defense division at Advanced Technology Ltd., known today as Ness Technology Ltd. Mr. Tchwellia holds a Bachelor's degree in Electronic Engineering from Tel Aviv University.

Amir Orad has served as President and Chief Executive Officer of NICE-Actimize since April 2010. From 2007 until 2010, Mr. Orad served in various positions in NICE-Actimize, including President of the Americas, Executive Vice President of Product Management and Business Development, and Chief Marketing Officer. From 2005 until 2006, Mr. Orad was VP Marketing of RSA Security and from 1999 until 2005, he was a member of the founding team and Executive Vice President of Marketing of Cyota Inc., an online security and anti-fraud company that was acquired by RSA Security. Mr. Orad holds an MBA from Columbia University's executive program and a B.S. in Computer Science and Management from Tel Aviv University.

Dafna Gruber has served as our Chief Financial Officer since June 2007. From 2001 until May 2007, she served as the Chief Financial Officer of Alvarion Ltd., a NASDAQ-listed company that provides innovative wireless network solutions. From 1997 to 2001, Ms. Gruber was the Chief Financial Officer of BreezeCOM Ltd., which was merged with Floware Wireless Systems Ltd. to create Alvarion, prior to which she was the controller of BreezeCOM from 1996 to 1997. From 1993 to 1996, Ms. Gruber was a controller at Lannet Data Communications Ltd., subsequently acquired by Lucent Technologies Inc. Ms. Gruber is a certified public accountant and holds a Bachelor's degree in Accounting and Economics from Tel Aviv University.

Yechiam Cohen has served as our Corporate Vice President, General Counsel and Corporate Secretary since 2005. From 1996 to 2004, he served as General Counsel of Amdocs, a leading provider of billing and CRM software solutions to the telecommunications industry. Before joining Amdocs, Mr. Cohen was a partner in the Tel Aviv law firm of Dan Cohen, Spigelman & Company. From 1987 to 1990, he was an associate with the New York law firm of Dornbush, Mensch, Mandelstam and Schaeffer. Mr. Cohen served as a law clerk to Justice Beijski of the Supreme Court of Israel in Jerusalem. He holds a Bachelor's degree from the Hebrew University School of Law and is admitted to practice law in Israel and New York.

Eran Porat has served as our Corporate Vice President, Finance since 2004. From March 2000 to 2004, he served as our Corporate Controller. From 1997 to February 2000, Mr. Porat served as Corporate Controller of Tecnomatix Technologies Ltd. From 1996 to 1997, he served as Corporate Controller of Nechushtan Elevators Ltd. Mr. Porat is a certified public accountant and holds a Bachelor's degree in economics and accounting from Tel Aviv University.

Eran Liron has served as our Executive Vice President, Corporate Development since February 2006. From 2004 to 2006, he served as Director of Corporate Development at Mercury Interactive Corporation, a software company, and prior thereto he held several business development positions at Mercury Interactive. Before joining Mercury, Mr. Liron served in several marketing roles at software startups and at Tower Semiconductor. Mr. Liron holds a Bachelor of Science degree from the Technion – Israel Institute of Technology and a Doctorate in Business from the Stanford Graduate School of Business in California.

Benny Einhorn has served as our Chief Marketing Officer since April 2010. From 2008 to 2009, Mr. Einhorn served as the Vice President of Sales & Marketing in Modu, an innovative manufacturer of the world's lightest modular mobile phones. From 2001 to 2008, he was the Chief Marketing Officer and President of EMEA at Converse Inc. Mr. Einhorn holds an MBA degree and a Bachelor's degree in Industrial Engineering from Tel Aviv University.

Yochai Rozenblat has served as President and Chief Executive Officer of our American division since September 2009. Prior to his current position, Mr. Rozenblat was President of the Enterprise Group in the Americas. From 2003 to 2007, Mr. Rozenblat served as our Vice President of Sales, responsible for North America and from 2007 his responsibilities also extended to South America. Before joining NICE in 2004, Mr. Rozenblat led the Enterprise Sales Team at Clarify, the CRM division of Amdocs. Mr. Rozenblat has a Bachelor's degree in Law from Tel Aviv University.

Ad Ketelaars has served as President of NICE EMEA since July 2011. From 2008 to 2011, he served as the CEO of CyberTech, and joined NICE in connection with the acquisition of CyberTech. Mr. Ketelaars' professional background is vast and before joining CyberTech, among other positions, he was the EMEA President of Richardson Electronics, the CEO of Comsys an IVR and Voicemail company, the CEO of EnerTel, a Dutch telecom operator, and the CEO of Philips Business Communication and its successor NEC Philips Unified Solutions. Mr. Ketelaars holds a master degree in industrial engineering and an MBA from INSEAD.

Raghav Sahgal has served as President of NICE APAC since October 2010. From 2008 to 2010, Mr. Sahgal served as Vice President, Communications, Global Business Unit – APAC of Oracle. Prior to that, Mr. Sahgal held various senior positions in the management, strategic planning, global field operations, sales and marketing groups at Intense Technologies Inc., Suntec Inc., Comverse Technology, CSG Systems and Lucent Technologies. Mr. Sahgal is a graduate of the Harvard Business School Executive General Management Program, has a Master's degree in Computer System Management from the University of Maryland and a Bachelor's degree in Computer Engineering from Tulane University.

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

There are no family relationships between any of the directors or executive officers named above.

#### Compensation

The aggregate compensation paid to or accrued on behalf of all our directors and executive officers as a group of 24 persons during 2011 consisted of approximately \$9.7 million in salary, fees, bonus, commissions and directors' fees and approximately \$0.7 million in amounts set aside or accrued to provide pension, retirement or similar benefits, but excluding amounts we expended for automobiles made available to our officers, expenses (including business travel, professional and business association dues and expenses) reimbursed to our officers and other fringe benefits commonly reimbursed or paid by companies in Israel.

We have a performance based bonus plan for our executive management team. The plan is based on our overall performance, the particular unit performance, individual performance and the results of the customer satisfaction survey conducted annually. The measurements can change year over year, and are a combination of financial parameters, including revenues, booking, operating income and collection. The plan is reviewed and approved by our Board of Directors annually, as is any bonus payment under the plan.

During 2011, our officers and directors received, in the aggregate, options to purchase 529,500 ordinary shares and 17,500 restricted share units under our equity based compensation plans. The options have a weighted average price of \$26.41 and will expire six years after the date of grant. The restricted shares units are granted at par value of the ordinary shares. For information regarding our option exchange program, see "-Share Ownership-Option Exchanges and Price Adjustment" below.

Pursuant to the requirements of the Israeli Companies Law, 5759–1999, or the Israeli Companies Law, remuneration of our directors generally requires shareholder approval. Compensation and reimbursement for outside directors (as described below) is statutorily determined pursuant to the Israeli Companies Law. Effective as of July 29, 2008, our shareholders approved the payment to each of our directors, including outside directors, of an annual fee of NIS 90,000 (equivalent to approximately \$26,040) and a meeting attendance fee of NIS 3,250 (equivalent to approximately \$940), including for meetings of committees of the board of directors. The cash amounts set forth above are subject to adjustment for changes in the Israeli consumer price index after December 2007.

On June 29, 2010, at our 2010 annual general meeting of shareholders, our shareholders approved the increase of the Chairman of the Board's special annual cash fee from NIS 180,000 (equivalent to approximately \$49,223) to NIS 390,000 (equivalent to approximately \$106,649). The special annual fee is subject to adjustment for changes in the Israeli consumer price index after June 2010.

#### Board Practices

##### Corporate Governance Practices

We are incorporated in Israel and therefore are subject to various corporate governance practices under the Israeli Companies Law, relating to such matters as outside directors, the internal audit committee, the internal auditor and approvals of interested party transactions. These matters are in addition to the ongoing listing conditions of the NASDAQ and other relevant provisions of U.S. securities laws. Under applicable NASDAQ rules, a foreign private issuer may generally follow its home country rules of corporate governance in lieu of comparable NASDAQ requirements, except for certain matters such as composition and responsibilities of the audit committee and the independence of its members. For further information see Item 16G "Corporate Governance."

##### General Board Practices

Our articles of association provide that the number of directors serving on the board shall be not less than three but shall not exceed thirteen. Our directors, other than outside directors, are elected at the annual shareholders meeting to serve until the next annual meeting or until their earlier death, resignation, bankruptcy, incapacity or removal by an extraordinary resolution of the general shareholders meeting. Directors may be re-elected at each annual shareholders meeting. The board may appoint additional directors (whether to fill a vacancy or create new directorships) to serve until the next annual shareholders meeting, provided, however, that the board shall have no obligation to fill any vacancy unless the number of directors is less than three.



The board may, subject to the provisions of the Israeli Companies Law, appoint a committee of the board and delegate to such committee all or any of the powers of the board, as it deems appropriate. Notwithstanding the foregoing, the board may, at any time, amend, restate or cancel the delegation of any of its powers to any of its committees. The board has appointed an internal audit committee under the Israeli Companies Law that has four members, an audit committee that has four members, a compensation committee that has four members, a nominations committee that has two members and a mergers and acquisitions committee that has four members. We do not have, nor do our subsidiaries have, any directors' service contracts granting to the directors any benefits upon termination of their employment.

#### Outside Directors

Under the Israeli Companies Law, companies incorporated under the laws of Israel whose shares have been offered to the public in or outside of Israel are required to appoint at least two "outside" directors.

Outside directors are required to possess professional qualifications as set out in regulations promulgated under the Israeli Companies Law. The Israeli Companies Law provides that a person may not be appointed as an outside director if (i) such person or person's relative or affiliate has, at the date of appointment, or had at any time during the two years preceding such date, any affiliation with the company, a controlling shareholder thereof or their respective affiliates; or (ii) in a company that does not have a 25% shareholder, such person has an affiliation with any person who, at the time of appointment, is the chairman, the chief executive officer, the chief financial officer or a 5% shareholder of the company. In general, the term "affiliation" includes:

an employment relationship;

a business or professional relationship maintained on a regular basis;

control; and

service as an office holder.

No person may serve as an outside director if the person's position or other activities create, or may create a conflict of interest with the person's responsibilities as an outside director or may otherwise interfere with the person's ability to serve as an outside director. Until the lapse of two years from termination of office, a company or its controlling shareholder may not give any direct or indirect benefit to the former outside director.

Outside directors are to be elected by a majority vote at a shareholders' meeting, provided that either:

- the majority of shares voted at the meeting shall include at least a majority of the shares of non-controlling shareholders present at the meeting and voting on the matter (without taking into account the votes of the abstaining shareholders); or
- the total number of shares of non-controlling shareholders voted against the election of the outside directors does not exceed two percent of the aggregate voting rights in the company.

The initial term of an outside director is three years and may be extended for up to two additional three-year terms. Thereafter, he or she may be reelected by our shareholders for additional periods of up to three years each only if the audit committee and the board of directors confirm that, in light of the outside director's expertise and special contribution to the work of the board of directors and its committees, the reelection for such additional period is beneficial to the company. Reelection of an outside director may be effected through one of the following mechanisms: (1) the board of directors proposed the reelection of the nominee and the election was approved by the shareholders by the majority required to appoint outside directors for their initial term; or (2) a shareholder holding one percent or more of a company's voting rights proposed the reelection of the nominee, and the reelection is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders, provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than two percent of the voting rights in the company. Each committee of a company's board of directors which is empowered to exercise any of the board's powers is required to include at least one outside director.

Mr. Dan Falk was elected for a fourth term as an outside director and Ms. Yocheved Dvir was elected for a second term as an outside director at our Annual General Meeting held on June 29, 2010, and their election became effective as of January 1, 2011. An outside director is entitled to compensation as provided in regulations adopted under the Israeli Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, from the company. In accordance with such regulations, our shareholders approved that our outside directors are to receive compensation equal to that paid to the other members of the board of directors. For further information, please see Item 6, "Directors, Senior Management and Employees—Compensation" in this annual report.

#### Financial and Accounting Expertise

Pursuant to new provisions of the Israeli Companies Law effective from April 2006, our board of directors has determined that at least one member of our board of directors must be an "accounting and financial expert." The Israeli Companies Law requires that all outside directors must be "professionally qualified." Under applicable NASDAQ rules, each member of our audit committee must be financially literate and at least one of the members must have experience or background that results in such member's financial sophistication. Our board of directors has determined that Dan Falk is an "accounting and financial expert" for purposes of the Israeli Companies Law and is financially sophisticated for purposes of applicable NASDAQ rules. See also Item 16A, "Audit Committee Financial Expert" in this annual report.

### Independent Directors

Under the rules of the NASDAQ, a majority of our directors are required to be “independent” as defined in applicable NASDAQ rules. All of our directors satisfy the respective independence requirements of NASDAQ.

In addition, our Articles of Association provide that, if we do not have a shareholder that holds 25% or more of our issued and outstanding share capital, then a majority of the directors shall be "independent" as defined in the Israeli Companies Law and the regulations promulgated thereunder. If we have a shareholder that holds 25% or more of our issued and outstanding share capital, then at least one third of the directors shall be "independent." All of our directors satisfy the respective independence requirements of the Israeli Companies Law.

### Internal Audit Committee

The Israeli Companies Law requires public companies to appoint an internal audit committee. The role of the internal audit committee under the Israeli Companies Law is to examine flaws in the management of the company’s business in consultation with the internal auditors and the independent accountants, and to propose remedial measures to the board. The internal audit committee also reviews interested party transactions for approval as required by law, including approval of the remuneration of a director in any capacity, which also requires Board, Compensation Committee and shareholder approval. The internal audit committee also assesses our internal audit system and the performance of our internal auditor, and oversees the implementation and enforcement of our compliance program. Under the Israeli Companies Law, an internal audit committee must consist of at least three directors, including all of the outside directors. The members of the internal audit committee must satisfy certain independence standards under the Israeli Companies Law, and the chairman of the internal audit committee must be an outside director. The chairman of the board of directors, any director employed by the company or by its controlling shareholder or by an entity controlled by the controlling shareholder, a director who regularly provides services to the company or to its controlling shareholder, any director who derives most of its income from the controlling shareholder and a controlling shareholder or any relative of a controlling shareholder, may not be a member of the internal audit committee. All of the current members of our internal audit committee (presently comprised of Yocheved Dvir (Chairman), Joseph Atsmon, Dan Falk and Yoseph Dauber) meet these qualifications.

### Internal Auditor

Under the Israeli Companies Law, the board of directors must appoint an internal auditor, proposed by the internal audit committee. The role of the internal auditor is to examine, among other matters, whether the company’s activities comply with the law and orderly business procedure. Under the Israeli Companies Law, the internal auditor may be an employee of the company but may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of the company’s independent accounting firm or its representative. We have appointed an internal auditor in accordance with the requirements of the Israeli Companies Law.

#### Audit Committee

The NASDAQ rules also require that the audit committee of a listed company must be composed of at least three directors, each of whom is (i) independent; (ii) does not receive any compensation (except for board fees) from the company; (iii) is not an affiliated person of the company or any subsidiary; and (iv) has not participated in the preparation of the company's (or a current subsidiary's) financial statements during the past three years. All of the current members of our audit committee (presently comprised of Joseph Atsmon (Chairman), Ron Gutler, Dan Falk and Yocheved Dvir) meet the NASDAQ standards described above.

Our audit committee has adopted a charter specifying the committee's purpose and outlining its duties and responsibilities which include, among other things, (i) appointing, retaining and compensating the company's independent auditor, subject to shareholder approval, (ii) pre-approving all services of the independent auditor. The audit committee must review and approve all related party transactions and (iii) overseeing our accounting and financial reporting processes and the audits of our financial statements. Our audit committee is also authorized to act as our "qualified legal compliance committee." As such, our audit committee will be responsible for investigating reports made by attorneys appearing and practicing before the SEC in representing us, of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar material violations of U.S. law by us or any of our agents.

We believe we currently meet the applicable NASDAQ requirements and we intend to continue to take all actions as may be necessary for us to maintain our compliance with applicable NASDAQ requirements.

#### Compensation Committee

As required by NASDAQ rules, our compensation committee approves the compensation of our executive officers. The compensation of our chief executive officer also requires the approval of our board of directors under the Israeli Companies Law. The compensation committee is also authorized to approve the grant of stock options and other securities to eligible grantees under our benefit plans pursuant to guidelines adopted by our board of directors. However, grants of stock options and other securities to our executive officers also require approval of our board of directors. The current members of this committee, each of whom satisfies the respective independence requirements of NASDAQ, are Dan Falk (chairman), Rimon Ben Shaoul, Yoseph Dauber and Yocheved Dvir.

#### Nominations Committee

As required by NASDAQ rules, our nominations committee recommends candidates for election to our board of directors pursuant to a written charter. The current members of this committee, all of whom are independent directors, are Ron Gutler and Dan Falk.

## Mergers and Acquisitions Committee

Our Board of Directors has delegated powers with respect to the review and recommendation of mergers and acquisitions and related investments and transactions. Our mergers and acquisitions committee provides recommendations to our Board of Directors regarding mergers and acquisitions, which are then subject to approval by the Board of Directors. The committee also has limited authority to approve mergers and acquisitions up to a certain value. The current members of this committee, all of whom are independent directors, are David Kostman (chairman), Ron Gutler, Dan Falk and Rimon Ben Shaoul.

## Employees

At December 31, 2011, we had 3,129 employees worldwide, which represented an increase of approximately 12% from year-end 2010.

The following table sets forth the number of our full-time employees at the end of each of the last three fiscal years as well as the main category of activity and geographic location of such employees:

| Category of Activity     | At December 31, |       |       |
|--------------------------|-----------------|-------|-------|
|                          | 2009            | 2010  | 2011  |
| Operations               | 101             | 122   | 147   |
| Customer Support         | 966             | 1,018 | 1,204 |
| Sales & Marketing        | 530             | 604   | 677   |
| Research & Development   | 638             | 705   | 728   |
| General & Administrative | 361             | 345   | 373   |
| Total                    | 2,596           | 2,794 | 3,129 |
| Geographic Location      |                 |       |       |
| Israel                   | 1,086           | 1,212 | 1,200 |
| Americas                 | 942             | 1,009 | 1,095 |
| Europe                   | 373             | 352   | 564   |
| Asia Pacific             | 195             | 221   | 270   |
| Total                    | 2,596           | 2,794 | 3,129 |

We also utilize temporary employees in various activities. On average, we employed 47 temporary employees and obtained services from 569 consultants (not included in the numbers set forth above) during 2011.

Our future success will depend in part upon our ability to attract and retain highly skilled and qualified personnel. Although competition for such personnel is generally intense, we believe that adequate personnel resources are currently available in Israel to meet our requirements.

We are not a party to any collective bargaining agreement with our employees or with any labor organization. However, we are subject to certain labor related statutes, and to certain provisions of collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordinating Bureau of Economic Organizations (including the Industrialists' Association of Israel) that are applicable to our Israeli employees by order of the Israeli Ministry of Labor and Welfare. These statutes and provisions principally concern the length of the work day and the work week, minimum wages for workers, insurance for work-related accidents, determination of severance pay and other conditions of employment. Furthermore, pursuant to such provisions, the wages of most of our Israeli employees are automatically adjusted based on changes in the Israeli consumer price index, or CPI. The amount and frequency of these adjustments are modified from time to time. Israeli law generally requires the payment by employers in Israel of severance pay upon the death of an employee, his retirement or upon termination of employment by the employer without due cause. We currently fund our ongoing severance obligations in Israel by making monthly payments to approved severance funds or insurance policies. Please see Note 2q to our Consolidated Financial Statements. In addition, according to the National Insurance Law, Israeli employers and employees are required to pay predetermined sums to the National Insurance Institute, an organization similar to the U.S. Social Security Administration. These contributions entitle the employees to benefits in periods of unemployment, work injury, maternity leave, disability, reserve military service and bankruptcy or winding-up of the employer. Since January 1, 1995, such amount also includes payments for national health insurance. The payments to the National Insurance Institute are equal to approximately 17% of an employee's wages (up to a certain cap as determined from time to time by law), of which the employee contributes approximately 66% and the employer contributes approximately 34%.

In addition to our severance obligations for employees located in Israel, we pay severance benefits to our employees located elsewhere in accordance with the local laws and practices of the countries in which they are employed.

#### Employment Agreements

We have employment agreements with our officers. Pursuant to these employment agreements, each party may terminate the employment for no cause by giving a 30, 60 or 90 day prior written notice (six months in the case of certain senior officers). In addition, we may terminate such agreement for cause with no prior notice. The agreements generally include non-competition and non-disclosure provisions, although the enforceability of non-competition provisions in employment agreements under Israeli law is very limited.

## Share Ownership

As of March 14, 2012, our directors and executive officers beneficially owned an aggregate of 698,285 options to purchase ordinary shares that were vested on such date or that were scheduled to vest within the following 60 days, or approximately 1.14% of our outstanding ordinary shares. The options have an average exercise price of \$28.36 per share and expire between 2011 and 2017. The restricted share units are granted at the nominal value of the ordinary shares. No individual director or executive officer beneficially owns 1% or more of our outstanding ordinary shares.

The following is a description of each of our option plans, including the amount of options currently outstanding and the weighted average exercise price.

### 2008 Share Incentive Plan

In June 2008, we adopted the NICE-Systems Ltd. 2008 Share Incentive Plan, or 2008 Plan, to provide incentives to employees, directors, consultants and/or contractors by rewarding performance and encouraging behavior that will improve our profitability. Under the 2008 Plan, our employees, directors, consultants and/or contractors may be granted any equity-related award, including any type of an option to acquire our ordinary shares and/or share appreciation right and/or share and/or restricted share and/or restricted share unit and/or other share unit and/or other share-based award and/or other right or benefit under the Plan (each an "Award"). We have registered, through the filing of registration statements on Form S-8 with the SEC under the Securities Act of 1933, 5,000,000 ADSs for issuance under the 2008 Plan.

Generally, under the terms of the 2008 Plan, 25% of an Award granted becomes exercisable on the first anniversary of the date of grant and 6.25% becomes exercisable once every quarter during the subsequent three years. Specifically with respect to restricted share units, 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. Certain executive officers are entitled to acceleration of vesting of awards in the event of a change of control, subject to certain conditions. Awards with a vesting period expire six years after the date of grant. Awards are non-transferable except by will or the laws of descent and distribution.

In December 2010, we amended the 2008 Plan, such that: (i) options are granted at an exercise price equal to the average of the closing prices of one American Depositary Receipts or ADR, as quoted on the NASDAQ market, during the 30 consecutive calendar days preceding the date of grant, unless determined otherwise by the administrator of the 2008 Plan (including in some cases options granted with an exercise price equal to the nominal value of an ordinary share), and (ii) options granted with an exercise price equal to the nominal value of an ordinary share shall have a vesting schedule identical to that of restricted share units, as indicated above.

Our board of directors adopted an addendum to the 2008 Plan for Awards granted to grantees who are residents of Israel (the "Addendum"). On June 16, 2008, our board of directors resolved to elect the "Capital Gains Route" (as defined in Section 102(b)(2) of the Israeli Income Tax Ordinance (the "Tax Ordinance")) for the grant of Awards to Israeli grantees, which is described above under "1995 Stock Option Plan." The U.S. addendum of the 2008 Plan provides only for non-qualified stock options for purposes of U.S. tax laws.

The 2008 Plan provides that the number of shares that may be subject to Awards granted under the 2008 Plan shall be an amount per calendar year, equal to 3.5% of our issued and outstanding share capital as of December 31 of the preceding calendar year. Out of such quantity, options that are not granted in a particular calendar year will not be allocated during the next calendar years. By setting these terms, our board of directors took into account the need for current employee retention and retention of future employees, including, specifically, the need to retain in certain years employees that join through acquisitions. During 2010, we granted 1,635,387 options and restricted share units under the 2008 Plan (which constitutes 2.6% of our issued and outstanding share capital as of December 31, 2009).

The 2008 Plan is generally administered by our board of directors and compensation committee, which determines the grantees under the 2008 Plan and the number of Awards to be granted. As of March 14, 2012, options and restricted share units to purchase 4,009,487 ordinary shares were outstanding under the 2008 Plan at a weighted average exercise price of \$22.27.

### 2003 Stock Option Plan

In December 2003, we adopted the NICE-Systems Ltd. 2003 Employee Stock Option Plan, or 2003 Plan, to attract, motivate and retain talented employees by rewarding performance and encouraging behavior that will improve our profitability. Under the 2003 Plan, our employees, officers and directors may be granted options to acquire our 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 date of the grant, subject to certain exceptions which may be determined by our board of directors. We have registered, through the filing of registration statements on Form S-8 with the SEC under the Securities Act of 1933, 8,962,112 ADSs for issuance under the 2003 Plan.

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. Stock options are non-transferable except upon the death of the grantee. For information regarding options granted under the 2003 Plan to our directors, please see Item 6, "Directors, Senior Management and Employees—Compensation" in this annual report.

Pursuant to the tax reform and in order to comply with the provisions of Section 102 of the Tax Ordinance, on January 5, 2004, our board of directors adopted an addendum to our share option plan with respect to options granted as of December 2, 2003, to grantees who are residents of Israel (the "Addendum"). The Addendum does not add to nor modify our share option plan in respect of grantees that are not residents of Israel. On December 19, 2003, the board of directors resolved to elect the "Capital Gains Route" (as defined in Section 102(b)(2) of the Tax Ordinance) for the grant of options to Israeli grantees. Generally, subject to the fulfillment of the provisions of Section 102 of the Tax Ordinance, under the Capital Gains Route gains realized from the sale of shares issued upon exercise of options will mostly be taxed at a rate of only 25% and partially at the marginal income tax rate applicable to the grantee (up to 48% in 2011). In general, all options granted to Israeli grantees, shares issued upon exercise of such options and any bonus shares issued with respect to such shares will be held in trust for the benefit of the grantee for at least a period of 24 months from the date of grant. The options may not be released from the trust prior to the payment of the grantee's tax liabilities. In the event the requirements of Section 102 for the allocation of options according to the Capital Gains Route are not met, the applicable marginal income tax rates will apply.



The 2003 Plan provides that the number of ordinary shares reserved for issuance thereunder shall increase each year commencing in 2004 by the lesser of (x) 600,000 ordinary shares or (y) two percent (2%) of the total number of outstanding ordinary shares as of December 31 of the immediately preceding calendar year. On September 28, 2005, our shareholders approved the transfer of ordinary shares reserved for issuance under our ESPP (as defined below) to the 2003 Plan. According to such shareholders' resolution, 1,437,888 ordinary shares remained registered under the ESPP at such time, and the balance of 3,062,112 ordinary shares were transferred to the 2003 Plan, of which 1,062,112 ordinary shares were transferred immediately and an additional 500,000 ordinary shares that were added annually to the pool of ordinary shares were transferred to the 2003 Plan each year until calendar year 2009. In addition, on December 21, 2006, our shareholders approved an increase in the number of ordinary shares reserved for issuance under the 2003 Plan by 1,300,000 shares.

The 2003 Plan is generally administered by our compensation committee, which determines the grantees under the 2003 Plan and the number of options to be granted. As of March 14, 2012, options to purchase 415,724 ordinary shares were outstanding under the 2003 Plan at a weighted average exercise price of \$30.91.

#### 1999 Amended and Restated Employee Stock Purchase Plan

In 1999, we adopted the NICE-Systems Ltd. 1999 Employee Stock Purchase Plan, or ESPP, in order to provide an incentive to our employees and the employees of our subsidiaries by providing them with an opportunity to purchase our ordinary shares through accumulated payroll deductions, and thereby enable such persons to share in the future growth of our business. We amended the ESPP in December 2003 and in December 2005. We have registered, through the filing of registration statements on Form S-8 with the SEC under the Securities Act, 1,737,888 ADSs for issuance under the ESPP. For information on the transfer of ordinary shares reserved for issuance under the ESPP to the 2003 Plan, please see the description under the caption "2003 Stock Option Plan" above.

Under the terms of the ESPP, eligible employees (generally, all our employees and the employees of our eligible subsidiaries who are not directors or controlling shareholders) may, on January 1 and July 1 of each year in which the ESPP is in effect, elect to become participants in the ESPP for that six-month period by filing an agreement with us arranging for payroll deductions of between 2% and 10% of such employee's compensation for the relevant period. An employee's election to purchase ordinary shares under the ESPP is subject to his or her right to withdraw from the ESPP prior to exercise, six months after the offering date. The price per ordinary share under the ESPP is 95% of the closing sales price of one ADR as quoted on NASDAQ on the semi-annual purchase date.

#### Actimize Ltd. 2003 Omnibus Stock Option and Restricted Stock Incentive Plan

Pursuant to the terms of the acquisition of Actimize Ltd. in August 2007, we assumed and replaced the stock options and restricted shares granted by Actimize.

In 2003, Actimize adopted the 2003 Omnibus Stock Option and Restricted Stock Incentive Plan, or the 2003 Actimize Plan, to afford an incentive to employees, officers, office holders, directors, subcontractors and consultants of Actimize or any subsidiary of Actimize, to acquire a proprietary interest in Actimize, to increase their efforts on behalf of Actimize and to provide the success of Actimize's business. Under the 2003 Actimize Plan, the grantees could be granted options to acquire Actimize's ordinary shares, restricted shares and shares. Incentive stock options to acquire ordinary shares of Actimize were granted at an exercise price not less than the fair market value of the ordinary shares of Actimize on the date of grant or as determined by Actimize's board of directors or by a committee thereof. In addition, the options were granted at an exercise price of not less than the par value of the ordinary shares of Actimize.

In September 2007, we registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act, an aggregate of 987,104 ADSs, which are comprised of (i) 564,225 ADSs subject to issuance upon the exercise of stock options outstanding under the 2003 Actimize Plan and (ii) 422,879 ADSs representing restricted ordinary shares issued in lieu of restricted shares issued under the 2003 Actimize Plan.

Generally, under the terms of the 2003 Actimize Plan, 25% of the options granted become exercisable on the first anniversary of the date of grant and 6.25% become exercisable following the lapse of every consecutive quarter thereafter during the subsequent three years. Options generally expire ten years after the date of grant. Options are non-transferable except upon the death of the grantee. When applicable, the options are held by, and registered in the name of, a trustee for a period of two years after the date of grant in accordance with Section 102 of the Israeli Income Tax Ordinance.

As of March 14, 2012, options to purchase 91,479 ordinary shares of NICE were outstanding at a weighted average exercise price of \$10.64. No additional grants are being made under this plan following the acquisition of Actimize.

#### Orsus Solutions Limited 2007 Incentive Option Plan

In 2007, Orsus adopted the 2007 Incentive Option Plan that was further amended by Orsus on January 10, 2010 (the "2007 Orsus Plan"), to afford an incentive to employees, office holders and service providers of Orsus and its subsidiaries. Under the 2007 Orsus Plan, the grantees could be granted options to acquire Orsus' ordinary A shares, restricted ordinary A shares or restricted ordinary A share units.

Pursuant to the terms of the Orsus acquisition agreement, we assumed and converted the outstanding stock options and restricted share units granted by Orsus under the Orsus 2007 Plan, into stock options to purchase ordinary shares of NICE or restricted share units of NICE, pursuant to a set formula (the "Assumed Awards"). The Assumed Awards include (i) options or restricted share units granted to certain key employees of Orsus or its subsidiaries (the "Key Employee Awards"); and (ii) retention options granted to certain employees of Orsus or its subsidiaries (the "Retention Options"). Under the terms of the 2007 Orsus Plan and the acquisition agreement, 50% of the Key Employee Awards granted become exercisable and vest after a period of twelve months of continuous employment with NICE (or its applicable subsidiary) commencing on January 11, 2010 and the remaining 50% become exercisable following the lapse of 6 months thereafter. In addition, if employment of a key employee is terminated within a limited time period and under certain circumstances, such key employee's Options shall become vested immediately. The Retention Options vest over a course of four years as follows: (i) 25% vest and become exercisable at the lapse of 12-month period of continuous employment with NICE (or its applicable subsidiary) commencing on January 11, 2010, and (ii) the balance thereof vests on a quarterly basis during the 36 months period thereafter, such that 6.25% vest and become

exercisable at the lapse of each quarter of continuous employment with NICE (or its applicable subsidiary). Options generally expire ten years after the date of grant and restricted share units generally expire seven years after the date of grant. Options are non-transferable except upon the death of the grantee. When applicable, the options are held by, and registered in the name of, a trustee for a period of two years after the date of grant in accordance with Section 102 of the Israeli Income Tax Ordinance.

As of March 14, 2012, options and restricted share units to purchase 31,668 ordinary shares of NICE were outstanding under the 2007 Orsus Plan, comprised of 18,250 ordinary shares underlying the Retention Options at an exercise price per share of \$30.78; and 13,418 ordinary shares underlying the Key Employee Awards at an exercise price per share equal to the nominal value of the ordinary shares of NICE. We have registered, through the filing of registration statements on Form S-8 with the SEC under the Securities Act of 1933, 60,000 ADRs for issuance under the 2007 Orsus Plan.

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

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

Pursuant to the terms of the e-Glue acquisition agreement, we assumed the outstanding stock options and restricted share units granted by e-Glue under the 2004 e-Glue Plan that did not expire upon closing of the e-Glue acquisition. Following such assumption, the options represent rights to purchase ordinary shares of NICE or restricted share units of NICE, pursuant to a set formula (such options and restricted share units, together the “Assumed e-Glue Options”). Some of the Assumed e-Glue Options have a three year vesting period, with a third becoming vested and exercisable one year from their date of grant and the remainder vesting and become exercisable in equal installments on an annual basis over the following two years. The remaining portion of the Assumed e-Glue Options vest as follows: 25% vest and become exercisable one year from their date of grant, and the remaining 75% vest and become exercisable on December 31, 2011. Certain Assumed e-Glue Options are subject to acceleration rights if employment is terminated within a limited time period and under certain circumstances. If the grantee ceases to be an employee or service provider of us or one of our subsidiaries, for any reason, the optionee may exercise or be entitled to the Assumed e-Glue Options to the extent they were vested and exercisable on the date of termination of employment or service, as the case may be, but only during the period ending on the earlier of (a) 10 years from the date of grant (unless sooner terminated as provided in a specific award agreement) or (b) three months after the date of termination of employment or service, as the case may be. However, if the optionee dies or becomes disabled prior to the expiration date of his or her Assumed e-Glue Options while still in the employ or service of us or one of our subsidiaries, or during the three month period described in the preceding sentence, or in the event of the retirement of the optionee for reasons of disability (within the meaning of Section 22(e)(3) of the U.S. Internal Revenue Code, 1986), the Assumed e-Glue Options shall remain exercisable until the earlier of their expiration date in accordance with the award agreement or one year from the date of such death or retirement. When applicable, the Assumed e-Glue Options shall be held by, and registered in the name of, a trustee, according to Section 102(b) of the Israeli Income Tax Ordinance [New Version], 5731-1961.

As of March 14, 2012, Assumed e-Glue Options and restricted share unit to purchase 55,892 ordinary shares of NICE were outstanding under the 2004 e-Glue Plan. The exercise price per share underlying the options and restricted share units is equal to the nominal value of an ordinary share. We have registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act of 1933, 76,035 ADRs for issuance under the 2004 e-Glue Plan.

#### Fizzback Group (Holdings) Limited Employee Share Option Scheme

In July 2010, Fizzback adopted the Fizzback Group (Holdings) Limited Employee Share Option Scheme, as amended (the "Fizzback Plan"), to grant options to employees, directors and consultants, as applicable, of Fizzback. Under the Fizzback Plan, the grantees could be granted options which are deemed "qualifying options" for the purposes of the EMI Code to acquire Fizzback's ordinary shares, restricted share units and unapproved options.

Pursuant to the terms of the Fizzback share purchase agreement, we replaced the options and restricted share units originally granted under the Fizzback Plan with stock options to purchase ordinary shares of NICE and restricted share units of NICE, respectively.

Under the Fizzback Plan, the exercise price per option shall be determined by the board of directors in its sole and absolute discretion provided that such price shall not be less than the nominal value per option, or (when applicable) such price as from time to time adjusted pursuant to the Fizzback Plan. If a grantee ceases to be an employee, all options which have not become exercisable or which, having become exercisable, have not been exercised, shall lapse.

Options generally expire, inter alia, ten years after the date of grant, upon an insolvent liquidation of Fizzback or upon the grantee being adjudged bankrupt.

As of March 14, 2012, options and restricted share units to purchase 151,969 ordinary shares of NICE were outstanding under the Fizzback Plan. We have registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act of 1933, 165,695 ordinary shares for issuance under the Fizzback Plan.

## Merced Plans

### Merced Systems, Inc. 2001 Stock Plan

In 2001, Merced adopted the Merced Systems, Inc. 2001 Stock Plan, as amended (the "2001 Merced Plan"), to afford an incentive to employees and consultants of Merced and to promote the success of Merced's business. Under the 2001 Merced Plan, the grantees could be granted options to acquire Merced's ordinary shares and restricted shares.

Pursuant to the terms of the Merced acquisition agreement, we assumed and converted Merced's options and replaced Merced's restricted shares that were originally granted under the 2001 Merced Plan into stock options to purchase ordinary shares of NICE, and with restricted shares of NICE, respectively.

Under the 2001 Merced Plan, the exercise price per share of incentive stock options granted to an employee shall be no less than 100% of the fair market value per share on the date of grant, or 110% of the fair market value if the employee was a 10% shareholder of Merced at the date of grant. The exercise price per share of non-statutory stock options granted shall be no less than 85% of the fair market value per share on the date of grant, or 110% of the fair market value if the person was a 10% shareholder of Merced at the date of grant, if required by applicable law and, if not so required, the exercise price per share shall be determined by the plan administrator. Notwithstanding the foregoing, options may be granted with an exercise price per share other than as required above pursuant to a merger or other corporate transaction.

An option granted under the 2001 Merced Plan is exercisable at the rate of at least 20% per year over five years from the date the option was granted. Options generally expire ten years after the date of grant.

### Merced Systems, Inc. 2011 Stock Plan

In 2011, Merced adopted the Merced Systems, Inc. 2011 Stock Plan (the "2011 Merced Plan"), to afford an incentive to employees and consultants of Merced and to promote the success of Merced's business. Under the 2011 Merced Plan, the grantees could be granted options to acquire Merced's ordinary shares and restricted share units.

Pursuant to the terms of the Merced acquisition agreement, we assumed and converted Merced's options and restricted share units originally granted under the 2011 Merced Plan into stock options to purchase ordinary shares of NICE and restricted share units of NICE, respectively.

Under the 2011 Merced Plan, the exercise price per share of incentive stock options granted to an employee shall be no less than 100% of the fair market value per share on the date of grant, or 110% of the fair market value if the employee was a 10% shareholder of Merced at the date of grant. The exercise price per share of non-statutory stock options shall be no less than 85% of the fair market value per share on the date of grant, or 110% of the fair market value if the person was a 10% shareholder of Merced at the date of grant, if required by applicable law and, if not so required, the exercise price per share shall be determined by the plan administrator. Notwithstanding the foregoing, options may be granted with an exercise price per share other than as required above pursuant to a merger or other corporate transaction.

An option granted under the 2011 Merced Plan is exercisable at the rate of at least 20% per year over five years from the date the option was granted. Options generally expire ten years after the date of grant.

As of March 14, 2012, options, restricted share units and restricted shares to purchase 343,288 ordinary shares of NICE were outstanding under the 2001 Merced Plan and the 2011 Merced Plan. We have registered, through the filing of a registration statement on Form S-8 with the SEC under the Securities Act of 1933, 343,288 ordinary shares for issuance under the 2001 Merced Plan and the 2011 Merced Plan.

#### Option Exchanges and Price Adjustment

On June 23, 2009, we commenced a tender offer to offer eligible employees in Israel, Hong Kong, the United States and the United Kingdom, excluding our directors, Chief Executive Officer and certain other executive officers, the opportunity to tender options granted before September 1, 2008 under the 2003 Plan or the 2003 Actimize Plan (almost all of which had an exercise price per share above \$34.00), in exchange for restricted share units (RSUs) or options (depending on the employee's country of residence) with a per share exercise price or per share purchase price equal to the par value of our ordinary shares, or NIS 1.00 (approximately \$0.25). The exchange was on a one-for-three basis, meaning that eligible employees electing to participate received a new RSU or option with respect to one share for every three shares subject to the options tendered for exchange. The new awards vest in 25% annual increments over a four-year period starting from August 5, 2009 and have a new six-year term. Options surrendered in the exchange were cancelled. On August 5, 2009, the expiration date of the exchange offer, we accepted for exchange eligible options to purchase an aggregate of 1,492,204 ordinary shares that had been granted under the 2003 Plan and the 2003 Actimize Plan, and granted, under the 2008 Plan, new options to purchase 311,454 ordinary shares, and new RSUs representing 185,932 ordinary shares, in exchange for the eligible options tendered and accepted pursuant to the exchange offer.

On June 15, 2009, our board of directors approved the reduction of the exercise price per share of our options to acquire ordinary shares granted on September 2, 2008 under the 2008 Plan held by eligible employees, including certain of our executive officers, based in Israel, Hong Kong, the United States, and the United Kingdom. The exercise price per share of these options was originally \$30.25 per share, and was reduced to \$22.53 per share, which was the closing price of our ADSs on the NASDAQ Global Select Market on June 15, 2009. Other than the exercise price, no other terms of these options were modified. The aggregate number of our ordinary shares that are subject to the options that have been repriced is 1,020,400.

In addition, on June 15, 2009, our board of directors approved an option exchange with three of our executive officers, in which such executive officers exchanged options to purchase an aggregate of 265,000 ordinary shares, issued in 2007 under the 2003 Plan and having an exercise price between \$34.00 and \$39.00 per share, for new options to be issued under the 2008 Plan with a per share exercise price equal to \$22.53 per share, which was the closing price of our ADSs on the NASDAQ Global Select Market on June 15, 2009. The new options issued in this exchange vest in four equal annual installments (or as nearly as possible) following the new grant date and will expire six years following the new grant date.

## Item 7. Major Shareholders and Related Party Transactions

## Major Shareholders

The following table sets forth certain information with respect to the beneficial ownership of our ordinary shares, with respect to each person known to us to be the beneficial owner of 5% or more of our outstanding ordinary shares, reported as of March 2, 2012. None of our shareholders has any different voting rights than any other shareholder.

| Name and Address  | Number of Shares | Percent of Shares Beneficially Owned<br>(1) |
|---|------------------|---|
| Psagot Investment House Ltd.<br>14 Ahad Ha'am Street<br>Tel Aviv 65142, Israel                                | 3,583,919 (2)    | 5.5%  |
| Migdal Insurance and Financial<br>Holdings Ltd.<br>4 Efal Street, P.O. Box 3063<br>Petach Tikva 49512, Israel | 3,905,270 (3)    | 6.0%  |

(1) Based upon 65,026,632 ordinary shares issued and outstanding on March 2, 2012.

(2) These securities are held for members of the public through, among others, portfolio accounts managed by Psagot Securities Ltd., Psagot Exchange Traded Notes Ltd., mutual funds managed by Psagot Mutual Funds Ltd., provident funds managed by Psagot Provident Funds and Pension Ltd., and pension funds managed by Psagot Pension (Haal) Ltd., according to the following segmentation: 1,674,920 ordinary shares are held by portfolio accounts managed by Psagot Securities Ltd., 1,371,825 ordinary shares are held by provident funds managed by Psagot Provident Funds and Pension Ltd., 396,221 ordinary shares are held by Psagot Exchange Traded Notes Ltd., 113,088 ordinary shares are held by mutual funds managed by Psagot Mutual Funds Ltd., and 27,865 ordinary shares are held by pension funds managed by Psagot Pension (Haal) Ltd. Each of the foregoing companies is a wholly-owned subsidiary of Psagot Investment House Ltd. This information is based upon a Schedule 13G/A filed by Psagot Investment House Ltd. with the SEC on February 13, 2012. Ron Gutler, our Chairman of the Board, serves as a director of Psagot Securities Ltd. and Psagot Investment House Ltd., but disclaims beneficial ownership of the shares held by these entities.

(3) Of which: (i) 3,812,852 ordinary shares are held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies, which are managed by subsidiaries of Migdal Insurance and Financing Holdings Ltd., according to the following segmentation: 2,333,564 ordinary shares are held by profit participating life assurance accounts; 1,308,507 ordinary shares are held by provident funds and companies that manage provident funds and 170,781 ordinary shares are held by companies for the management of funds for joint investments in trusteeship, each of which subsidiaries operates under independent management and makes independent voting and investment decisions, and (ii) 92,418 are beneficially held for Migdal Insurance and Financing Holdings Ltd. own account (Nostro account). This information is based upon a Schedule 13G filed by Migdal Insurance and Financing Holdings Ltd. with the SEC on February 14, 2012.



As of March 2, 2012, we had approximately 66 ADS holders of record in the United States, holding approximately 61% of our outstanding ordinary shares, as reported by The Bank of New York Mellon, the depository for our ADSs.

As of December 31, 2010, The Phoenix Holding Ltd. ("Phoenix") held 3,032,139, or 4.82% of our ordinary shares. This information is based upon a Schedule 13G filed by Phoenix with the SEC on March 1, 2011. Based on the Schedule 13G, Phoenix is an indirect majority-owned subsidiary of Delek Investments and Properties Ltd. ("Delek Investments"). Delek Investments is a wholly-owned subsidiary of Delek Group Ltd. The majority of Delek Group Ltd.'s outstanding share capital and voting rights are owned, directly and indirectly, by Itshak Sharon (Tshuva) through private companies wholly-owned by him, and the remainder is held by the public. As of March 1, 2010, Phoenix and Excellence Investments Ltd. ("Excellence") held 3,479,696, or 5.6% of our ordinary shares. This information is based upon information provided to us by Phoenix and Excellence.

To our knowledge, we are not directly or indirectly owned or controlled by another corporation or by any foreign government and there are no arrangements that might result in a change in control of our company.

#### Related Party Transactions

None.

Item 8. Financial Information.

#### Consolidated Statements and Other Financial Information

See Item 18, "Financial Statements."

#### Legal Proceedings

We are not involved in any legal proceedings that we believe, individually or in the aggregate, will have a material adverse effect on our business, financial condition or results of operation, except as noted below.

#### Calyon Dispute

In December 2006, Calyon Corporate and Investment Bank filed a suit against us in the District Court of Tel Aviv, demanding repayment of \$648,144 plus accrued interest, for a total amount of \$740,395. We had deducted this amount in January 2004 from a payment transferred in connection with our acquisition of Thales Contact Solutions ("TCS"). We had notified TCS in 2004 that we had set off such amount with respect to an overdue payment by TCS to us. The dispute was submitted to mediation, however the mediation process failed and the proceedings were returned to the District Court of Tel Aviv. A trial was held on September 11, 2011. The parties submitted their written summations and now await the Court's decision.

#### Actimize Former Employee Dispute

On October 15, 2007, a former employee of Actimize Ltd., a wholly owned subsidiary of ours, 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. The preliminary stages of the claim ended and the parties submitted their testimonies by way of written affidavits. The hearing and cross-examination of the testimonies took place on June 16 and June 23, 2010. On July 31, 2011, the court ruled in favor of Actimize, dismissing all claims filed by the former employee and ordering him to pay expenses.

#### Fair Isaac Patent Infringement Lawsuit

On September 16, 2009 Fair Isaac Corporation (FICO) filed a claim in the United States District Court for the District of Delaware against Actimize Inc., a wholly owned subsidiary of ours, and NICE, claiming that Actimize and NICE are infringing on two U.S. patents. These patents cover various aspects of fraud detection. FICO requested damages and an injunction. On December 17, 2009, the parties agreed to dismiss NICE from the action. On December 21, 2009, Actimize filed a response and counterclaims. On January 25, 2010, Actimize filed an amended response and counterclaims. On January 25, 2011, FICO filed a first amended complaint, adding new allegations of infringement of two additional U.S. patents and allegations of willful infringement. The parties are currently engaged in fact discovery. A ten-day jury trial is scheduled for January 28, 2013. On January 18, 2012, the parties agreed to the terms of settlement proposed by the court; a negotiated written settlement agreement is due to be presented to the court by the parties by April 13, 2012.

#### Nuvation Dispute

On March 10, 2010, Nuvation Research Corporation (“Nuvation”) filed a lawsuit against us with the Supreme Court of the State of New York. The lawsuit alleges, among others, that we breached a contract with Nuvation and defrauded Nuvation. Nuvation is claiming damages in a total amount of \$8 million. On May 3, 2010, we filed an Answer and Counterclaim against Nuvation, denying the allegations and further claiming that we had the right to terminate our contract with Nuvation, and that as a consequence of the termination, we sustained damages in the amount of \$5 million. On or about September 19, 2011, the parties reached an agreement in principle to settle the dispute through binding arbitration/mediation. The parties had a one-day arbitration/mediation meeting on March 14, 2012 and are awaiting the arbitrator’s decision.

#### Tal-Yam Dispute

On July 15, 2010, Tal-Yam Engineering Projects Management and Initiation (“Tal-Yam”) filed a suit against us in the Tel Aviv Magistrate’s Court. The suit alleges a breach of contract due to failure to pay for services rendered to us. Tal-Yam is seeking damages in the amount of approximately NIS 1.0 million and disclosure of certain invoices and related documentation. NICE submitted its statement of defense on October 24, 2010. The parties participated in mediation proceedings that were not successful and pre-trial proceedings are currently taking place.

#### Discrimination in Employment Dispute

On August 20, 2010, a former employee of IEX Corp., a wholly-owned subsidiary of ours, filed a complaint with the District Court of the Northern District of Illinois, alleging that we, and our subsidiary IEX Corp., engaged in prohibited discrimination in terminating his employment. The case was settled in April 2011, and the matter is no longer pending.

#### Dividends

Since our initial public offering and listing on the NASDAQ National Market (now the NASDAQ Global Select Market) in 1996, we have not declared or paid cash dividends on our ordinary shares or ADSs. We intend to retain our earnings for future growth and therefore do not anticipate paying any cash dividends in the foreseeable future. Under Israeli law, dividends may be paid only out of profits and other surplus (as defined in the law) as of our most recent financial statements or as accrued over a period of two years, whichever is higher, provided that there is no reasonable concern that the dividend distribution will prevent us from meeting our existing and foreseeable obligations as they come due. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend on various factors, such as our statutory profits, financial condition, operating results and current and anticipated cash needs. In the event cash dividends are declared by us, we may pay such dividends in Israeli currency. Under current Israeli regulations, any cash dividend in Israeli currency paid in respect of ordinary shares purchased by non-residents of Israel with non-Israeli currency may be freely repatriated in such non-Israeli currency, at the rate of exchange prevailing at the time of conversion.

## Significant Changes

There are no significant changes that occurred since December 31, 2011, except as otherwise disclosed in this annual report and in the annual consolidated financial statements included in this annual report.

## Item 9. The Offer and Listing.

## Trading in the ADSs

Our American Depositary Shares, or ADSs, have been quoted on the NASDAQ Stock Market under the symbol “NICEV” from our initial public offering in January 1996 until April 7, 1999, and thereafter under the symbol “NICE.” Prior to that time, there was no public market for our ordinary shares in the United States. Each ADS represents one ordinary share. The following table sets forth, for the periods indicated, the high and low reported market (sale) prices for our ADSs.

|                       |                                  | ADSs     |          |
|-----------------------|----------------------------------|----------|----------|
|                       |                                  | High     | Low      |
| <b>Annual</b>         |                                  |          |          |
|                       | 2007                             | \$ 40.95 | \$ 29.04 |
|                       | 2008                             | 35.87    | 16.11    |
|                       | 2009                             | 33.42    | 18.04    |
|                       | 2010                             | 35.20    | 25.10    |
|                       | 2011                             | 38.49    | 27.17    |
| <b>Quarterly 2010</b> |                                  |          |          |
|                       | First Quarter                    | \$ 34.30 | \$ 28.22 |
|                       | Second Quarter                   | 33.77    | 25.10    |
|                       | Third Quarter                    | 31.94    | 25.25    |
|                       | Fourth Quarter                   | 35.20    | 30.30    |
| <b>Quarterly 2011</b> |                                  |          |          |
|                       | First Quarter                    | \$ 37.35 | \$ 32.01 |
|                       | Second Quarter                   | 38.49    | 32.60    |
|                       | Third Quarter                    | 37.50    | 27.17    |
|                       | Fourth Quarter                   | 37.82    | 27.61    |
| <b>Quarterly 2012</b> |                                  |          |          |
|                       | First Quarter (through March 28) | \$ 39.95 | \$ 33.66 |
| <b>Monthly</b>        |                                  |          |          |
|                       | September 2011                   | \$ 32.00 | \$ 28.49 |
|                       | October 2011                     | 37.82    | 27.61    |
|                       | November 2011                    | 36.23    | 31.84    |
|                       | December 2011                    | 35.24    | 31.26    |
|                       | January 2012                     | 36.35    | 33.66    |
|                       | February 2012                    | 36.89    | 33.88    |
|                       | March 2012 (through March 28)    | 39.95    | 34.36    |



On March 28, 2012, the last reported price of our ADSs was \$39.72 per ADS.

The Bank of New York Mellon is the depository for our ADSs. Its address is 1 Wall Street, New York, New York 10286.

### Trading in the Ordinary Shares

Our ordinary shares have been listed on the Tel-Aviv Stock Exchange, or TASE, since 1991. Our ordinary shares are not listed on any other stock exchange and have not been publicly traded outside Israel (other than through ADSs as noted above). The table below sets forth the high and low reported market (sale) prices of our ordinary shares (in NIS and dollars) on the TASE. The translation into dollars is based on the daily representative rate of exchange published by the Bank of Israel.

|                                  | Ordinary Shares |            |        |           |
|----------------------------------|-----------------|------------|--------|-----------|
|                                  | NIS             | High<br>\$ | NIS    | Low<br>\$ |
| <b>Annual</b>                    |                 |            |        |           |
| 2007                             | 162.30          | 41.04      | 117.50 | 29.94     |
| 2008                             | 133.80          | 35.54      | 63.00  | 16.72     |
| 2009                             | 125.00          | 33.70      | 74.05  | 18.18     |
| 2010                             | 129.70          | 34.66      | 97.20  | 25.08     |
| 2011                             | 139.00          | 37.45      | 97.25  | 27.12     |
| <b>Quarterly 2010</b>            |                 |            |        |           |
| First Quarter                    | 129.70          | 34.66      | 107.00 | 28.73     |
| Second Quarter                   | 125.70          | 33.80      | 97.20  | 25.08     |
| Third Quarter                    | 114.50          | 31.11      | 97.83  | 25.19     |
| Fourth Quarter                   | 125.50          | 35.25      | 109.50 | 29.98     |
| <b>Quarterly 2011</b>            |                 |            |        |           |
| First Quarter                    | 131.50          | 37.45      | 114.50 | 32.12     |
| Second Quarter                   | 131.70          | 38.68      | 110.50 | 32.18     |
| Third Quarter                    | 139.00          | 37.45      | 97.25  | 27.12     |
| Fourth Quarter                   | 135.10          | 37.32      | 105.30 | 27.98     |
| <b>Quarterly 2012</b>            |                 |            |        |           |
| First Quarter (through March 28) | 148.90          | 40.08      | 127.70 | 34.00     |
| <b>Monthly</b>                   |                 |            |        |           |
| September 2011                   | 139.00          | 37.45      | 102.80 | 28.30     |
| October 2011                     | 135.10          | 37.32      | 105.30 | 27.98     |
| November 2011                    | 132.50          | 35.56      | 118.00 | 31.62     |
| December 2011                    | 134.10          | 35.33      | 119.10 | 31.37     |
| January 2012                     | 136.10          | 36.38      | 128.80 | 33.46     |
| February 2012                    | 140.70          | 37.68      | 127.70 | 34.00     |
| March 2012 (through March 28)    | 148.90          | 40.08      | 128.80 | 34.03     |

As of March 28, 2012, the last reported price of our ordinary shares on the TASE was NIS 148.40 (or \$39.85) per share.



Item 10. Additional Information.

Memorandum and Articles of Association

Organization and Register

We are a company limited by shares organized in the State of Israel under the Israeli Companies Law. We are registered with the Registrar of Companies of the State of Israel and have been assigned company number 52-0036872.

Objectives and Purposes

Our objectives and purposes include a wide variety of business purposes, including all kinds of research, development, manufacture, distribution, service and maintenance of products in all fields of technology and engineering and to engage in any other kind of business or commercial activity. Our objectives and purposes are set forth in detail in Section 2 of our memorandum of association.

Directors

Our articles of association provide that the number of directors serving on the board shall be not less than three but shall not exceed thirteen, including at least two outside directors. Our directors, other than outside directors, are elected at the annual shareholders meeting to serve until the next annual meeting or until their earlier death, resignation, bankruptcy, incapacity or removal by resolution of the general shareholders meeting. Directors may be re-elected at each annual shareholders meeting. The board may appoint additional directors (whether to fill a vacancy or create new directorship) to serve until the next annual shareholders meeting, provided, however, that the board shall have no obligation to fill any vacancy unless the number of directors is less than three. Our officers serve at the discretion of the board.

The board of directors may meet and adjourn its meetings according to the Company's needs but at least once every three months. A meeting of the board may be called at the request of any two directors. The quorum required for a meeting of the board consists of a majority of directors who are lawfully entitled to participate in the meeting and vote thereon. The adoption of a resolution by the board requires approval by a simple majority of the directors present at a meeting in which such resolution is proposed. In lieu of a board meeting, a resolution may be adopted if all of the directors lawfully entitled to vote thereon consent not to convene a meeting.



Subject to the Israeli Companies law, the board may appoint a committee of the board and delegate to such committee all or any of the powers of the board, as it deems appropriate. Under the Israeli Companies Law the board of directors must appoint an internal audit committee, comprised of at least three directors and including both of the outside directors. The function of the internal audit committee is to review irregularities in the management of the Company's business and recommend remedial measures. The committee is also required, under the Israeli Companies Law, to approve certain related party transactions and to assess our internal audit system and the performance of our internal auditor. Notwithstanding the foregoing, the board may, at any time, amend, restate or cancel the delegation of any of its powers to any of its committees. The board has appointed an internal audit committee which has three members, an audit committee which has four members, a compensation committee which has four members and a mergers and acquisitions committee which has four members. For more information on the Company's committees, please see Item 6, "Directors, Senior Management and Employees—Board Practices" in this annual report.

#### Fiduciary Duties of Officers

The Israeli Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his personal affairs, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal advantage for himself or others, and revealing to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder.

#### Approval of Certain Transactions

Under the Israeli Companies Law, all arrangements as to compensation of office holders who are not directors, or controlling parties, require approval of the internal audit committee and the board of directors. Similarly, adoption and amendment of equity based compensation plans require approval of the board of directors. Arrangements regarding the compensation of directors require approval of the internal audit committee, the board of directors and the shareholders, in that order. Although NASDAQ rules generally require shareholder approval when an equity based compensation plan is established or materially amended, as a foreign company we follow the aforementioned requirements of the Israeli Companies Law.

The Israeli Companies Law requires that an office holder of the company promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction as defined under Israeli law, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandpar-ents, descendants, spouse's descendants and the spouses of any of the foregoing. In addition, the office holder must also disclose any interest held by any corporation in which the office holder is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction not in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities.

In the case of a transaction which is not an extraordinary transaction, after the office holder complies with the above disclosure requirement, only board approval is required unless the articles of association of the company provide otherwise. The transaction must not be adverse to the company's interest. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the articles of association, it also must be approved by the company's internal audit committee and then by the board of directors, and, under certain circumstances, by a meeting of the shareholders of the company. An office holder who has a personal interest in a transaction that is considered at a meeting of the board of directors or the internal audit committee generally may not be present at the deliberations or vote on this matter, unless the chairman of the board or chairman of the internal audit committee, as the case may be, determined that the presence of such person is necessary to present the transaction to the meeting. If a majority of the directors have a personal interest in an extraordinary transaction with the Company, shareholder approval of the transaction is required.

The Israeli Companies Law applies the same disclosure requirements to a controlling share-holder of a public company, which includes a shareholder that holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Extraor-dinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the terms of management fees of a controlling shareholder or compensation of a controlling shareholder who is an office holder, require the approval of the audit committee, the board of directors and the shareholders of the company by simple majority, provided that either such majority vote must include at least a simple majority of the shareholders who have no personal interest in the transaction and are present at the meeting (without taking into account the votes of the abstaining shareholders), or that the total shareholdings of those who have no personal interest in the transaction who vote against the transaction represent no more than two percent of the voting rights in the company. Any such extraordinary transaction whose term is longer than three years requires further shareholder approval every three years, unless (with respect to transactions not involving management fees or employment terms) the internal audit committee approves that a longer term is reasonable under the circumstances.

In addition, under the Israeli Companies Law, a private placement of securities requires approval by the board of directors and the shareholders of the company if it will cause a person to become a controlling shareholder or if:

- the securities issued amount to twenty percent or more of the company's outstanding voting rights before the issuance;
- some or all of the consideration is other than cash or listed securities or the transaction is not on market terms; and
- the transaction will increase the relative holdings of a shareholder that holds five percent or more of the company's outstanding share capital or voting rights or that will cause any person to become, as a result of the issuance, a holder of more than five percent of the company's outstanding share capital or voting rights.

According to the Company's articles of association certain resolutions, such as resolutions regarding mergers, and windings up, require approval of the holders of 75% of the shares represented at the meeting and voting thereon.

#### Duties of Shareholders

Under the Israeli Companies Law, a shareholder has a duty to act in good faith towards the Company and other shareholders and to refrain from abusing his or her power in the company including, among other things, voting in a general meeting of shareholders on the following matters:

- any amendment to the articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of interested party transactions which require shareholder approval.

In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of a company's articles of association, has the power to appoint or prevent the appointment of an office holder in the company, is under a duty to act with fairness towards the company. The Israeli Companies Law does not describe the substance of this duty but provides that a breach of his duty is tantamount to a breach of fiduciary duty of an officer of the Company.

#### Exemption, Insurance and Indemnification of Directors and Officers

We provide our directors with indemnification letters whereby we agree to indemnify them to the fullest extent permitted by law. On September 19, 2011, at our 2011 annual general meeting of shareholders, after the approval of the Audit Committee and the Board, our shareholders approved a modified form of indemnification letter to ensure that our directors are afforded protection to the fullest extent permitted by law.

#### Exemption of Office Holders

Under the Israeli Companies Law, an Israeli company may not exempt an office holder from liability for breach of his duty of loyalty, but may exempt in advance an office holder from liability to the company, in whole or in part, for a breach of his duty of care (except in connection with distributions), provided the articles of association of the company allow it to do so. Our articles of association do not allow us to do so.

#### Office Holder Insurance

Our articles of association provide that, subject to the provisions of the Israeli Companies Law, including the receipt of all approvals as required therein or under any applicable law, we may enter into an agreement to insure an office holder for any responsibility or liability that may be imposed on such office holder in connection with an act performed by such office holder in such office holder's capacity as an office holder of us with respect to each of the following:

- a violation of his duty of care to us or to another person,
- a breach of his duty of loyalty to us, provided that the office holder acted in good faith and had reasonable grounds to assume that his act would not prejudice our interests,
- a financial obligation imposed upon him for the benefit of another person,
- a payment which the office holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 5728-1968, as amended (the "Securities Law") and Litigation Expenses (as defined below) that the office holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, and
- any other event, occurrence or circumstance in respect of which we may lawfully insure an office holder.

#### Indemnification of Office Holders

Our articles of association provide that, subject to the provisions of the Israeli Companies Law, including the receipt of all approvals as required therein or under any applicable law we may indemnify an office holder with respect to any liability or expense for which indemnification may be provided under the Companies Law, including the following liabilities and expenses, provided that such liabilities or expenses were imposed upon or incurred by such office holder in such office holder's capacity as an office holder of us:

- a monetary liability imposed on or incurred by an office holder pursuant to a judgment in favor of another person, including a judgment imposed on such office holder in a settlement or in an arbitration decision that was approved by a court of law;
- reasonable Litigation Expenses, expended by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him and either (A) concluded without the imposition of any financial liability in lieu of criminal proceedings or (B) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent (*mens rea*) or in connection with a financial sanction;

- “conclusion of a proceeding without filing an indictment” in a matter in which a criminal investigation has been instigated and “financial liability in lieu of a criminal proceeding,” have the meaning ascribed to them under the Israeli Companies Law. The term “Litigation Expenses” shall include, without limitation, attorneys’ fees and all other costs, expenses and obligations paid or incurred by an office holder in connection with investigating, defending, being a witness or participating in (including on appeal), or preparing to defend, be a witness or participate in any claim or proceeding relating to any matter for which indemnification may be provided;
- reasonable Litigation Expenses, which the office holder incurred or with which the office holder was charged by a court of law, in a proceeding brought against the office holder, by the Company, on its behalf or by another person, or in a criminal prosecution in which the office holder was acquitted, or in a criminal prosecution in which the office holder was convicted of an offense that does not require proof of criminal intent (mens rea);
- a payment which the office holder is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law, and Litigation Expenses that the office holder incurred in connection with a proceeding under Chapters H’3, H’4 or I’1 of the Securities Law; and
- any other event, occurrence or circumstance in respect of which we may lawfully indemnify an office holder.

The foregoing indemnification may be procured by us (a) retroactively and (b) as a commitment in advance to indemnify an office holder, provided that, in respect of the first bullet above, such commitment shall be limited to (A) such events that in the opinion of the Board of Directors are foreseeable in light of our actual operations at the time the undertaking to indemnify is provided, and (B) to the amounts or criterion that the Board of Directors deems reasonable under the circumstances, and further provided that such events and amounts or criterion are set forth in the undertaking to indemnify, and which shall in no event exceed, in the aggregate, the greater of: (i) twenty five percent (25%) of our shareholder’s equity at the time of the indemnification, or (ii) twenty five percent (25%) of our shareholder’s equity at the end of fiscal year of 2010.

We have undertaken to indemnify our directors and officers pursuant to applicable law. We have obtained directors’ and officers’ liability insurance for the benefit of our directors and officers.

### Limitations on Exemption, Insurance and Indemnification

The Israeli Companies Law provides that a company may not exempt or indemnify an office holder, or enter into an insurance contract, which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his duty of loyalty unless, with respect to insurance coverage or indemnification, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his duty of care if the breach was done intentionally or recklessly (other than if solely done in negligence);
  - any act or omission done with the intent to derive an illegal personal benefit; or
- a fine, civil fine or ransom levied on an Office Holder, or a financial sanction imposed upon an Office Holder under Israeli Law.

### Required Approvals

In addition, under the Israeli Companies Law, any exemption of, indemnification of, or procurement of insurance coverage for, our office holders must be approved by our audit committee and our board of directors and, if the beneficiary is a director, by our shareholders. We have obtained such approvals for the procurement of liability insurance covering our officers and directors and for the grant of indemnification letters to our officers and directors.

### Rights of Ordinary Shares

Our ordinary shares confer upon our shareholders the right to receive notices of, and to attend, shareholder meetings, the right to one vote per Ordinary Share at all shareholders' meetings for all purposes, and to share equally, on a per share basis, in such dividends as may be declared by our board of directors; and upon liquidation or dissolution, the right to participate in the distribution of any surplus assets of the Company legally available for distribution to shareholders after payment of all debts and other liabilities of the Company. All ordinary shares rank pari passu in all respects with each other. Our board of directors may, from time to time, make such calls as it may think fit upon a shareholder in respect of any sum unpaid in respect of shares held by such shareholder which is not payable at a fixed time, and each shareholder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments).

### Meetings of Shareholders

An annual general meeting of our shareholders shall be held once in every calendar year at such time and at such place either within or without the State of Israel as may be determined by our board of directors.

Our board of directors may, whenever it thinks fit, convene a special general meeting at such time and place, within or without the State of Israel, as may be determined by the board of directors. Special general meetings may also be convened upon shareholder request in accordance with the Israeli Companies Law and our articles of association.

The quorum required for a meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent between them at least 25% of the outstanding voting shares, unless otherwise required by applicable rules. Although NASDAQ generally requires a quorum of 33-1/3%, we have an exception under the NASDAQ rules and follow the generally accepted business practice for companies in Israel, which have a quorum requirement of 25%. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the chairman may designate with the consent of a majority of the voting power represented at the meeting and voting on the matter adjourned. At such reconvened meeting the required quorum consists of any two members present in person or by proxy.

#### Mergers and Acquisitions

A merger of the Company shall require the approval of the holders of a majority of seventy five percent (75%) of the voting power represented at the annual or special general meeting in person or by proxy or by written ballot, as shall be permitted, and voting thereon in accordance with the provisions of the Israeli Companies Law. Upon the request of a creditor of either party of the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least (i) 50 days have passed from the time that the requisite proposal for the merger has been filed by each party with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each party.

The Israeli Companies Law also provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company and there is no existing 25% or greater shareholder in the company. An acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company and there is no existing 45% or greater shareholder in the company. These requirements do not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval, (ii) was from a 25% shareholder of the company and resulted in the acquirer becoming a 25% shareholder of the company or (iii) was from a 45% shareholder of the company and resulted in the acquirer becoming a 45% shareholder of the company. The tender offer must be extended to all shareholders, but the offerer is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer may be consummated only if (i) at least 5% of the company's outstanding shares will be acquired by the offerer and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If as a result of an acquisition of shares the acquirer will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. If as a result of a full tender offer the acquirer would own more than 95% of the outstanding shares, then all the shares that the acquirer offered to purchase will be transferred to it. The law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer, but the acquirer is entitled to stipulate that tendering shareholders forfeit their appraisal rights. If as a result of a full tender offer the acquirer would own 95% or less of the outstanding shares, then the acquirer may not acquire shares that will cause his shareholding to exceed 90% of the outstanding shares.

## Material Contracts

### Orsus Acquisition

On January 11, 2010, we completed the acquisition of Orsus, a leading provider of Security Management Solutions. The acquisition was for total consideration of approximately \$21.5 million, subject to certain adjustments. Orsus' flagship solution, Situator, provides a framework for fusing data silos from disparate security and safety systems as well as multiple command and control centers, into a single, holistic operational view and automating security procedures.

### e-Glue Acquisition

On July 15, 2010, we completed the acquisition of e-Glue, a leading provider of real-time decisioning and guidance solutions. The acquisition was for total consideration of approximately \$31.4, comprised of \$25.6 million in cash and \$5.8 million representing the fair value of earn out based on performance milestones amounting to additional payment of \$6 million.

### CyberTech Acquisition

On March 4, 2011, we completed the acquisition of CyberTech Investments ("CyberTech"), a global provider of compliance recording solutions and value-added applications. We acquired CyberTech for a total cash consideration of approximately \$59.4 million. The addition of CyberTech solutions to the NICE portfolio broadens our offering for financial institutions, strengthen our commitment to the small and medium size business sector, and add to our public safety solutions.

### Fizzback Acquisition

On October 26, 2011, we completed the acquisition of Fizzback Group (Holdings) Ltd. ("Fizzback"), a global provider of Voice of the Customer (VoC) solutions, providing software solutions for real-time customer feedback that drive customer loyalty and employee performance. The Fizzback solution helps companies listen, respond and act in real-time to their customers' comments. We acquired Fizzback for a total consideration of approximately \$80.9 million. The combination of Fizzback and NICE will both improve Customer Experience Management (CEM) as well as operationalize VoC both for the contact center and across the enterprise.



## Merced Acquisition

On February 7, 2012, we completed the acquisition of Merced Systems, Inc. ("Merced"), the leading provider of performance management solutions that drive business execution in sales and service functions. We acquired Merced for total consideration of approximately \$150 million, net of cash acquired (approximately \$22 million). Additionally, we will pay Merced up to \$20 million in cash subject to Merced meeting certain performance targets. Merced's performance management solutions help drive sales effectiveness, superior customer experience and operating efficiency across a range of vertical industries. Merced's products serve Global 2000 customers, and include advanced analytics and reporting, incentive compensation management, coaching, and other performance execution applications. Integrating Merced and NICE capabilities creates a closed-loop performance management solution.

## Exchange Controls

Holders of ADSs are able to convert dividends and liquidation distributions into freely repatriable non-Israeli currencies at the rate of exchange prevailing at the time of repatriation, pursuant to regulations issued under the Currency Control Law, 5738–1978, provided that Israeli income tax has been withheld by us with respect to amounts that are being repatriated to the extent applicable or an exemption has been obtained.

Our ADSs may be freely held and traded pursuant to the General Permit and the Currency Control Law. The ownership or voting of ADSs by non-residents of Israel, except with respect to citizens of countries that are in a state of war with Israel, are not restricted in any way by the our memorandum of association or articles of association or by the laws of the State of Israel.

## Taxation

The following is a discussion of Israeli and United States tax consequences material to our shareholders. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

Holders of our ADSs should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of our ADSs, including, in particular, the effect of any foreign, state or local taxes.

## Israeli Tax Considerations

The following is a summary of the principal tax laws applicable to companies in Israel, with special reference to their effect on us. The following also contains a discussion of the material Israeli tax consequences to purchasers of our ordinary shares or ADSs. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

## General Corporate Tax Structure

Generally, Israeli companies are subject to Corporate Tax on taxable income at the rate of 24% for the 2011 tax year and 25% for the 2012 tax year. Following an amendment to the Israeli Income Tax Ordinance [New Version], 1961 (the "Tax Ordinance"), which came into effect on January 1, 2012, the corporate tax rate is scheduled to remain at a rate of 25% for future tax years. Israeli companies are generally subject to capital gains tax at the corporate tax rate. However, the effective tax rate payable by a company that derives income from an Approved or Privileged Enterprise may be considerably less.

In 2011, we elected to measure our Israeli taxable income in U.S. dollars. We were permitted to make such a change pursuant to regulations published by the Israeli Minister of Finance, which provide the conditions for doing so. We believe that we meet and will continue to meet, the necessary conditions and as such, will continue to measure our results for tax purposes based on the U.S. dollar/NIS exchange rate.

Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959, as amended.

We derive and expect to continue to derive significant tax benefits in Israel relating to our "Approved and Privileged Enterprise" programs, pursuant to the Law for Encouragement of Capital Investments, 1959, or the Investments Law. To be eligible for these tax benefits, we must continue to meet certain conditions, including making certain specified investments in fixed assets. In the event of a failure to comply with these conditions, the benefits may be canceled and we may be required to refund the amount of the benefits, in whole or in part, including interest and certain inflation adjustments. As of December 31, 2011 we believe that we are in compliance with all the conditions required by the law.

Full details regarding our Approved and Privileged Enterprises may be found in Note 13(a)(2) of our Consolidated Financial Statements.

Other than by way of our complete liquidation, if we distribute dividends from the income of our "Approved Enterprises" which was exempted from taxes pursuant to our "Approved Enterprise" benefits, we will be taxed as if the exempt income was subject to the regular reduced corporate tax rate arising under our "Approved Enterprise" programs. Tax-exempt income generated under our Privileged Enterprises, will subject the Company to taxes upon dividend distribution (which includes the repurchase of our shares) 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.

Income from sources other than the “Approved or Privileged Enterprises” during the period of benefits will be taxable at regular corporate tax rates.

#### Reform of the Investments Law

On December 29, 2010, the Israeli parliament approved an amendment to the Investments Law, effective as of January 1, 2011, which constitutes a reform of the incentives regime under such law. This amendment revises the objectives of the Investments Law to focus on achieving enhanced growth in the business sector, improving the Israeli industry’s competitiveness in international markets and creating employment and development opportunities in remote areas of Israel. The amendment allows enterprises meeting certain required criteria to enjoy grants as well as tax benefits. The amendment also introduces certain changes to the map of geographic development areas for purposes of the Investments Law, which will take effect in future years.

The amendment generally abolishes the previous tax benefit routes that were afforded under the Investment Law, specifically the tax-exemption periods previously allowed, and introduces new tax benefits for industrial enterprises meeting the criteria of the law, which include the following:

- A reduced corporate tax rate for industrial enterprises, provided that more than 25% of their annual income is derived from export, which will apply to the enterprise’s entire preferred income so that in the tax years 2011-2012 the reduced tax rate will be 10% for preferred income derived from industrial facilities located in development area A and 15% for those located elsewhere in Israel, in the tax years 2013-2014 the reduced tax rate will be 7% for development area A and 12.5% for the rest of Israel, and in the tax year 2015 and onwards the reduced tax rate will be 6% for development area A and 12% for the rest of Israel.
- The reduced tax rates will no longer be contingent upon making a minimum qualifying investment in productive assets.
- A definition of “preferred income” was introduced into the Investments Law to include certain types of income that are generated by the Israeli production activity of a preferred enterprise.
- A reduced dividend withholding tax rate of 15% will apply to dividends paid from preferred income to both Israeli and non-Israeli investors, with an exemption from such withholding tax applying to dividends paid to an Israeli company.
- A special tax benefits route will be granted to certain industrial enterprises entitling them to a reduced tax rate of 5% for preferred income derived from industrial facilities located in development area A and 8% for those located elsewhere in Israel, provided certain threshold requirements are met and such enterprise can demonstrate its significant contribution to Israel’s economy and promotion of national market objectives.

A Preferred Company (as defined in the Investments Law) may generally elect to apply the provisions of the amendment to preferred income produced or generated by it commencing from January 1, 2011. The amendment provides various transitional provisions which allow, under certain circumstances, to apply the new regime to investment programs previously approved or elected under the Investments Law in its previous form, or to continue existing investment programs under the provisions of the Investment Law in its previous form for a certain period of time. We believe that the transitional provisions will apply to us such that the earliest date for adoption of the amendment will be January 1, 2012.

#### Tax Benefits and Grants for Research and Development

Israeli tax law allows, under specified conditions, a tax deduction for expenditures, including capital expenditures, for the year in which they are incurred. These expenses must relate to scientific research and development projects and must be approved by the relevant Israeli government ministry, determined by the field of research, and the research and development must be for the promotion of the company and carried out by or on behalf of the company seeking such deduction. However, the amount of such deductible expenses shall be reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period.

#### Tax Benefits Under the Law for the Encouragement of Industry (Taxes), 1969

Under the Law for the Encouragement of Industry (Taxes), 1969 (the “Industry Encouragement Law”), Industrial Companies (as defined below) are entitled to the following tax benefits, among others:

- deductions over an eight-year period for purchases of know-how and patents;
- deductions over a three-year period of expenses involved with the issuance and listing of shares on a stock market;
- the right to elect, under specified conditions, to file a consolidated tax return with other related Israeli Industrial Companies; and
- accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. Under the Industry Encouragement Law, an “Industrial Company” is defined as a company resident in Israel, at least 90% of the income of which, in any tax year, determined in Israeli currency, exclusive of income from government loans, capital gains, interest and dividends, is derived from an “Industrial Enterprise” owned by it. An “Industrial Enterprise” is defined as an enterprise whose major activity in a given tax year is industrial production activity. We believe that we currently qualify as an Industrial Company within the definition of the Industry Encouragement Law. No assurance can be given that we will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

### Israeli Transfer Pricing Regulations

On November 29, 2006, Income Tax Regulations (Determination of Market Terms), 2006, promulgated under Section 85A of the Tax Ordinance, came into force (the “Transfer Pricing Regulations”). Section 85A of the Tax Ordinance and the Transfer Pricing Regulations generally require that all cross-border transactions carried out between related parties will be conducted on an arm’s length principle basis and will be taxed accordingly. As the Transfer Pricing Regulations are broadly similar to transfer pricing regimes already in place in other jurisdictions in which we operate outside of Israel, we do not expect the Transfer Pricing Regulations to have a material impact on the Company.

### Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder’s country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain, which is equivalent to the increase of the relevant asset’s purchase price, which is attributable to the increase in the Israeli consumer price index, or a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

The following discussion refers to the sale of our ordinary shares. However, the same tax treatment would apply to the sale of our ADSs.

### Taxation of Israeli Residents

As of January 1, 2012, the tax rate generally applicable to the capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder is considered a “significant shareholder” at any time during the 12-month period preceding such sale (i.e., such shareholder holds directly or indirectly, including jointly with others, at least 10% of any means of control in the company) the tax rate will be 30%. Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of listed shares. However, different tax rates may apply to dealers in securities and shareholders who acquired their shares prior to an initial public offering.

The tax basis of our shares acquired prior to January 1, 2003, will generally be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

### Taxation of Non-Israeli Residents

Non-Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on the TASE provided such gains did not derive from a permanent establishment of such shareholders in Israel. Non-Israeli residents are also exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock market outside of Israel, provided such shareholders did not acquire their shares prior to the issuer's initial public offering (in which case a partial exemption may be available), that the gains did not derive from a permanent establishment of such shareholders in Israel. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of 25% or more in such non-Israeli corporation, or (ii) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In addition, the sale, exchange or disposition of our ordinary shares by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) and who holds ordinary shares as a capital asset is also exempt from Israeli capital gains tax under the U.S.-Israel Tax Treaty unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale or (ii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder located in Israel. If the above conditions are not met, the U.S. resident would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, the gain would be treated as foreign source income for United States foreign tax credit purposes and such U.S. resident would be permitted to claim a credit for such taxes against the United States federal income tax imposed on such sale, exchange or disposition, subject to the limitations under the United States federal income tax laws applicable to foreign tax credits.

### Taxation of Dividends Paid on our Ordinary Shares

The following discussion refers to dividends paid on our ordinary shares. However, the same tax treatment would apply to dividends paid on our ADSs.

### Taxation of Israeli Residents

Israeli resident individuals are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, other than bonus shares (share dividends) or stock dividends. As of January 1, 2012, the tax rate applicable to such dividends is 25% or 30% for a shareholder that is considered a significant shareholder at any time during the 12-month period preceding such distribution. Dividends paid from income derived from our Approved or Privileged Enterprises are subject to withholding at the rate of 15%, although we cannot assure you that we will designate the profits that are being distributed in a way that will reduce shareholders' tax liability.

### Taxation of Non-Israeli Residents

Non-residents of Israel, both companies and individuals, are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, at the aforementioned rates applicable to Israeli residents, which tax will be withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence.

Under the U.S.-Israel Treaty, the maximum Israeli withholding tax on dividends paid by us is 25%. Dividends of an Israeli company distributed from income of an Approved Enterprise (or Privileged Enterprise) are subject to a 15% withholding tax under the U.S.-Israel Tax Treaty. The U.S.-Israel Tax Treaty further provides for a 12.5% Israeli dividend withholding tax on dividends paid by an Israeli company to a United States corporation owning at least 10% or more of such Israeli company's issued voting power for, in general, the part of the tax year which precedes the date of payment of the dividend and the entire preceding tax year. The lower 12.5% rate applies only to dividends from income not derived from an Approved Enterprise (or Privileged Enterprise) in the applicable period and does not apply if the company has more than 25% of its gross income derived from certain types of passive income. Residents of the United States generally will have withholding tax in Israel deducted at source. They may be entitled to a credit or deduction for United States federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in United States tax legislation.

A non-resident of Israel who has dividend income derived from or accrued in Israel, from which tax was withheld at source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer.

#### U.S. Federal Income Tax Considerations

The following is a summary of the material U.S. Federal income tax consequences that apply to U.S. holders (defined below) who hold ADSs as capital assets for tax purposes. This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing final, temporary and proposed regulations thereunder, judicial decisions and published positions of the Internal Revenue Service and the U.S.-Israel income tax treaty in effect as of the date of this annual report, all of which are subject to change at any time (including changes in interpretation), possibly with retroactive effect. It is also based in part on representations by The Bank of New York Mellon, the depository for our ADSs, and assumes that each obligation under the Deposit Agreement between us and The Bank of New York Mellon and any related agreement will be performed in accordance with its terms. This summary does not address all U.S. Federal income tax matters that may be relevant to a particular prospective holder or all tax considerations that may be relevant with respect to an investment in ADSs.

This summary does not address tax considerations applicable to a holder of an ADS that may be subject to special tax rules including, without limitation, the following:

- dealers or traders in securities, currencies or notional principal contracts;
  - financial institutions;
  - insurance companies;
  - real estate investment trusts;
  - banks;

- investors subject to the alternative minimum tax;
- tax-exempt organizations;
- regulated investment companies;
- investors that actually or constructively own 10 percent or more of our voting shares;
- investors that will hold the ADSs as part of a hedging or conversion transaction or as a position in a straddle or a part of a synthetic security or other integrated transaction for U.S. Federal income tax purposes;
- investors that are treated as partnerships or other pass through entities for U.S. Federal income tax purposes and persons who hold the ADSs through partnerships or other pass through entities; and
- investors whose functional currency is not the U.S. dollar.

This summary does not address the effect of any U.S. Federal taxation other than U.S. Federal income taxation. In addition, this summary does not include any discussion of state, local or foreign taxation or the indirect effects on the holders of equity interests in a holder of an ADS.

You are urged to consult your own tax advisor regarding the foreign and U.S. Federal, state and local and other tax consequences of an investment in ADSs.

For purposes of this summary, a “U.S. holder” is a beneficial owner of ADSs that is, for U.S. Federal income tax purposes:

- an individual who is a citizen or a resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. Federal income tax regardless of its source; or
- a trust if:
  - (a) a court within the United States is able to exercise primary supervision over administration of the trust; and
  - (b) one or more United States persons have the authority to control all substantial decisions of the trust.



If an entity that is classified as a partnership for U.S. federal tax purposes holds ADSs, the U.S. federal income tax treatment of its partners will generally depend upon the status of the partners and the activities of the partnership. Entities that are classified as partnerships for U.S. federal tax purposes and persons holding ADSs through such entities should consult their own tax advisors.

In general, if you hold ADSs, you will be treated as the holder of the underlying shares represented by those ADSs for U.S. Federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate U.S. holders. Accordingly, the analysis of the creditability of Israeli taxes and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. holders, each described below, could be affected by actions taken by parties to whom the ADSs are released.

## U.S. Taxation of ADSs

### Distributions

Subject to the discussion under “Passive Foreign Investment Companies” below, the gross amount of any distribution, including the amount of any Israeli taxes withheld from these distributions (see “Israeli Tax Considerations”), actually or constructively received by a U.S. holder with respect to ADSs will be taxable to the U.S. holder as a dividend to the extent of our current and accumulated earnings and profits as determined under U.S. Federal income tax principles. Distributions in excess of earnings and profits will be non-taxable to the U.S. holder to the extent of, and will be applied against and reduce, the U.S. holder’s adjusted tax basis in the ADSs. Distributions in excess of earnings and profits and such adjusted tax basis will generally be taxable to the U.S. holder as capital gain from the sale or exchange of property. We do not maintain calculations of our earnings and profits under U.S. Federal income tax principles. If we do not report to a U.S. holder the portion of a distribution that exceeds earnings and profits, the distribution will generally be taxable as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above. The amount of any distribution of property other than cash will be the fair market value of that property on the date of distribution. The U.S. holder will not, except as provided by Section 245 of the Code, be eligible for any dividends received deduction in respect of the dividend otherwise allowable to corporations.

Under the Code, certain dividends received by non-corporate U.S. holders will be subject to a maximum income tax rate of 15%. This reduced income tax rate is only applicable to dividends paid by a “qualified foreign corporation” that is not a “passive foreign investment company” and only with respect to shares held by a qualified U.S. holder (i.e., a non-corporate holder) for a minimum holding period (generally 61 days during the 121-day period beginning 60 days before the ex-dividend date). We should be considered a qualified foreign corporation because (i) we are eligible for the benefits of a comprehensive tax treaty between Israel and the U.S., which includes an exchange of information program, and (ii) the ADSs are readily tradable on an established securities market in the U.S. In addition, based on our current business plans, we do not expect to be classified as a “passive foreign investment company” (see “Passive Foreign Investment Companies” below). Accordingly, dividends paid by us to individual U.S. holders on shares held for the minimum holding period should be eligible for the reduced income tax rate. The reduced tax rate for qualified dividends generally is scheduled to expire on December 31, 2012, unless further extended by Congress.



The amount of any distribution paid in a currency other than U.S. dollars (a “foreign currency”) including the amount of any withholding tax thereon, will be included in the gross income of a U.S. holder in an amount equal to the U.S. dollar value of the foreign currencies calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the foreign currencies are converted into U.S. dollars. If the foreign currencies are converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend. If the foreign currencies received in the distribution are not converted into U.S. dollars on the date of receipt, a U.S. holder will have a basis in the foreign currencies equal to its U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the foreign currencies will be treated as ordinary income or loss.

Dividends received by a U.S. holder with respect to ADSs will be treated as foreign source income for the purposes of calculating that holder’s foreign tax credit limitation. Subject to certain conditions and limitations, any Israeli taxes withheld on dividends at the rate provided by the U.S.-Israel income tax treaty may be deducted from taxable income or credited against a U.S. holder’s U.S. Federal income tax liability. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to “passive” income and “general” income. The rules relating to foreign tax credits and the timing thereof are complex. U.S. holders should consult their own tax advisors regarding the availability of a foreign tax credit under their particular situation.

#### Sale or Other Disposition of ADSs

If a U.S. holder sells or otherwise disposes of its ADSs, gain or loss will be recognized for U.S. Federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and such holder’s adjusted tax basis in the ADSs. Subject to the discussion below under the heading “Passive Foreign Investment Companies,” such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the holder had held the ADSs for more than one year at the time of the sale or other disposition. Long-term capital gains realized by individual U.S. holders generally are subject to a lower marginal U.S. Federal income tax rate (15% for taxable years beginning on or before December 31, 2012) than ordinary income. Under most circumstances, any gain that a holder recognizes on the sale or other disposition of ADSs will be U.S. source for purposes of the foreign tax credit limitation and any recognized losses will be allocated against U.S. source income.

If a U.S. holder receives foreign currency upon a sale or exchange of ADSs, gain or loss, if any, recognized on the subsequent sale, conversion or disposition of such foreign currency will be ordinary income or loss, and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. However, if such foreign currency is converted into U.S. dollars on the date received by the U.S. holder, the U.S. holder generally should not be required to recognize any gain or loss on such conversion.

A U.S. Holder who holds shares through an Israeli stockbroker or other Israeli intermediary may be subject to Israeli withholding tax on any capital gains recognized if the U.S. Holder does not obtain approval of an exemption from the Israeli Tax Authorities or claim any allowable refunds or reductions. U.S. Holders are advised that any Israeli tax paid under circumstances in which an exemption from (or a refund of or a reduction in) such tax was available will not give rise to a deduction or credit for foreign taxes paid for U.S. federal income tax purposes. If applicable, U.S. Holders are advised to consult their Israeli stockbroker or intermediary regarding the procedures for obtaining an exemption or reduction.

#### Medicare Tax on Unearned Income

For taxable years beginning after December 31, 2012, certain U.S. holders that are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, dividends and capital gains from the sale or other dispositions of ADSs.

#### Passive Foreign Investment Companies

For U.S. Federal income tax purposes, we will be considered a passive foreign investment company (“PFIC”) for any taxable year in which either 75% or more of our gross income is passive income, or at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, passive income includes dividends, interest, royalties, rents, annuities and the excess of gain over losses from the disposition of assets which produce passive income. If we were determined to be a PFIC for U.S. Federal income tax purposes, highly complex rules would apply to U.S. holders owning ADSs.

Based on our estimated gross income, the average value of our gross assets and the nature of our business, we do not believe that we will be classified as a PFIC in the current taxable year. Our status in any taxable year will depend on our assets and activities in each year and because this is a factual determination made annually at the end of each taxable year, there can be no assurance that we will not be considered a PFIC for any future taxable year. If we were treated as a PFIC in any year during which a U.S. holder owns ADSs, certain adverse tax consequences could apply, as described below. Given our current business plans, however, we do not expect that we will be classified as a PFIC in future years.

If we are treated as a PFIC for any taxable year,

- a U.S. holder would be required to allocate income recognized upon receiving certain dividends or gain recognized upon the disposition of ADSs ratably over its holding period for such ADSs,

- the amount allocated to each year during which we are considered a PFIC other than the year of the dividend payment or disposition would be subject to tax at the highest individual or corporate tax rate, as the case may be, and an interest charge would be imposed with respect to the resulting tax liability allocated to each such year,
- the amount allocated to the year of the dividend payment or disposition would be taxable as ordinary income, and
- a U.S. holder would be required to make an annual return on IRS Form 8621 regarding distributions received and gain realized with respect to ADSs.

One method to avoid the aforementioned treatment is for a U.S. holder to make an election to treat us as a qualified electing fund. A U.S. holder may make a qualified electing fund election only if we furnish the U.S. holder with certain tax information and we do not presently intend to prepare or provide this information. Alternatively, another method to avoid the aforementioned treatment is for a U.S. holder to make a timely mark-to-market election in respect of its ADSs. If a U.S. holder elects to mark-to-market its ADSs, any excess of the fair market value of the ADSs at the close of each tax year over the adjusted basis in such ADSs will generally be included in income. If the fair market value of the ADSs had depreciated below the adjusted basis at the close of the tax year, the U.S. holder may generally deduct the excess of the adjusted basis of the ADSs over its fair market value at that time. However, such deductions generally would be limited to the net mark-to-market gains, if any, that were included in income by such holder with respect to ADSs in prior years. Income recognized and deductions allowed under the mark-to-market provisions, as well as any gain or loss on the disposition of ADSs with respect to which the mark-to-market election is made, is treated as ordinary income or loss.

You are urged to consult your own tax advisor regarding the possibility of us being classified as a PFIC and the potential tax consequences arising from the ownership and disposition (directly or indirectly) of an interest in a PFIC.

#### Backup Withholding and Information Reporting

Payments of dividends with respect to ADSs and the proceeds from the sale, retirement, or other disposition of ADSs made by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. holder as may be required under applicable U.S. Treasury regulations. We, or an agent, a broker, or any paying agent, as the case may be, may be required to withhold tax (backup withholding), currently at the rate of 28% (which rate is currently scheduled to increase on January 1, 2013), if a non-corporate U.S. holder that is not otherwise exempt fails to provide an accurate taxpayer identification number and comply with other IRS requirements concerning information reporting. Certain U.S. holders (including, among others, corporations and tax-exempt organizations) are not subject to backup withholding. Any amount of backup withholding withheld may be used as a credit against your U.S. Federal income tax liability provided that the required information is furnished to the IRS. U.S. holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

## Documents on Display

We are subject to certain of the information reporting requirements of the Securities and Exchange Act of 1934, as amended. We, as a “foreign private issuer” are exempt from the rules and regulations under the Securities Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and “short-swing” profit recovery provisions contained in Section 16 of the Securities Exchange Act, with respect to their purchase and sale of our shares. In addition, we are not required to file reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Securities Exchange Act. NASDAQ rules generally require that companies send an annual report to shareholders prior to the annual general meeting. We have an exception under the NASDAQ rules and follow the generally accepted business practice for companies in Israel. Specifically, we file annual reports on Form 20-F, which contain financial statements audited by an independent accounting firm, electronically with the SEC and post a copy on our website. We will also furnish to the SEC quarterly reports on Form 6-K containing unaudited financial information after the end of each of the first three quarters.

You may read and copy any document we file with the SEC at its public reference facilities at, 100 F Street, N.E., Washington, D.C. 20549 and at the SEC’s regional offices at 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of this web site is <http://www.sec.gov>. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. In addition, our ADSs are quoted on the NASDAQ Global Select Market, so our reports and other information can be inspected at the offices of the National Association of Securities Dealers, Inc. at 1735 K Street, N.W., Washington, D.C. 20006.

## Item 11. Quantitative and Qualitative Disclosures About Market Risk.

### General

Market risks relating to our operations result primarily from weak economic conditions in the markets in which we sell our products and changes in interest rates and exchange rates. To manage the volatility related to the latter exposure, we may enter into various derivative transactions. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in currency exchange rates. It is our policy and practice to use derivative financial instruments only to manage exposures. We do not use financial instruments for trading purposes and are not a party to any leveraged derivative.

### Foreign Currency Risk

We conduct our business primarily in U.S. dollars but also in the currencies of the United Kingdom, the European Union and Israel as well as other currencies. Thus, we are exposed to foreign exchange movements, primarily in GBP, EUR and NIS. We monitor foreign currency exposure and, from time to time, may use various instruments to preserve the value of sales transactions and commitments; however, this cannot assure our protection against risks of currency fluctuations. For more information regarding foreign currency related risks, please refer to “General Business Risks Relating to Our Business and Market,” on page 3. We use currency forward contracts and option contracts in order to protect against the increase in value of forecasted non-dollar currency cash flows and to hedge future anticipated payments relating to leasehold improvements.



As of December 31, 2011, we had outstanding forward contracts and currency options in the total amount of approximately \$199.9 million. These transactions were for up to a one year period.

The table below details the balance sheet exposure (i.e., the gap between assets and liabilities in a given currency) by currency and geography, as of December 31, 2011. All data in the tables have been converted into U.S. dollar equivalents.

|                          | In U.S. dollars in millions: |               |        |                    |             |                 |                  |              |                   |                |                  | Total   |
|--------------------------|------------------------------|---------------|--------|--------------------|-------------|-----------------|------------------|--------------|-------------------|----------------|------------------|---------|
|                          | U.S. Dollars                 | British Pound | Euro   | New Israeli Shekel | Swiss Frank | Canadian Dollar | Hong Kong Dollar | Japanese Yen | Australian Dollar | Brazilian Real | Other currencies |         |
| Israel                   | -                            | 7.26          | 2.94   | (26.96)*           | 0.49        | 1.28            | (1.84)           | (1.55)       | 2.27              | -              | (0.94)           | (17.05) |
| European Union           | 20.36                        | (1.56)        | 10.21  | -                  | 0.28        | -               | (0.46)           | 0.29         | -                 | -              | 0.27             | 29.39   |
| Switzerland              | (0.70)                       | 0.35          | 0.30   | -                  | -           | -               | -                | -            | -                 | -              | -                | (0.05)  |
| United States of America | -                            | -             | 0.24   | -                  | -           | 0.58            | -                | 1.56         | 0.93              | (0.32)         | 0.25             | 3.24    |
| Canada                   | 2.20                         | -             | -      | -                  | -           | -               | -                | -            | -                 | -              | -                | 2.20    |
| Hong Kong                | 0.15                         | -             | (0.43) | -                  | -           | -               | -                | -            | -                 | -              | 0.11             | (0.17)  |
| Japan                    | -                            | -             | (0.33) | -                  | -           | -               | (0.01)           | -            | -                 | -              | -                | (0.34)  |
| Singapore                | -                            | -             | (0.18) | -                  | -           | -               | (0.02)           | -            | -                 | -              | -                | (0.20)  |
| China                    | 0.20                         | -             | -      | -                  | -           | -               | -                | -            | -                 | -              | -                | 0.20    |
| Australia                | 1.04                         | -             | -      | -                  | -           | -               | -                | -            | -                 | -              | 0.02             | 1.06    |
|                          | 23.25                        | 6.05          | 12.75  | (26.96)            | 0.77        | 1.86            | (2.33)           | 0.30         | 3.20              | (0.32)         | (0.29)           | 18.28   |

Net Exposure:

| Net Exposure | NIS/ USD | GBP/ USD | EUR/ USD | CAD/ USD | HKD/ USD | BRL/ USD | AUD/ USD | CNY/ USD | GBP/ EUR | HKD/ EUR | JPY/ EUR | SGD/ EUR | CHF/ EUR | GBP/ CHF | GBP/ JPY |
|--------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Net Exposure | (26.96)* | 23.50    | 5.94     | 4.05     | (1.69)   | (0.32)   | 4.23     | 0.20     | 10.05    | (0.89)   | (0.33)   | (0.18)   | 0.30     | 0.63     | 0.29     |

\* Treasury Bills in an amount of \$125.1 million (dominated in New Israeli Shekel) are not included in the tables above due to hedging contracts.



The table below presents the fair value of firmly committed transactions for lease obligations denominated in currencies other than the functional currency:

In U.S. dollars in millions:

|                  | New Israel<br>Shekel | Other<br>currencies | Total |
|------------------|----------------------|---------------------|-------|
| less than 1 year | 6.22                 | 0.24                | 6.46  |
| 1-3 years        | 13.72                | 0.06                | 13.78 |
| 3-5 years        | 14.00                | 0.04                | 14.04 |
| Over 5 years     | 40.23                | -                   | 40.23 |
| Total            | 74.17                | 0.34                | 74.51 |

The fair value of derivative instruments and the notional amount of the hedged instruments are set forth in the table below:

In U.S. dollars in millions:

|  | New Israeli Shekels |            |
|--|---------------------|------------|
|  | Notional<br>Amount  | Fair Value |
| Option contracts to hedge payroll expenses   | 73.4                | (2.92 )    |
| Option contracts to hedge future anticipated payments relating to leasehold improvements | 3                   | (0.028 )   |
| Forward contracts to hedge Israeli Treasury Bills (*)                                    | 123.5               | 9.59       |

\* The average investment in one-year Israeli Treasury Bills dominated in NIS during 2011 was approximately \$150 million against which we have entered into Forward contracts to protect against the increase in value of forecasted non-dollar currency cash flows.

#### Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment in marketable securities and deposits. Our marketable securities portfolio consists of investment-grade corporate debentures, U.S. Government agency debentures, U.S. treasuries and Israeli Treasury bills. As of December 31, 2011, 77% of our portfolio was in such securities.

We invest in dollar deposits with U.S. banks, European banks, Israeli banks and money market funds. As of December 31, 2011, 23% of our portfolio was in such deposits. Since these investments are for short periods, interest income is sensitive to changes in interest rates.

The decline in interest rates due to the global credit crisis has a direct effect on our interest income and our ability to maintain our portfolio's yield level in line with prior years. In a market environment of declining interest rates, we are likely to reinvest the redeemed proceeds from our called or matured marketable securities in lower yielding investments. Conversely, an increase in market interest rates could also have an adverse effect on the value of our investment portfolio, for example, by decreasing the fair values of the fixed income securities that comprise a substantial majority of our investment portfolio.

The average duration of the securities portfolio, as of December 31, 2011, is 1.8 years. The securities in our portfolio are rated generally at the least as A- according to Standard and Poor's rating or A3, according to Moody's rating. Securities representing 13% of the portfolio are rated as AAA; securities representing 32% of the portfolio are rated as AA; securities representing 54% of the portfolio are rated as A; and securities representing 1% of the portfolio

are rated as BBB+ after being downgraded during 2011.

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The fair value of marketable securities, which are subject to risk of changes in interest rate, segregated by maturity dates:

|   | In U.S. dollars in millions:<br>Amortized Cost |           |           |        | Estimated fair value |           |           |        |
|---|--|-----------|-----------|--------|----------------------|-----------|-----------|--------|
|   | Up to 1<br>year                                | 1-3 years | 4-5 years | Total  | Up to 1<br>year      | 1-3 years | 4-5 years | Total  |
| Corporate debentures                    | 16.41  | 97.05     | 87.84     | 201.30 | 16.42                | 97.85     | 88.56     | 202.83 |
| U.S.<br>Government agency<br>debentures | 2.51   | 1.20      | 7.00      | 10.71  | 2.51                 | 1.20      | 7.04      | 10.75  |
| US treasuries                           | -  | 18.30     | -         | 18.30  | -                    | 19.48     | -         | 19.48  |
| Israeli Treasury<br>Bills(*)            | 124.68   | -         | -         | 124.68 | 125.07               | -         | -         | 125.07 |
|   | 143.60   | 116.55    | 94.84     | 354.99 | 144.00               | 118.53    | 95.60     | 358.13 |

\* These securities bear Israel sovereign risk which is rated A+ stable by Standard and Poor's and A1 stable by Moody's.

Other risks and uncertainties that could affect actual results and outcomes are described in Item 3, "Key Information—Risk Factors."

#### Item 12. Description of Securities Other than Equity Securities.

##### American Depositary Shares and Receipts

Set forth below is a summary of certain provisions in relation to charges and other payments under the Deposit Agreement, as amended, among NICE, The Bank of New York Mellon as depositary (the "Depositary"), and the owners and holders from time to time of ADRs (or the Deposit Agreement). This summary is not complete and is qualified in its entirety by the Deposit Agreement, a form of which has been filed as Exhibit A to the registration statement on Form F-6 (Registration No. 333-13518) filed with the SEC on May 17, 2001.

##### Charges of Depositary

We will pay the fees, reasonable expenses and out-of-pocket charges of the Depositary and those of any registrar only in accordance with agreements in writing entered into between us and the Depositary from time to time. The following charges shall be incurred by any party depositing or withdrawing ordinary shares or by any party surrendering ADRs or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or deposited ordinary shares or a distribution of ADRs pursuant to the terms of the Deposit Agreement):

- (1) any applicable taxes and other governmental charges,
- (2) any applicable transfer or registration fees,

- (3) certain cable, telex and facsimile transmission charges as provided in the Deposit Agreement,
- (4) any expenses incurred in the conversion of foreign currency,
- (5) a fee of \$5.00 or less per 100 ADSs (or a portion thereof) for the execution and delivery of ADRs and the surrender of ADRs, and
- (6) a fee for the distribution of proceeds of rights that the Depositary sells pursuant to the Deposit Agreement.

The Depositary may own and deal in our securities and in our ADRs.

#### Liability of Holders for Taxes, Duties or Other Charges

Any tax or other governmental charge with respect to ADRs or any deposited ordinary shares represented by any ADR shall be payable by the holder of such ADR to the Depositary. The Depositary may refuse to effect transfer of such ADR or any withdrawal of deposited ordinary shares represented by such ADR until such payment is made, and may withhold any dividends or other distributions or may sell for the account of the holder any part or all of the deposited ordinary shares represented by such ADR and may apply such dividends or distributions or the proceeds of any such sale in payment of any such tax or other governmental charge and the holder of such ADR shall remain liable for any deficiency.

## PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

None.

Item 15. Controls and Procedures.

#### Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of NICE's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of NICE's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that NICE's disclosure controls and procedures were effective as of such date.

### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 15d-15(f) under the Securities Exchange Act. Our internal control over financial reporting system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective can only provide reasonable assurance with respect to financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed our internal control over financial reporting as of December 31, 2011. Our management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that, as of December 31, 2011, our internal control over financial reporting is effective.

### Attestation Report of the Independent Registered Public Accounting Firm

Our independent registered public accounting firm, Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global independently assessed the effectiveness of our internal control over financial reporting and has issued an attestation report, which is included under Item 18 on page F-3 of this annual report.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 16. [Reserved].

Item 16A. Audit Committee Financial Expert.

Our board of directors has determined that Dan Falk meets the definition of an audit committee financial expert, as defined in Item 407 of Regulation S-K, and is independent under the applicable regulations.

Item 16B. Code of Ethics.

We have adopted a Code of Ethics that applies to our principal executive and financial officers, and that also applies to all of our employees. The Code of Ethics is publicly available on our website at [www.nice.com](http://www.nice.com). Written copies are available upon request. If we make any substantive amendments to the Code of Ethics or grant any waiver from a provision of this code to our chief executive officer, principal financial officer or corporate controller, we will either disclose the nature of such amendment or waiver on our website or in our annual report on Form 20-F.

On February 14, 2012, our Board of Directors approved an amendment to our Code of Ethics, which included new provisions regarding sexual harassment in the workplace and a revised section on bribery and corruption, as well as other non-material revisions.

Item 16C. Principal Accountant Fees and Services.

Fees Paid to Independent Auditors

Fees billed or expected to be billed by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, and other members of Ernst & Young Global for professional services for each of the last two fiscal years were as follows:

| Services Rendered | 2010 Fees    | 2011 Fees    |
|-------------------|--------------|--------------|
| Audit (1)         | \$ 717,000   | \$ 689,000   |
| Audit-related (2) | \$ 138,000   | \$ 195,000   |
| Tax (3)           | \$ 832,000   | \$ 576,000   |
| Total             | \$ 1,687,000 | \$ 1,460,000 |

(1) Audit fees are for audit services for each of the years shown in this table, including fees associated with the annual audit for 2011 (including audit in accordance with section 404 of the Sarbanes-Oxley act) and certain procedures regarding our quarterly financial results submitted on Form 6-K, consultations concerning financial accounting and various accounting issues and performance of local statutory audits.

(2) Audit-related fees relate to assurance and associated services that traditionally are performed by the independent auditor, including: accounting consultation and consultation concerning financial accounting, reporting standards and government approvals and due diligence investigations.

(3) Tax fees are for professional services rendered by our auditors for tax compliance, tax advice on actual or contemplated transactions, tax consulting associated with international transfer prices and global mobility of employees.

Policies and Procedures

Our audit committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our external auditors, Ernst & Young. The policy, which is designed to ensure that such services do not impair the independence of our auditors, requires pre-approval from the audit committee on an annual basis for the various audit and non-audit services that may be performed by our auditors. If a type of service, that is to be provided by our auditors, has not received such general pre-approval, it will require specific pre-approval by our audit committee. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by our audit committee. The policy prohibits retention of the independent auditors to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act of 2002 or the rules of the SEC, and also considers whether proposed services are compatible with the independence of the public auditors.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

During 2011, we repurchased our ordinary shares as described in the table below.

| Period                     | (a) Total number of shares purchased | (b) Average price paid per share | (c) Total number of shares purchased as part of publicly announced plans or programs | (d) Maximum number (or approximately dollar value) of shares that may yet be purchased under the plans or programs |
|----------------------------|--------------------------------------|----------------------------------|--|--|
| February 1 - February 28   | N/A                                  | N/A                              | N/A  | 100,000,000  |
| March 1 - March 31         | 62,500                               | 34.62                            | 62,500   | 97,836,115   |
| April 1 - April 30         | 156,421                              | 37.31                            | 156,421  | 92,000,014   |
| May 1 - May 31             | 220,115                              | 36.34                            | 220,115  | 84,000,046   |
| June 1 - June 30           | 435,896                              | 34.31                            | 435,896  | 69,045,889   |
| July 1 - July 31           | 137,123                              | 36.80                            | 137,123  | 64,000,060   |
| August 1 - August 31       | 618,421                              | 29.94                            | 618,421  | 45,485,381   |
| September 1 - September 30 | 1,177,340                            | 30.18                            | 1,177,340  | 9,958,019  |
| October 1 - October 31     | 33,245                               | 28.81                            | 33,245   | 9,000,068  |
| November 1 - November 30   | N/A                                  | N/A                              | N/A  | 109,000,068  |
| December 1 - December 31   | 156,500                              | 33.60                            | 156,500  | 103,741,722  |
| Total                      | 2,997,561                            | 32.11                            | 2,997,561  |  |

On February 15, 2011, we announced that our board of directors authorized a program to repurchase up to \$100 million of our issued and outstanding ordinary shares and ADRs. Repurchases may be made from time to time in the open market or in privately negotiated transactions and will be in accordance with applicable securities laws and regulations. The timing and amount of the repurchase transactions will be determined by management and may depend on a variety of factors, including market conditions, alternative investment opportunities and other considerations. The program does not obligate us to acquire any particular amount of ordinary shares and ADRs and the program may be modified or discontinued at any time without prior notice.

On November 3, 2011, we announced that our board of directors authorized a new program to repurchase up to \$100 million of our issued and outstanding ordinary shares and ADRs. Repurchases may be made from time to time in the open market or in privately negotiated transactions and will be in accordance with applicable securities laws and regulations. The timing and amount of the repurchase transactions will be determined by management and may depend on a variety of factors, including market conditions, alternative investment opportunities and other considerations. The program does not obligate us to acquire any particular amount of ordinary shares and ADRs and the program may be modified or discontinued at any time without prior notice.

On February 14, 2012, our board of directors authorized the cancellation of our ordinary shares and ADRs repurchased during 2011 within the framework of the repurchase program.

Item 16F. Change in Registrant's Certifying Accountant.

None.

Item 16G. Corporate Governance.

We follow the Israeli Companies Law, the relevant provisions of which are summarized in this annual report, rather than comply with the NASDAQ requirements relating to: (i) the quorum for shareholder meetings (see Item 10, "Additional Information – Memorandum and Articles of Association – Meetings of Shareholders" in this annual report); (ii) shareholder approval with respect to issuance of securities under equity based compensation plans (see Item 10, "Additional Information – Memorandum and Articles of Association – Approval of Certain Transactions" in this annual report); and (iii) sending annual reports to shareholders (see Item 10, "Additional Information – Documents on Display" in this annual report).

Item 16H. Mine Safety Disclosure.

Not Applicable.

### PART III

Item 17. Financial Statements.

Not Applicable.

Item 18. Financial Statements.

See pages F-1 through F-56 of this annual report attached hereto.



Item 19. Exhibits.

| Exhibit No. | Description   |
|-------------|---|
| 1.1         | Amended and Restated Memorandum of Association, as approved on December 21, 2006 (English translation) (filed as Exhibit 1.1 to NICE-Systems Ltd.'s Annual Report on Form 20-F filed with the SEC on June 13, 2007, and incorporated herein by reference).  |
| 1.2         | Amended and Restated Articles of Association, as amended on September 19, 2011 (filed as Exhibit 4.2 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-177510) filed with the SEC on October 26, 2011, and incorporated herein by reference).   |
| 2.1         | Form of Share Certificate (filed as Exhibit 4.1 to Amendment No. 1 to NICE-Systems Ltd.'s Registration Statement on Form F-1 (Registration No. 333-99640) filed with the SEC on December 29, 1995, and incorporated herein by reference).   |
| 2.2         | Form of Deposit Agreement including Form of ADR Certificate (filed as Exhibit 1 to NICE-Systems Ltd.'s Registration Statement on Form F-6 (Registration No. 333-157371) filed with the SEC on February 17, 2011, and incorporated herein by reference).   |
| 4.1         | Manufacturing Outsourcing Agreement dated January 21, 2002 by and among NICE-Systems Ltd. and Flextronics Israel Ltd. (filed as Exhibit 4.5 to NICE-Systems Ltd.'s Annual Report on Form 20-F filed with the SEC on June 26, 2003, and incorporated herein by reference).   |
| 4.2         | Asset Purchase Agreement, dated as of November 22, 2009, among Orsus Solutions Limited and its wholly-owned subsidiaries and NICE-Systems Ltd. and certain of its wholly-owned subsidiaries (filed as Exhibit 4.5 to NICE-Systems Ltd.'s Annual Report on Form 20-F filed with the SEC on March 31, 2010, and incorporated herein by reference).                          |
| 4.3         | Agreement and Plan of Merger, dated as of June 9, 2010, among NICE-Systems Ltd., certain subsidiaries of the NICE-Systems Ltd., e-Glue Software Technologies, Inc. and certain shareholder representatives of e-Glue (filed as Exhibit 4.4 to NICE-Systems Ltd.'s Annual Report on Form 20-F filed with the SEC on March 31, 2011, and incorporated herein by reference). |
| 4.4         | Share Purchase Agreement, dated as of March 4, 2011, among NICE-Systems Ltd., IEX Corporation B.V. and CyberTech Beheer B.V. and Stichting Administratiekantoor Cybertech (filed as Exhibit 4.5 to NICE-Systems Ltd.'s Annual Report on Form 20-F filed with the SEC on March 31, 2011, and incorporated herein by reference).  |
| 4.5         | Share Purchase Agreement dated as of September 18, 2011, by and among NICE-Systems Ltd. and shareholders of Fizzback Group (Holdings) Ltd.  |
| 4.6         | Agreement and Plan of Merger dated as of December 1, 2011, by and among NICE-Systems, Inc., Moneyball Acquisition Corporation, Merced Systems, Inc. and shareholders of Merced Systems, Inc.  |
| 4.7         | NICE Systems Ltd. 2003 Stock Option Plan, as amended (filed as Exhibit 4.4 to NICE-System Ltd.'s Annual Report on Form 20-F (File No. 000-27466) filed with the SEC on April 6, 2009, and incorporated herein by reference).  |
| 4.8         | NICE Systems Ltd. Amended and Restated 1999 Employee Stock Purchase Plan (filed as Exhibit 4 to NICE-System Ltd.'s Registration Statement on Form S-8 (Registration No. 333-111113) filed with the SEC on May 22, 2006, and incorporated herein by reference).  |
| 4.9         | Actimize Ltd. 2003 Omnibus Stock Option and Restricted Stock Incentive Plan (filed as Exhibit 4.4 to NICE-System Ltd.'s Registration Statement on Form S-8 (Registration No. 333-145981) filed with the SEC on September 11, 2007, and incorporated herein by reference).   |



- 4.10 NICE Systems Ltd. 2008 Share Incentive Plan, as amended (filed as Exhibit 4.4 to NICE-System Ltd.'s Registration Statement on Form S-8 (Registration No. 333-171165) filed with the SEC on December 15, 2010, and incorporated herein by reference).
- 4.11 Orsus Solutions Limited 2007 Incentive Option Plan, as amended (filed as Exhibit 4.10 to NICE-Systems Ltd.'s Annual Report on Form 20-F filed with the SEC on March 31, 2010, and incorporated herein by reference).
- 4.12 e-Glue Software Technologies, Inc. 2004 Stock Option Plan, as amended (filed as Exhibit 4.4 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-168100) filed with the SEC on July 14, 2010, and incorporated herein by reference).
- 4.13 Fizzback Group (Holdings) Limited Employee Share Option Scheme (filed as Exhibit 4.4 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-177510) filed with the SEC on October 26, 2011, and incorporated herein by reference).
- 4.14 Merced Systems, Inc. 2001 Stock Plan (filed as Exhibit 4.4 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-179408) filed with the SEC on February 7, 2012, and incorporated herein by reference).
- 4.15 Merced Systems, Inc. 2011 Stock Plan (filed as Exhibit 4.5 to NICE-Systems Ltd.'s Registration Statement on Form S-8 (Registration No. 333-179408) filed with the SEC on February 7, 2012, and incorporated herein by reference).
- 8.1 List of significant subsidiaries.
- 12.1 Certification by the Chief Executive Officer of NICE-Systems Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act 2002.
- 12.2 Certification by the Chief Financial Officer of NICE-Systems Ltd., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification by the Chief Executive Officer of NICE-Systems Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification by the Chief Financial Officer of NICE-Systems Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 15.1 Consent of Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global.
- 101 The following financial information from NICE-Systems Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2011 and 2010; (ii) Consolidated Statements of Income for the years ended December 31, 2011, 2010 and 2009; (iii) Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended December 31, 2011, 2010 and 2009; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009; and (v) Notes to Consolidated Financial Statements. Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the SEC, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

NICE SYSTEMS LTD.

We have audited the accompanying consolidated balance sheets of NICE Systems Ltd. ("the Company") and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2012 expressed an unqualified opinion thereon.

Tel-Aviv, Israel  
March 29, 2012

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

NICE SYSTEMS LTD.

We have audited NICE Systems Ltd.'s ("the Company") internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO criteria"). The Company'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.

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income and cash flows for each of the three years in the period ended December 31, 2011 and our report dated March 29, 2012 expressed an unqualified opinion thereon.

Tel-Aviv, Israel  
March 29, 2012

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

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

|   | December 31,       |                    |
|---|--------------------|--------------------|
|   | 2011               | 2010               |
| <b>ASSETS</b>   |                    |                    |
| <b>CURRENT ASSETS:</b>  |                    |                    |
| Cash and cash equivalents   | \$204,437          | \$109,526          |
| Short term investments  | 144,003            | 242,593            |
| Trade receivables (net of allowance for doubtful accounts of \$ 4,671 and \$ 4,102 at December 31, 2011 and 2010, respectively) | 126,981            | 99,257             |
| Other receivables and prepaid expenses  | 43,941             | 31,924             |
| Inventories   | 13,404             | 10,861             |
| Deferred tax assets   | 10,405             | 6,798              |
| <b>Total current assets</b>   | <b>543,171</b>     | <b>500,959</b>     |
| <b>LONG-TERM ASSETS:</b>  |                    |                    |
| Long term investments   | 214,136            | 311,081            |
| Other long-term assets  | 28,890             | 31,118             |
| Property and equipment, net   | 28,299             | 22,014             |
| Other intangible assets, net  | 158,153            | 141,632            |
| Goodwill  | 609,187            | 527,614            |
| <b>Total long-term assets</b>   | <b>1,038,665</b>   | <b>1,033,459</b>   |
| <b>Total assets</b>   | <b>\$1,581,836</b> | <b>\$1,534,418</b> |

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



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

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

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2011                | 2010                |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                     |                     |
| <b>CURRENT LIABILITIES:</b>  |                     |                     |
| Trade payables   | \$ 19,014           | \$ 20,019           |
| Deferred revenues and advances from customers  | 160,242             | 140,388             |
| Accrued expenses and other liabilities   | 190,372             | 166,643             |
| <b>Total current liabilities</b>   | <b>369,628</b>      | <b>327,050</b>      |
| <b>LONG-TERM LIABILITIES:</b>  |                     |                     |
| Accrued severance pay  | 23,728              | 24,776              |
| Deferred tax liabilities   | 27,766              | 19,705              |
| Other long-term liabilities  | 2,070               | 2,127               |
| <b>Total long-term liabilities</b>   | <b>53,564</b>       | <b>46,608</b>       |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES</b>  |                     |                     |
| <b>SHAREHOLDERS' EQUITY:</b>   |                     |                     |
| Share capital-   |                     |                     |
| Ordinary shares of NIS 1 par value:  |                     |                     |
| Authorized: 125,000,000 shares at December 31, 2011 and 2010;                            |                     |                     |
| Issued: 64,804,730 and 63,384,481 shares at December 31, 2011                            |                     |                     |
| and 2010, respectively   |                     |                     |
| Outstanding: 61,807,169 and 63,384,481 shares at December 31, 2011 and 2010,             |                     |                     |
| respectively   |                     |                     |
| Additional paid-in capital   | 16,273              | 15,875              |
| Treasury shares at cost – 2,997,561 and 0 ordinary shares at December 31, 2011 and 2010, | 988,076             | 939,064             |
| respectively   | (96,318 )           | -                   |
| Accumulated other comprehensive income (loss)  | (1,895 )            | 10,576              |
| Retained earnings  | 252,508             | 195,245             |
| <b>Total shareholders' equity</b>  | <b>1,158,644</b>    | <b>1,160,760</b>    |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 1,581,836</b> | <b>\$ 1,534,418</b> |

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



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

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

|  | Year ended December 31, |                 |                 |
|--|-------------------------|-----------------|-----------------|
|  | 2011                    | 2010            | 2009            |
| <b>Revenues:</b>                       |                         |                 |                 |
| Products                               | \$355,760               | \$325,429       | \$281,783       |
| Services                               | 438,071                 | 364,022         | 301,332         |
| <b>Total revenues</b>                  | <b>793,831</b>          | <b>689,451</b>  | <b>583,115</b>  |
| <b>Cost of revenues:</b>               |                         |                 |                 |
| Products                               | 116,256                 | 107,190         | 88,030          |
| Services                               | 191,049                 | 161,885         | 149,175         |
| <b>Total cost of revenues</b>          | <b>307,305</b>          | <b>269,075</b>  | <b>237,205</b>  |
| <b>Gross profit</b>                    | <b>486,526</b>          | <b>420,376</b>  | <b>345,910</b>  |
| <b>Operating expenses:</b>             |                         |                 |                 |
| Research and development, net          | 109,127                 | 97,083          | 77,382          |
| Selling and marketing                  | 199,044                 | 178,407         | 141,526         |
| General and administrative             | 95,650                  | 76,345          | 72,791          |
| Amortization of acquired intangibles   | 23,677                  | 19,489          | 16,012          |
| <b>Total operating expenses</b>        | <b>427,498</b>          | <b>371,324</b>  | <b>307,711</b>  |
| <b>Operating income</b>                | <b>59,028</b>           | <b>49,052</b>   | <b>38,199</b>   |
| <b>Financial income and other, net</b> | <b>9,856</b>            | <b>8,981</b>    | <b>7,597</b>    |
| <b>Income before taxes on income</b>   | <b>68,884</b>           | <b>58,033</b>   | <b>45,796</b>   |
| <b>Taxes on income</b>                 | <b>11,621</b>           | <b>9,326</b>    | <b>3,040</b>    |
| <b>Net income</b>                      | <b>\$57,263</b>         | <b>\$48,707</b> | <b>\$42,756</b> |
| <b>Net earnings per share:</b>         |                         |                 |                 |
| <b>Basic</b>                           | <b>\$0.91</b>           | <b>\$0.78</b>   | <b>\$0.70</b>   |
| <b>Diluted</b>                         | <b>\$0.89</b>           | <b>\$0.76</b>   | <b>\$0.68</b>   |

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



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

U.S. dollars in thousands

|   | Share capital | Additional paid-in capital | Treasury shares | Accumulated other comprehensive income (loss) | Retained earnings | Total comprehensive income | Total shareholders' equity |
|---|---------------|----------------------------|-----------------|---|-------------------|----------------------------|----------------------------|
| Balance as of January 1, 2011                                     | \$ 15,875     | \$ 939,064                 | \$ -            | \$ 10,576                                     | \$ 195,245        |                            | \$ 1,160,760               |
| Assumption of restricted share units and options upon acquisition | -             | 1,230                      | -               | -   | -                 |                            | 1,230                      |
| Issuance of shares of ESPP  | 5             | 557                        | -               | -   | -                 |                            | 562                        |
| Exercise of share options   | 391           | 25,683                     | -               | -   | -                 |                            | 26,074                     |
| Stock-based compensation  | -             | 21,159                     | -               | -   | -                 |                            | 21,159                     |
| Excess tax benefit from share-based payment arrangements          | -             | 372                        | -               | -   | -                 |                            | 372                        |
| Restricted shares vesting in respect of Actimize acquisition      | 2             | 11                         | -               | -   | -                 |                            | 13                         |
| Treasury shares purchased   | -             | -                          | (96,318)        | -   | -                 |                            | (96,318)                   |
| Comprehensive income:   |               |                            |                 |   |                   |                            |                            |
| Foreign currency translation adjustments                          | -             | -                          | -               | (6,944)                                       | -                 | \$ (6,944)                 | (6,944)                    |
| Unrealized losses on marketable securities, net                   | -             | -                          | -               | (32)  | -                 | (32)                       | (32)                       |
| Unrealized losses on derivative instruments, net                  | -             | -                          | -               | (5,495)                                       | -                 | (5,495)                    | (5,495)                    |
| Net income  | -             | -                          | -               | -   | 57,263            | 57,263                     | 57,263                     |
| Total comprehensive income  |               |                            |                 |   |                   | \$ 44,792                  |                            |
| Balance as of December 31, 2011                                   | \$ 16,273     | \$ 988,076                 | \$ (96,318)     | \$ (1,895)                                    | \$ 252,508        |                            | \$ 1,158,644               |

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|  |          |           |     |          |           |           |             |
|--|----------|-----------|-----|----------|-----------|-----------|-------------|
| Balance as of January 1, 2010                              | \$15,492 | \$892,139 | \$- | \$8,585  | \$146,538 |           | \$1,062,754 |
|  |          |           | -   |          |           |           |             |
| Issuance of shares of ESPP                                 | 4        | 432       | -   | -        | -         |           | 436         |
| Exercise of share options                                  | 364      | 25,409    | -   | -        | -         |           | 25,773      |
| Stock-based compensation                                   | -        | 21,054    | -   | -        | -         |           | 21,054      |
| Excess tax shortfall from share-based payment arrangements | -        | (18 )     | -   | -        | -         |           | (18 )       |
| Restricted shares vesting in respect of                    |          |           |     |          |           |           |             |
| Actimize acquisition                                       | 15       | 48        | -   | -        | -         |           | 63          |
| Comprehensive income:                                      |          |           |     |          |           |           |             |
| Foreign currency translation adjustments                   | -        | -         | -   | 135      | -         | \$ 135    | 135         |
| Unrealized losses on marketable securities, net            | -        | -         | -   | (1,116 ) | -         | (1,116 )  | (1,116 )    |
| Unrealized gains on derivative instruments, net            | -        | -         | -   | 2,972    | -         | 2,972     | 2,972       |
| Net income   | -        | -         | -   | -        | 48,707    | 48,707    | 48,707      |
| Total comprehensive income                                 |          |           |     |          |           | \$ 50,698 |             |
| Balance as of December 31, 2010                            | \$15,875 | \$939,064 | -   | \$10,576 | \$195,245 |           | \$1,160,760 |

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

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

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 January 1, 2009                            | \$ 15,157     | \$ 853,226                 | \$ (1,343 )                                   | \$ 103,782        |                            | \$ 970,822                 |
| Issuance of shares of ESPP                               | 5             | 370                        | -   | -                 |                            | 375                        |
| Exercise of share options                                | 303           | 19,267                     | -   | -                 |                            | 19,570                     |
| Stock-based compensation                                 | 0             | 18,237                     | -   | -                 |                            | 18,237                     |
| Excess tax benefit from share-based payment arrangements | 0             | 969                        | -   | -                 |                            | 969                        |
| Restricted shares vesting in respect of                  |               |                            |   |                   |                            |                            |
| Actimize acquisition                                     | 27            | 70                         | -   | -                 |                            | 97                         |
| Comprehensive income:                                    | -             | -                          | -   | -                 |                            |                            |
| Foreign currency translation adjustments                 | -             | -                          | 7,415   | -                 | \$ 7,415                   | 7,415                      |
| Unrealized gains on marketable securities, net           | -             | -                          | 2,206   | -                 | 2,206                      | 2,206                      |
| Unrealized gains on derivative instruments, net          | -             | -                          | 307   | -                 | 307                        | 307                        |
| Net income   | -             | -                          | -   | 42,756            | 42,756                     | 42,756                     |
| Total comprehensive income                               |               |                            |   |                   | \$ 52,684                  |                            |
| Balance as of December 31, 2009                          | \$ 15,492     | \$ 892,139                 | \$ 8,585                                      | \$ 146,538        |                            | \$ 1,062,754               |

As of December 31, 2011, 2010 and 2009, accumulated other comprehensive income (loss) was comprised of foreign currency translation adjustments of \$ (1,213), \$ 5,731 and \$ 5,596, unrealized gains on marketable securities, net of tax, of \$ 2,490, \$ 2,522 and \$ 3,638 and unrealized gains (losses) on derivative instruments, net of tax, of \$ (3,172), \$ 2,323 and \$ (649), respectively.

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





## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

|  | Year ended December 31, |            |            |
|--|-------------------------|------------|------------|
|  | 2011                    | 2010       | 2009       |
| <b>Cash flows from operating activities:</b>   |                         |            |            |
| Net income   | \$57,263                | \$48,707   | \$42,756   |
| Adjustments required to reconcile net income to net cash provided by operating activities: |                         |            |            |
| Depreciation and amortization  | 66,958                  | 57,110     | 47,217     |
| Stock-based compensation   | 21,159                  | 21,054     | 18,237     |
| Excess tax shortfall (benefit) from share-based payment arrangements                       | (372 )                  | 18         | (969 )     |
| Accrued severance pay, net   | 533                     | (1,015 )   | (1,534 )   |
| Amortization of premium and accrued interest on marketable securities                      | 3,238                   | 328        | 1,656      |
| Gain on marketable securities, net   | (791 )                  | (1,197 )   | (823 )     |
| Deferred taxes, net  | (8,775 )                | (4,862 )   | (6,984 )   |
| Changes in operating assets and liabilities:   |                         |            |            |
| Trade receivables, net   | (20,621 )               | 6,344      | 8,898      |
| Other receivables and prepaid expenses   | 5,812                   | (4,200 )   | (2,265 )   |
| Inventories  | (2,048 )                | 3,546      | (531 )     |
| Trade payables   | (3,743 )                | (7,136 )   | 1,536      |
| Accrued expenses and other liabilities   | 35,634                  | 25,913     | 12,039     |
| Other  | 127                     | 410        | 453        |
| Net cash provided by operating activities  | 154,374                 | 145,020    | 119,686    |
| <b>Cash flows from investing activities:</b>   |                         |            |            |
| Purchase of property and equipment   | (17,307 )               | (11,704 )  | (8,851 )   |
| Proceeds from sale of property and equipment   | 84                      | 13         | 70         |
| Investment in marketable securities  | (202,768 )              | (387,988 ) | (197,499 ) |
| Proceeds from maturity of marketable securities  | 229,482                 | 66,635     | 140,396    |
| Proceeds from sale and call of marketable securities                                       | 147,480                 | 69,933     | 57,394     |
| Investment in short-term bank deposits   | -                       | -          | (110,021 ) |
| Proceeds from short-term bank deposits   | -                       | 40,029     | 134,473    |
| Payments for business acquisitions, net of cash acquired                                   | (143,377 )              | (52,267 )  | (84,926 )  |
| Capitalization of software development costs   | (1,150 )                | (1,311 )   | (1,315 )   |
| Purchase of intangible assets  | (3,000 )                | -          | (1,000 )   |
| Net cash provided by (used in) investing activities  | 9,444                   | (276,660 ) | (71,279 )  |

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



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

|   | Year ended December 31, |            |           |
|---|-------------------------|------------|-----------|
|   | 2011                    | 2010       | 2009      |
| <b>Cash flows from financing activities:</b>                                      |                         |            |           |
| Proceeds from issuance of shares upon exercise of options and ESPP                | 26,751                  | 25,984     | 19,948    |
| Purchase of treasury shares   | (95,886 )               | -          | -         |
| Excess tax benefit (shortfall) from share-based payment arrangements              | 372                     | (18 )      | 969       |
| Net cash provided by (used in) financing activities                               | (68,763 )               | 25,966     | 20,917    |
| Effect of exchange rate changes on cash   | (144 )                  | 389        | 1,111     |
| Increase (decrease) in cash and cash equivalents                                  | 94,911                  | (105,285 ) | 70,435    |
| Cash and cash equivalents at the beginning of the year                            | 109,526                 | 214,811    | 144,376   |
| Cash and cash equivalents at the end of the year                                  | \$204,437               | \$109,526  | \$214,811 |
| <b>Supplemental disclosure of cash flows activities:</b>                          |                         |            |           |
| <b>Cash paid during the year for:</b>   |                         |            |           |
| Income taxes  | \$17,560                | \$9,988    | \$5,554   |
| Interest  | \$78                    | \$28       | \$36      |
| <b>Non-cash activities:</b>   |                         |            |           |
| Accrued liability with respect to treasury shares                                 | \$432                   | \$-        | \$-       |
| Assumption of restricted share units and options upon the acquisition of Fizzback | \$1,230                 | \$-        | \$-       |

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

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 software solutions that sells its solutions worldwide and enables organizations to take action to improve customer experience and business results, ensure compliance, prevent financial crime, and enhance safety and security. The Company operates an Enterprise business which is comprised of Customer Interactions Solutions and Financial Crime and Compliance solutions, and a Security business. Across the Company's businesses, its solutions capture structured and unstructured data from different types of interactions, transactions and events, including interactions at various customer touch points, financial transactions and security-related sensors. Such data is captured from phone calls, the web, emails, chat, video, radio and many others. Through cross-channel analytics, insights on the interactions, transactions and events are delivered to the organization. The extraction of insights through advanced analytics on the captured data enables organizations to take action and make an impact in real time and offline by driving a personalized response to these insights before, during and after the interactions, transactions or events. This allows organizations to improve business performance, increase operational efficiency, prevent financial crime, ensure compliance, and enhance safety and security. The Company's Customer Interactions Solutions are implemented by contact centers of all sizes, back office operations, retail branches and financial trading floors, to improve operational efficiency, ensure regulatory compliance, enhance customer experience and grow revenue. Enterprise customers of the Company's Customer Interactions Solutions span a variety of industries, such as financial services, telecommunications, healthcare, outsourcers, retail, media, travel, service providers, utilities, and others. Enterprise customers of the Company's Financial Crime and Compliance Solutions are primarily financial services organizations, government agencies and related organizations. The Company's solutions drive to enable such customers to fight financial crime, prevent fraud and money laundering and ensure trading compliance. NICE Security Solutions are deployed worldwide in public transportation systems, critical facilities, city centers, banks, airports, public safety agencies, law enforcement and intelligence agencies and organizations and national and internal security agencies. The Company's Security Solutions offer incident life-cycle management, including prevention, prediction, real-time and post-incident analysis for security and safety operations. The Company's Security Solutions also offer solutions for the interception, collection, processing and analysis of communications data.

The Company depends on a limited number of contract manufacturers for producing its products. If any of these manufacturers becomes unable or unwilling to continue to manufacture or fails 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.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## 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 CyberTech:

On March 4, 2011, the Company completed the acquisition of all of the outstanding shares of CyberTech Investments BV ("CyberTech"), a global provider of compliance recording solutions and value-added applications. The Company acquired CyberTech for an aggregate consideration of \$ 59,436 in cash.

The addition of CyberTech solutions to the NICE portfolio broadened the Company's offering for financial institutions, strengthened commitments to the small and medium size business sector, and added to the Company's public safety solutions. It also enhanced the Company's positioning in EMEA and provided a product set that meets the needs of emerging markets, by offering a solution that accommodates large scale implementations with entry-level requirements. The value of goodwill is attributed to synergies between the NICE portfolio and CyberTech's products and services. \$ 35,562 from the goodwill was assigned to the Customer Interactions Solutions' reporting unit and the remaining amount of \$ 6,275 was assigned to the Security Solutions reporting unit.

The acquisition was accounted for by the acquisition method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of CyberTech. The results of the CyberTech operations have been included in the consolidated financial statements since March 4, 2011.

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

|  |                  |
|--|------------------|
| Cash                                   | \$736            |
| Trade receivables                      | 4,266            |
| Other receivables and prepaid expenses | 1,200            |
| Current deferred tax assets            | 203              |
| Inventories                            | 981              |
| Long-term deposits                     | 20               |
| Property and equipment                 | 1,433            |
| Other intangible assets                | 22,710           |
| Goodwill                               | 41,837           |
| <b>Total assets acquired</b>           | <b>73,386</b>    |
| Trade payables                         | (1,370 )         |
| Accrued expenses and other liabilities | (7,971 )         |
| Long-term deferred tax liabilities     | (4,609 )         |
| <b>Total liabilities assumed</b>       | <b>(13,950 )</b> |
| <b>Net assets acquired</b>             | <b>\$59,436</b>  |



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 1:- GENERAL (Cont.)

In performing the purchase price allocation, management considered, among other factors, analyses of historical financial performance, highest and best use of the acquired assets and estimates of future performance of CyberTech's business. The fair value of intangible assets was based on market participant approach using an income approach.

Intangible assets that are subject to amortization are amortized over their estimated useful lives using the straight-line method at an annual weighted average rate of 38%. The following table sets forth the components of intangible assets associated with the acquisition and their annual rates of amortization:

|                         | Fair value | %   |
|-------------------------|------------|-----|
| Core technology         | \$ 10,900  | 20  |
| Customer relationships  | 8,200      | 33  |
| Covenant not to compete | 1,210      | 100 |
| Backlog                 | 2,400      | 100 |
| Total intangible assets | \$ 22,710  |     |

## 2. Acquisition of Fizzback:

On October 26, 2011, the Company completed the acquisition of all of the outstanding shares of Fizzback Group (Holdings) Ltd. ("Fizzback"), a global provider of Voice of the Customer (VoC) solutions, providing software solutions for real-time customer feedback that drive customer loyalty and employee performance. Fizzback's solution helps companies listen, respond and act in real-time to their customers' comments. The Company acquired Fizzback for an aggregate consideration of \$ 80,905. The total purchase price of Fizzback was composed of the following:

|                                      |          |
|--------------------------------------|----------|
| Cash                                 | \$79,675 |
| Options and Restricted Share Units*) | 1,230    |
| Total purchase price                 | \$80,905 |

\*)Represents the fair value of the vested portion of 165,695 options and restricted shares of NICE granted upon consummation of the acquisition to the holders of partially vested options of Fizzback originally granted under the Fizzback Group (Holdings) Ltd. Employee Share Option Scheme. The fair value of these options was determined using a Black-Scholes-Merton valuation model with the following assumptions: expected life of 1-38 months, risk-free interest rate of 0.02%-0.48%, expected volatility of 36.98%-56.44% and no dividend yield.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 1:- GENERAL (Cont.)

The combination of Fizzback and NICE both improved Customer Experience Management (CEM) as well as operationalized VoC both for the contact center and across the enterprise. By adding direct customer feedback with the Fizzback solution, NICE now provides a complete CEM solution that delivers a holistic understanding of the customer by combining on one platform the VoC from each of the three feedback dimensions: direct, indirect and inferred. The value of goodwill is attributed to synergies between NICE portfolio and Fizzback's products and services and the strength of the Company's position in the market. The entire goodwill was assigned to the Customer Interactions Solutions reporting unit.

The acquisition was accounted for by the acquisition method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of Fizzback. The results of the Fizzback operations have been included in the consolidated financial statements since October 26, 2011.

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

|  |                  |
|--|------------------|
| Cash                                   | \$687            |
| Trade receivables                      | 3,341            |
| Other receivables and prepaid expenses | 1,134            |
| Current deferred tax assets            | 1,887            |
| Long-term deposits                     | 148              |
| Property and equipment                 | 984              |
| Other intangible assets                | 46,075           |
| Goodwill                               | 44,157           |
| <b>Total assets acquired</b>           | <b>98,413</b>    |
| Trade payables                         | (1,426 )         |
| Accrued expenses and other liabilities | (5,024 )         |
| Long-term deferred tax liabilities     | (11,058 )        |
| <b>Total liabilities assumed</b>       | <b>(17,508 )</b> |
| <b>Net assets acquired</b>             | <b>\$80,905</b>  |

In performing the purchase price allocation, management considered, among other factors, analyses of historical financial performance, highest and best use of the acquired assets and estimates of future performance of Fizzback's business. The fair value of intangible assets was based on market participant approach using an income approach.





## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 1:- GENERAL (Cont.)

Intangible assets that are subject to amortization are amortized over their estimated useful lives using the straight-line method at an annual weighted average rate of 21%. The following table sets forth the components of intangible assets associated with the acquisition and their annual rates of amortization:

|                         | Fair value | %  |
|-------------------------|------------|----|
| Core technology         | \$ 29,834  | 17 |
| Customer relationships  | 8,879      | 20 |
| Covenant not to compete | 1,898      | 50 |
| Brand name              | 5,464      | 33 |
| Total intangible assets | \$ 46,075  |    |

## 3. Acquisitions in previous years:

In 2010, the Company completed the acquisitions of Orsus Solutions Ltd., Lamda Communication Networks Ltd, and e-Glue Software Technologies Inc. and its subsidiaries. Total fair value of purchase consideration for the acquisitions was \$ 59,766, which includes cash paid for Common stock and estimated fair value of earn-out payments. In connection with these acquisitions, the Company recorded intangibles and goodwill in the amounts of \$ 30,423 and \$ 32,401, respectively. In 2011, the Company paid an additional amount of \$ 5,689 primarily with respect to earn out for the acquisition of e-Glue.

In 2009, the Company completed the acquisitions of Syfact, Fortent Inc and Hexagon System Engineering Ltd. Total cash paid in consideration for the acquisitions was \$ 85,336. In connection with these acquisitions, the Company recorded intangibles, In Process Research and Development (IPR&D) and goodwill in the amounts of \$ 41,454, \$ 1,440 and \$ 45,349, respectively.

## 4. Unaudited pro forma condensed results of operations:

The following represents the unaudited pro forma condensed results of operations for the years ended December 31, 2011 and 2010, assuming that the acquisitions of CyberTech and Fizzback occurred on January 1, 2010. The pro forma information is not necessarily indicative of the results of operations that would have actually occurred had the acquisitions been consummated on those dates, nor does it purport to represent the results of operations for future periods.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 1:- GENERAL (Cont.)

|                                | Year ended<br>December 31, |                   |
|--------------------------------|----------------------------|-------------------|
|                                | 2011<br>Unaudited          | 2010<br>Unaudited |
| Revenues                       | \$ 812,048                 | \$ 722,926        |
| Net income                     | \$ 47,477                  | \$ 20,218         |
| Basic net earnings per share   | \$ 0.75                    | \$ 0.32           |
| Diluted net earnings per share | \$ 0.74                    | \$ 0.31           |

5. Acquisition related costs for the years ended December 31, 2011 and 2010 amounted to \$ 2,925 and \$ 851, respectively, and were included mainly in general and administrative expenses.

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

## a. Use of estimates:

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

## b. Financial statements in United States dollars:

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

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



NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 at acquisition.

e. Marketable securities:

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

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

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

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

## f. Inventories:

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

Inventory write-downs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, and discontinued products and for market prices lower than cost, if any. At the point of the loss recognition, a new lower cost basis for that inventory is established. In addition, the Company records a liability for firm non-cancelable and unconditional purchase commitments with contract manufacturers for quantities in excess of the Company's future demands forecast consistent with its valuation of excess and obsolete inventory. Inventory write-downs for 2011, 2010 and 2009 were \$ 1,395, \$ 1,203 and \$ 1,586, respectively, and have been included in cost of revenues.

## g. Property and equipment, net:

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

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

|                                    | %      |
|------------------------------------|--------|
| Computers and peripheral equipment | 33     |
| Office furniture and equipment     | 6 - 20 |
| Vehicles                           | 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.

## h. Other intangible assets, net:

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

|  | %  |
|--|----|
| Core technology                                      | 18 |
| Customer relationships and distribution network      | 17 |
| Capitalized software development costs (see 1 below) | 33 |
| Trademarks   | 27 |

Covenant not to compete

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## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Acquired IPR&D is capitalized and assessed for impairment at least annually until the completion of development and afterwards is amortized over its useful life. Impairment on acquired IPR&D of \$ 1,425, \$ 0 and \$ 0 was recorded for the years 2011, 2010 and 2009, respectively.

## i. Impairment of long-lived assets:

The Company's long-lived assets and identifiable intangibles that are subject to amortization are reviewed for impairment in accordance with ASC 360, "Property, Plant, and Equipment", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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 2011, 2010 and 2009, no impairment indicators have been identified.

## j. Goodwill:

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350, goodwill is not amortized, but rather is subject to an annual impairment test.

ASC 350 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 three operation-based segments: Customer Interactions Solutions, Security Solutions and Financial Crime and Compliance Solutions, 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 2011, 2010 and 2009 and did not identify any impairment losses.

## k. 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, customization, consulting and training. The Company sells its products directly through its sales force and indirectly through a global network of distributors, system integrators and strategic partners, all of whom are considered end-users.





NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenues from sales of product and software licensing are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectability is probable.

In transactions where a customer's contractual terms include a provision for customer acceptance, revenues are recognized either when such acceptance has been obtained or as the acceptance provision has lapsed.

For multiple element arrangements within the scope of software revenue recognition guidance, revenues are allocated to the different elements in the arrangement under the "residual method" when Vendor Specific Objective Evidence ("VSOE") of fair value exists for all undelivered elements and no VSOE exists for the delivered elements. Under the residual method, 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 ASC 985-605 have been met. Any discount in the arrangement is allocated to the delivered element.

Starting January 1, 2011 the Company adopted the guidance of ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) ("ASU 2009-13") and ASU 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) ("ASU 2009-14"). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendment eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance in determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. As such, the Company prospectively applied these provisions to all revenue arrangements entered into or materially modified after January 1, 2011. This guidance does not generally change the units of accounting for the Company's revenue transactions. Most products and services qualify as separate units of accounting and the revenue is recognized when the applicable revenue recognition criteria are met. The Company's arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue. While certain of the Company's bundled products are now accounted for following ASC 605, the impact of the adoption of these standards was immaterial.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's revenue recognition policies provide that, when a sales arrangement contains multiple elements, such as software and non-software components that function together to deliver the products' essential functionality, the Company allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its VSOE, if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. The Company establishes VSOE of selling price using the price charged for a deliverable when sold separately and, in rare instances, using the price established by management having the relevant authority. When VSOE cannot be established, the Company attempts to establish selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, the Company's go-to-market strategy typically differs from that of its peers and its offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor products' selling prices are on a standalone basis. Therefore, the Company is typically not able to determine TPE. The best estimate of selling price is established considering several external and internal factors including, but not limited to, historical sales, pricing practices and geographies in which the Company offers its products. The determination of ESP is judgmental.

In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue, as amended.

For all periods presented, amounts billed to customers related to shipping and handling are classified as revenue, and the Company's shipping and handling costs are included in cost of sales.

The Company's policy for establishing VSOE of fair value of maintenance services is based on the price charged when the maintenance is renewed separately. Establishment of VSOE of fair value of professional services is based on the price charged when these services are sold separately.

Revenues from maintenance and professional services are recognized ratably over the contractual period or as services are performed, respectively.

NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 ASC 605-35, "Construction-Type and Production-Type Contracts", using the percentage-of-completion method of accounting based on the ratio of costs related to contract performance incurred to date to the total estimated amount of such costs. The amount of revenue recognized is based on the total fees under the arrangement and the percentage of completion achieved. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined, in the amount of the estimated loss on the entire contract.

The Company maintains a provision for product returns in accordance with ASC 605, "Revenue Recognition". The provision is estimated based on the Company's past experience and is deducted from revenues. As of December 31, 2011 and 2010, the provision for product returns amounted to \$ 2,237 and \$ 2,810, respectively.

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

1. 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 incurred to develop software to be sold are capitalized after technological feasibility is established in accordance with ASC 985-20, "Software - Costs of Software to be Sold, Leased, or 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.

NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Income taxes:

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

The Company implements a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement.

The Company classifies interest as financial expenses and penalties as general and administrative expenses.

n. 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.

o. Concentrations of credit risk:

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

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

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's trade receivables are derived from sales to customers located primarily in North America, EMEA and APAC. The Company performs ongoing credit evaluations of its customers and obtains letters 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.

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

The Company entered into forward contracts, and option contracts intended to protect against the increase in value of forecasted non-dollar currency cash flows resulting from investments in Israeli Treasury Bills and payroll expenses and entered into option contracts to hedge future anticipated payments relating to a leasehold improvement. The derivative instruments hedge a portion of the Company's non-dollar currency exposure. See Notes 2v and 11 below.

## p. Severance pay:

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

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

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

NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Severance pay expense for 2011, 2010 and 2009 amounted to \$ 12,090, \$ 8,978 and \$ 7,709, respectively.

The Company has a 401(K) defined contribution plan covering certain employees in the U.S. All eligible employees may elect to contribute up to 6% of their eligible compensation, but generally not greater than \$ 16.5 per year, (for certain employees over 50 years of age the maximum contribution is \$ 22 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 2011, 2010 and 2009, the Company recorded an expense for matching contributions in the amount of \$ 3,129, \$ 2,723 and \$ 2,330, respectively.

q. Basic and diluted net earnings per share:

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

The weighted average number of shares related to outstanding anti-dilutive options and restricted shares excluded from the calculations of diluted net earnings per share was 1,096,069, 2,086,379 and 3,867,517 for the years 2011, 2010 and 2009, respectively.

r. Accounting for stock-based compensation:

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

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.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option-pricing model, which requires a number of assumptions and values restricted stock based on the market value of the underlying shares at the date of grant. 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.

## s. Fair value of financial instruments:

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

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

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

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



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The Company's marketable securities 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 tables present assets and liabilities measured at fair value on a recurring basis at December 31, 2011 and 2010:

|                                    | 2011                                     |                    |             |                    |
|------------------------------------|--|--------------------|-------------|--------------------|
|                                    | Fair value measurements using input type |                    |             |                    |
|                                    | Level 1                                  | Level 2            | Level 3     | Total              |
| <b>Marketable securities:</b>      |  |                    |             |                    |
| Corporate debentures               | \$ -                                     | \$ 202,834         | \$ -        | \$ 202,834         |
| U.S. Treasuries                    | -  | 19,482             | -           | 19,482             |
| U.S. Government agency debentures  | -  | 10,748             | -           | 10,748             |
| Israeli Treasury Bills             | -  | 125,067            | -           | 125,067            |
| <b>Total marketable securities</b> | <b>\$ -</b>                              | <b>\$ 358,131</b>  | <b>\$ -</b> | <b>\$ 358,131</b>  |
| <b>Derivative assets</b>           | <b>\$ -</b>                              | <b>\$ 9,587</b>    | <b>\$ -</b> | <b>\$ 9,587</b>    |
| <b>Derivative liabilities</b>      | <b>\$ -</b>                              | <b>\$ (2,948 )</b> | <b>\$ -</b> | <b>\$ (2,948 )</b> |

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

|                                    | 2010                                     |                   |             | Total             |
|------------------------------------|--|-------------------|-------------|-------------------|
|                                    | Fair value measurements using input type |                   |             |                   |
|                                    | Level 1                                  | Level 2           | Level 3     |                   |
| <b>Marketable securities:</b>      |  |                   |             |                   |
| Corporate debentures               | \$ -                                     | \$ 349,327        | \$ -        | \$ 349,327        |
| U.S. Treasuries                    | -  | 18,948            | -           | 18,948            |
| U.S. Government agency debentures  | -  | 32,985            | -           | 32,985            |
| Israeli Treasury Bills             | -  | 152,412           | -           | 152,412           |
| <b>Total marketable securities</b> | <b>\$ -</b>                              | <b>\$ 553,672</b> | <b>\$ -</b> | <b>\$ 553,672</b> |
| Derivative assets                  | \$ -                                     | \$ 2,423          | \$ -        | \$ 2,423          |
| Derivative liabilities             | \$ -                                     | \$ (8,775 )       | \$ -        | \$ (8,775 )       |

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

## t. Legal contingencies:

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

## u. Advertising expenses:

Advertising expenses are charged to expense as incurred. Advertising expenses for the years 2011, 2010 and 2009 were \$ 7,887, \$ 6,969 and \$ 5,883, respectively.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

## v. Derivatives and hedging activities:

The Company carries out transactions involving foreign currency exchange derivative financial instruments. The transactions are designed to hedge the Company's exposure in currencies other than the dollar. The Company recognizes derivative instruments as either assets or liabilities and measures those instruments at fair value. If a derivative meets the definition of a cash flow hedge and is so designated, changes in the fair value of the derivative are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative qualified and designated as a hedge is recognized in earnings. If a derivative does not meet the definition of a hedge, the changes in the fair value are included in earnings.

## w. Treasury shares:

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

## x. Recently issued accounting standards:

In September 2011, the Financial Accounting Standards Board, or FASB issued ASU 2011-08, Testing Goodwill for Impairment, codified in ASC 350 "Intangibles – Goodwill and Other". The revised accounting standard update intended to simplify how an entity tests goodwill for impairment. The amendment will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting standard update will be effective for the Company beginning January 1, 2012. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements.

In June 2011, the FASB issued ASU 2011-05 Presentation of Comprehensive Income, codified in ASC 220 "Comprehensive Income". The guidance requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance also eliminates the option to present the components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU 2011-12, deferring the effective date for amendments outlined in ASU 2011-05. The Company is still evaluating whether to present other comprehensive income in a single continuous statement of comprehensive income or in two separate but consecutive statements.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In May 2011, the FASB issued ASU 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, codified in ASC 820 "Fair Value Measurement". The guidance requires an entity to provide a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements, and will become effective for the Company beginning January 1, 2012. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements.

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

Short-term and long-term investments include marketable securities in the amount of \$ 358,131 and \$ 553,672 as of December 31, 2011 and 2010, respectively and short term bank deposits in the amounts of \$ 8 and \$ 2 as of December 31, 2011 and 2010, respectively.

The following table summarizes amortized costs, gross unrealized gains and losses and estimated fair values of available-for-sale marketable securities as of December 31, 2011 and 2010:

|                                   | Amortized cost    |            | Gross unrealized gains |          | Gross unrealized losses |          | Estimated fair value |            |
|-----------------------------------|-------------------|------------|------------------------|----------|-------------------------|----------|----------------------|------------|
|                                   | December 31, 2011 | 2010       | December 31, 2011      | 2010     | December 31, 2011       | 2010     | December 31, 2011    | 2010       |
| Corporate debentures              | \$ 201,301        | \$ 347,114 | \$ 3,089               | \$ 3,402 | \$ 1,556                | \$ 1,189 | \$ 202,834           | \$ 349,327 |
| U.S. Treasuries                   | 18,302            | 18,075     | 1,180                  | 873      | -                       | -        | 19,482               | 18,948     |
| U.S. Government agency debentures | 10,709            | 32,996     | 40                     | 40       | 1                       | 51       | 10,748               | 32,985     |
| Israeli Treasury Bills            | 124,679           | 152,451    | 388                    | 5        | -                       | 44       | 125,067              | 152,412    |
|                                   | \$ 354,991        | \$ 550,636 | \$ 4,697               | \$ 4,320 | \$ 1,557                | \$ 1,284 | \$ 358,131           | \$ 553,672 |

The scheduled maturities of available-for-sale marketable securities as of December 31, 2011 were as follows:

|                     | Amortized cost | Estimated fair value |
|---------------------|----------------|----------------------|
| Due within one year | \$ 143,600     | \$ 143,995           |

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|                                       |            |            |
|---------------------------------------|------------|------------|
| Due after one year through five years | 211,391    | 214,136    |
|                                       | \$ 354,991 | \$ 358,131 |

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## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4:- OTHER RECEIVABLES AND PREPAID EXPENSES

|                        | December 31, |           |
|------------------------|--------------|-----------|
|                        | 2011         | 2010      |
| Government authorities | \$ 17,495    | \$ 9,446  |
| Interest receivable    | 11,513       | 5,114     |
| Prepaid expenses       | 9,929        | 10,962    |
| Other                  | 5,004        | 6,402     |
|                        | \$ 43,941    | \$ 31,924 |

## NOTE 5:- INVENTORIES

|                  | December 31, |           |
|------------------|--------------|-----------|
|                  | 2011         | 2010      |
| Raw materials    | \$ 2,120     | \$ 2,509  |
| Work-in-progress | 2,768        | 1,324     |
| Finished goods   | 8,516        | 7,028     |
|                  | \$ 13,404    | \$ 10,861 |

## NOTE 6:- OTHER LONG-TERM ASSETS

|                         | December 31, |           |
|-------------------------|--------------|-----------|
|                         | 2011         | 2010      |
| Investment in affiliate | \$ 236       | \$ 236    |
| Severance pay fund      | 21,405       | 22,986    |
| Long-term deposits      | 2,183        | 2,227     |
| Deferred tax assets     | 5,066        | 5,669     |
|                         | \$ 28,890    | \$ 31,118 |

## NICE SYSTEMS LTD. AND ITS 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, |           |
|------------------------------------|--------------|-----------|
|                                    | 2011         | 2010      |
| <b>Cost:</b>                       |              |           |
| Computers and peripheral equipment | \$ 87,119    | \$ 73,714 |
| Office furniture and equipment     | 15,583       | 14,596    |
| Leasehold improvements             | 13,848       | 11,950    |
| Vehicles                           | 158          | -         |
|                                    | 116,708      | 100,260   |
| <b>Accumulated depreciation:</b>   |              |           |
| Computers and peripheral equipment | 68,062       | 60,046    |
| Office furniture and equipment     | 12,200       | 11,397    |
| Leasehold improvements             | 8,091        | 6,803     |
| Vehicles                           | 56           | -         |
|                                    | 88,409       | 78,246    |
| Depreciated cost                   | \$ 28,299    | \$ 22,014 |

Depreciation expense totaled \$ 12,959, \$ 11,757 and \$ 11,570 for the years 2011, 2010 and 2009, respectively.

## NOTE 8:- OTHER INTANGIBLE ASSETS, NET

## a. Definite-lived other intangible assets:

|   | December 31, |            |
|---|--------------|------------|
|   | 2011         | 2010       |
| <b>Original amounts:</b>                        |              |            |
| Core technology                                 | \$ 189,446   | \$ 147,083 |
| Customer relationships and distribution network | 150,162      | 133,080    |
| Capitalized software development costs          | 11,217       | 10,691     |
| Trademarks                                      | 15,469       | 8,927      |
| Covenant not to compete                         | 3,076        | 100        |
|   | 369,370      | 299,881    |
| <b>Accumulated amortization:</b>                |              |            |
| Core technology                                 | 110,194      | 84,697     |
| Customer relationships and distribution network | 81,709       | 59,238     |
| Capitalized software development costs          | 8,622        | 7,903      |
| Trademarks                                      | 9,535        | 7,766      |
| Covenant not to compete                         | 1,157        | 15         |

|                              |            |            |
|------------------------------|------------|------------|
|                              | 211,217    | 159,619    |
| Other intangible assets, net | \$ 158,153 | \$ 140,262 |

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## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

b. Amortization expense amounted to \$ 52,574, \$ 45,353 and \$ 35,647 for the years 2011, 2010 and 2009, respectively.

c. Estimated amortization expense (excluding amortization of capitalized software development costs):

For the year ended December 31,

|                     |            |
|---------------------|------------|
| 2012                | \$ 52,881  |
| 2013                | 43,313     |
| 2014                | 26,947     |
| 2015                | 18,275     |
| 2016                | 10,147     |
| 2017 and thereafter | 3,995      |
|                     | \$ 155,558 |

d. Indefinite-lived intangible assets consist of IPR&D in the amounts of \$ 0 and \$ 1,370 as of December 31, 2011 and 2010, respectively.

## NOTE 9:- GOODWILL

The changes in the carrying amount of goodwill allocated to reportable segments for the years ended December 31, 2011 and 2010 are as follows:

|   | Year ended December 31, 2011    |                    |  | Total      |
|---|---------------------------------|--------------------|--|------------|
|   | Customer Interactions Solutions | Security Solutions | Financial Crime and Compliance Solutions |            |
| As of January 1, 2011                       | \$ 214,805                      | \$ 52,129          | \$ 260,680                               | \$ 527,614 |
| Acquisitions                                | 79,719                          | 6,275              | -  | 85,994     |
| Functional currency translation adjustments | (3,934 )                        | (426 )             | (61 )                                    | (4,421 )   |
| As of December 31, 2011                     | \$ 290,590                      | \$ 57,978          | \$ 260,619                               | \$ 609,187 |



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 9:-

## GOODWILL (Cont.)

|   | Year ended December 31, 2010    |                    |  | Total      |
|---|---------------------------------|--------------------|--|------------|
|   | Customer Interactions Solutions | Security Solutions | Financial Crime and Compliance Solutions |            |
| As of January 1, 2010                       | \$ 191,027                      | \$ 42,039          | \$ 261,432                               | \$ 494,498 |
| Acquisitions                                | 22,576                          | 9,825              | -  | 32,401     |
| Functional currency translation adjustments | 1,202                           | 265                | (752 )                                   | 715        |
| As of December 31, 2010                     | \$ 214,805                      | \$ 52,129          | \$ 260,680                               | \$ 527,614 |

## NOTE 10:-

## ACCRUED EXPENSES AND OTHER LIABILITIES

|                                | December 31, |            |
|--------------------------------|--------------|------------|
|                                | 2011         | 2010       |
| Employees and payroll accruals | \$ 59,713    | \$ 43,925  |
| Accrued expenses               | 71,040       | 74,455     |
| Government authorities         | 57,683       | 47,317     |
| Other                          | 1,936        | 946        |
|                                | \$ 190,372   | \$ 166,643 |

## NOTE 11:-

## DERIVATIVE INSTRUMENTS

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

ASC 815, "Derivatives and Hedging", 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.



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- DERIVATIVE INSTRUMENTS (Cont.)

The Company entered into derivative instrument arrangements to hedge a portion of anticipated New Israeli Shekel ("NIS") payroll payments, to hedge forecasted Euro payments received from construction-type contract net of Euro payments to sub-contractors and to hedge future anticipated payments relating to leasehold improvements. These derivative instruments are designated as cash flow hedges, as defined by ASC 815. The transactions to hedge salary payments and net receivables from construction-type contract are made on denominated amounts that are no greater than forecasted cash flows for salaries and benefits and forecasted net receivables from construction-type contracts according to the Company's budget and on the dates that the cash flows are expected to be paid or received. These transactions are effective and as a result, are recorded as payroll expenses or as cost of revenues, respectively, at the time that the hedged income/expense is recorded. 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 also entered into forward contracts, to hedge Israeli Treasury Bills denominated in NIS against changes in U.S. dollar/NIS exchange rate fluctuations. These derivative instruments are also designated as cash flow hedges and accordingly are measured in fair value. The Company records the effective portion of any gain or loss in other comprehensive income and then reclassifies amounts from other comprehensive income to financial income (expense) to offset the foreign exchange earnings impact of the hedged available-for-sale securities.

|  | Notional amount<br>December 31, |            | Fair value<br>December 31, |             |
|--|---------------------------------|------------|----------------------------|-------------|
|  | 2011                            | 2010       | 2011                       | 2010        |
| Option contracts to hedge payroll expenses   | \$ 73,400                       | \$ 58,000  | \$ (2,920 )                | \$ 2,423    |
| Option contracts to hedge future anticipated payments relating to leasehold improvements | 3,000                           | -          | (28 )                      | -           |
| Forward contracts to hedge Israeli Treasury Bills  | 123,501                         | 150,872    | 9,587                      | (8,775 )    |
|  | \$ 199,901                      | \$ 208,872 | \$ 6,639                   | \$ (6,352 ) |

The Company currently hedges its exposure to the variability in future cash flows for a maximum period of one year. At December 31, 2011, the Company expects to reclassify all of the net loss on derivative instruments in the amount of \$ 3,172 from accumulated other comprehensive income to earnings during the next twelve months.



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- DERIVATIVE INSTRUMENTS (Cont.)

The fair value of the Company's outstanding derivative instruments at December 31, 2011 and 2010 is summarized below:

| Balance sheet location             | Fair value of derivative instruments<br>December 31, |             |             |
|------------------------------------|--|-------------|-------------|
|                                    | 2011   | 2010        |             |
| Derivative assets:                 |  |             |             |
| Foreign exchange option contracts  | \$ -   | \$ 2,425    |             |
| Foreign exchange forward contracts | 9,587  | -           |             |
|                                    | \$ 9,587   | \$ 2,425    |             |
| Derivative liabilities:            |  |             |             |
| Foreign exchange option contracts  | \$ (2,948 )  | \$ (2 )     |             |
| Foreign exchange forward contracts | -  | (8,775 )    |             |
|                                    | \$ (2,948 )  | \$ (8,777 ) |             |
| Derivative assets                  | Other receivables and prepaid expenses               | \$ 9,587    | \$ 2,423    |
| Derivative liabilities             | Accrued expenses and other liabilities               | \$ (2,948 ) | \$ (8,775 ) |

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## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- DERIVATIVE INSTRUMENTS (Cont.)

The effect of derivative instruments in cash flow hedging relationship on income and other comprehensive income for the years ended December 31, 2011, 2010 and 2009 is summarized below:

|   | Amount of gain (loss) recognized in OCI<br>on derivative (effective portion)<br>Year ended December 31, |             |             |
|---|---|-------------|-------------|
|   | 2011  | 2010        | 2009        |
| <b>Derivatives in cash flow hedging relationship:</b> |   |             |             |
| Foreign exchange option contracts                     | \$ 2,929  | \$ (3,193 ) | \$ (1,171 ) |
| Foreign exchange forward contracts                    | 10,537  | (893 )      | 2,888       |
|   | \$ 13,466   | (4,086 )    | \$ 1,717    |

| Statements<br>of income<br>line item                                       | Amount of gain (loss) reclassified from OCI into<br>income (expenses) (effective portion)<br>Year ended December 31, |             |             |
|--|--|-------------|-------------|
|  | 2011   | 2010        | 2009        |
| <b>Derivative in cash<br/>flow<br/>hedging<br/>relationship:</b>           |  |             |             |
| Foreign exchange option contracts Cost of revenues and operating expenses  | \$ (1,930 )  | \$ (1,127 ) | \$ 670      |
| Foreign exchange forward contracts Cost of revenues and operating expenses | -  | 51          | (2,665 )    |
| Foreign exchange forward contracts Financial income                        | 9,902  | (39 )       | -           |
|  | \$ 7,972   | \$ (1,115 ) | \$ (1,995 ) |

The ineffective portion of the gain (loss) resulting from the change in fair value of a cash flow hedge for the years ended December 31, 2011, 2010 and 2009 amounted to \$ 0, \$ 38 and \$ (30), respectively.



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES

## a. Lease commitments:

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

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

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

|                     |            |
|---------------------|------------|
| 2012                | \$ 15,800  |
| 2013                | 13,172     |
| 2014                | 12,059     |
| 2015                | 10,449     |
| 2016                | 10,201     |
| 2017 and thereafter | 50,264     |
|                     | \$ 111,945 |

Rent expenses for the years 2011, 2010 and 2009 were approximately \$ 18,607, \$ 16,202 and \$ 14,808, respectively.

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

The minimum payment under these operating leases, upon cancellation of these lease agreements was \$ 1,297 as of December 31, 2011.

Lease expenses for motor vehicles for the years 2011, 2010 and 2009 were \$ 5,707, \$ 5,507 and \$ 5,249, 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, 2011, were \$ 2,073. These obligations will be fulfilled during 2012.

The Company is also obligated under certain agreements with its suppliers to purchase licenses and hosting services. Non cancelable obligations as of December 31, 2011, were \$ 1,064.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

## c. Legal proceedings:

1. 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, for a total amount of \$ 740. The Company deducted this amount in January 2004 from a payment transferred in connection with the acquisition of Thales Contact Solutions ("TCS"). The Company had notified TCS in 2004 that it had set off 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. A trial was held on September 11, 2011, and the parties submitted their written summations and now await the Court's decision. The Company is currently unable to evaluate the probability of a favorable or unfavorable outcome.
2. On September 16, 2009, Fair Isaac Corporation ("FICO") filed a claim in the United States District Court for the District of Delaware against Actimize Inc. and the Company, claiming that Actimize and the Company are infringing two U.S. patents. These patents cover various aspects of fraud detection. FICO requested damages and an injunction. On December 17, 2009, the parties agreed to dismiss the Company from the action. On December 21, 2009, Actimize filed a response and counterclaims. On January 25, 2010, Actimize filed an amended response and counterclaims. On January 25, 2011, FICO filed a first amended complaint, adding new allegations of infringement of two additional U.S. patents and allegations of willful infringement. The parties are currently engaged in fact discovery. A ten-day jury trial is scheduled for January 28, 2013. On January 18, 2012, the parties both agreed to the Court's proposed terms of settlement, and a negotiated settlement agreement is due to be presented to the Court by the parties by April 23, 2012. See also 7 below.
3. On March 10, 2010, Nuvation Research Corporation ("Nuvation") filed a lawsuit against the Company with the Supreme Court of the State of New York. The lawsuit alleges, among others, that the Company breached a contract for design and development with Nuvation and defrauded Nuvation. Nuvation is claiming damages in a total amount of \$ 8,000. On May 3, 2010, the Company filed an Answer and Counterclaim against Nuvation, denying the allegations and further claiming that the Company had the right to terminate its contract with Nuvation, and that as a consequence of the termination, the Company sustained damages in the amount of \$ 5,000. On or about September 19, 2011, the parties reached an agreement in principle to settle the dispute through binding arbitration/mediation. The parties had a one-day arbitration/mediation on March 14, 2012 and are awaiting the arbitrator's decision. See also 7 below.

NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

4. On July 15, 2010, Tal-Yam Engineering Projects Management and Initiation ("Tal-Yam") filed a suit against the Company in the Tel Aviv Magistrate's Court. The suit alleges a breach of contract due to failure to pay for services rendered to the Company. Tal-Yam is seeking damages in the amount of approximately NIS 1.0 million (approximately \$ 262) and disclosure of certain invoices and related documentation. The Company submitted its statement of defense on October 24, 2010. The parties participated in mediation proceedings under Israeli Law that were not successful. Pre-trial proceedings are currently taking place. At this preliminary stage of the proceedings, the Company is unable to evaluate the probability of a favorable or unfavorable outcome.

5. Labor disputes:

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. The preliminary stages of the claim ended and the parties submitted their testimonies by way of written affidavits. The hearing and cross-examination of the testimonies took place on June 16 and June 23, 2010. On July 31, 2011, the court ruled in favor of Actimize, dismissing all claims filed by the former employee and ordering him to pay expenses.

On August 20, 2010, a former employee of IEX Corp., a wholly owned subsidiary of the Company filed a complaint with the District Court of the Northern District of Illinois, alleging that the Company and IEX Corp. engaged in prohibited discrimination in terminating his employment. The case was settled during April 2011 and the matter is no longer pending.

6. 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.

7. The Company accrued a liability for all legal proceedings where the loss is considered probable and the amount can be reasonably estimated. The amount accrued at December 31, 2011 was immaterial.

NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:-

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 26% in 2009, 25% in 2010, 24% in 2011 and 25% in 2012 and onwards.

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

Various industrial projects of NICE and its Israeli subsidiary have been granted "Approved Enterprise" and "Privileged Enterprise" status, which provides certain benefits, including tax exemptions and reduced tax rates. Income not eligible for Approved Enterprise and Privileged Enterprise benefits is taxed at a regular rate.

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 or its Israeli subsidiary. Tax-exempt income generated under the Company's Privileged Enterprise program will be subject to taxes upon dividend distribution (which includes the repurchase of the Company's shares) or complete liquidation.

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 and Privileged 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, 2011, management believes that the Company is in compliance with all the conditions required by the Law.

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## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- TAXES ON INCOME (Cont.)

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, 2011, approximately \$ 284,000 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 Approved Enterprise 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 \$ 56,000 would be incurred as of December 31, 2011.

During December 2010, the Law for Economic Policy for 2011 and 2012 (Amended Legislation) was passed, and among other things, amended the Law, ("the Amendment") effective January 1, 2011. According to the Amendment, the benefit tracks in the Investment Law were modified and a flat tax rate applies to the Company's entire preferred income. The Company will be able to opt to apply (the waiver is non-recourse) the Amendment and from then on it will be subject to the amended tax rates as follows: 2011 and 2012 - 15%, 2013 and 2014 - 12.5% and in 2015 and thereafter - 12%.

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

NICE is an "Industrial Company" as defined by the above law and, as such, is entitled to certain tax benefits including accelerated depreciation, deduction of public offering expenses in three equal annual installments and amortization of 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 has the intent and ability to reinvest these earnings indefinitely in the foreign subsidiaries and therefore those earnings are continually redeployed in those jurisdictions. 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.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- TAXES ON INCOME (Cont.)

## c. Net operating loss carryforward:

As of December 31, 2011, certain subsidiaries had tax loss carry-forwards totaling approximately \$ 122,500 which can be carried forward and offset against taxable income with expiration dates ranging from 2012 and onwards. Approximately \$ 77,300 of these carry-forward tax losses have no expiration date. The balance expires between 2012 and 2029.

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.

## 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, |             |
|--|--------------|-------------|
|  | 2011         | 2010        |
| Deferred tax assets:                           |              |             |
| Net operating losses carryforward              | \$ 30,164    | \$ 32,294   |
| Acquired intangibles                           | 1,573        | 2,277       |
| Share based payments                           | 7,037        | 7,423       |
| Other  | 8,400        | 6,995       |
| Deferred tax assets before valuation allowance | 47,174       | 48,989      |
| Valuation allowance                            | (19,987 )    | (21,365 )   |
| Deferred tax assets                            | 27,187       | 27,624      |
| Deferred tax liabilities:                      |              |             |
| Acquired intangibles                           | (39,742 )    | (35,281 )   |
| Deferred tax liabilities, net                  | \$ (12,555 ) | \$ (7,657 ) |

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- TAXES ON INCOME (Cont.)

|                                    | December 31, |             |
|------------------------------------|--------------|-------------|
|                                    | 2011         | 2010        |
| Current deferred tax assets        | \$ 10,405    | \$ 6,798    |
| Long-term deferred tax assets      | 5,066        | 5,669       |
| Current deferred tax liabilities   | (260 )       | (419 )      |
| Long-term deferred tax liabilities | (27,766 )    | (19,705 )   |
| Deferred tax liabilities, net      | \$ (12,555 ) | \$ (7,657 ) |

Long-term deferred tax assets are included within other long-term assets in the balance sheets. Current deferred tax liabilities are included within accrued expenses and other liabilities in the balance sheets.

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

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

|   | Year ended December 31, |        |      |        |       |        |
|---|-------------------------|--------|------|--------|-------|--------|
|   | 2011                    |        | 2010 |        | 2009  |        |
| Income before taxes on income, as reported in the consolidated statements of income | \$                      | 68,884 | \$   | 58,033 | \$    | 45,796 |
| Statutory tax rate in Israel  | 24                      | %      | 25   | %      | 26    | %      |
| Approved and Privileged Enterprise benefits *)                                      | (8.9                    | )%     | (9.8 | )%     | (10.1 | )%     |
| Changes in valuation allowance  | (0.5                    | )%     | (2.5 | )%     | 0.1   | )%     |
| Earnings taxed under foreign law  | 1.9                     | %      | 0.3  | %      | (4.5  | )%     |
| Other   | 0.4                     | %      | 3.1  | %      | (4.9  | )%     |
| Effective tax rate  | 16.9                    | %      | 16.1 | %      | 6.6   | %      |

\*) Net earnings per ordinary share - amounts of the benefit resulting from the "Approved and Privileged Enterprise" status

|         |    |      |    |      |    |      |
|---------|----|------|----|------|----|------|
| Basic   | \$ | 0.10 | \$ | 0.09 | \$ | 0.08 |
| Diluted | \$ | 0.10 | \$ | 0.09 | \$ | 0.07 |





## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 13:-

## TAXES ON INCOME (Cont.)

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

|          | Year ended December 31, |           |           |
|----------|-------------------------|-----------|-----------|
|          | 2011                    | 2010      | 2009      |
| Domestic | \$ 46,093               | \$ 38,404 | \$ 37,976 |
| Foreign  | 22,791                  | 19,629    | 7,820     |
|          | \$ 68,884               | \$ 58,033 | \$ 45,796 |

g. Taxes on income are comprised as follows:

|          |          |          |          |
|----------|----------|----------|----------|
| Current  | \$20,371 | \$14,239 | \$10,024 |
| Deferred | (8,750 ) | (4,913 ) | (6,984 ) |
|          | \$11,621 | \$9,326  | \$3,040  |
| Domestic | \$4,999  | \$4,180  | \$4,255  |
| Foreign  | 6,622    | 5,146    | (1,215 ) |
|          | \$11,621 | \$9,326  | \$3,040  |

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, |           |
|--|--------------|-----------|
|  | 2011         | 2010      |
| Uncertain tax positions, beginning of year       | \$ 36,029    | \$ 31,896 |
| Uncertain tax positions acquired during the year | -            | 294       |
| Increases in tax positions for prior years       | 936          | -         |
| Decreases in tax positions for prior years       | -            | (305 )    |
| Increases in tax positions for current year      | 7,448        | 8,716     |
| Settlements                                      | (978 )       | (4,572 )  |
| Uncertain tax positions, end of year             | \$ 43,435    | \$ 36,029 |

Unrecognized tax benefits included \$ 43,275 of tax benefits, which if recognized, would reduce the Company's annual effective tax rate. The Company has further accrued \$ 2,227 due to interest related to uncertain tax positions as of December 31, 2011.

As of December 31, 2011, the Company is subject to Israeli income tax audits for the tax years 2006 through 2011, to U.S. federal income tax audits for the tax years of 2003 through 2011 and to other income tax audits for the tax years of 2006 through 2011.

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NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14:- SHAREHOLDERS' EQUITY

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

b. Share option plans:

In 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 Option Plan, 25% of the stock options granted become exercisable on the first anniversary of the date of grant and 6.25% become 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 acquisitions of Actimize Ltd., Orsus Solutions Ltd, e-Glue Software Technologies Inc. and Fizzback, the Company assumed or replaced unvested options, Restricted Stock Awards ("RSA's") and Restricted Stock Units ("RSU's") and converted them into NICE options, RSA's and RSU's, based on the agreed exchange ratio. Each assumed option, RSA and RSU is subject to the same terms and conditions, including vesting and timing of exercisability, as applied to any such option, RSA and RSU immediately prior to the acquisition.

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 at par value.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

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

In December 2010, the Company amended the 2008 Plan, such that: (i) options are granted at an exercise price equal to the average of the closing prices of one ordinary share, as quoted on the NASDAQ market, during the 30 consecutive calendar days preceding the date of grant, unless determined otherwise by the administrator of the 2008 Plan (including in some cases options granted with an exercise price equal to the nominal value of an ordinary share), and (ii) options granted with an exercise price equal to the nominal value of an ordinary share shall have a vesting schedule identical to that of restricted share units, as indicated above.

The fair value of the Company's stock options granted to employees and directors for the years ended December 31, 2011, 2010 and 2009 was estimated using the following assumptions:

|                             | 2011        | 2010        | 2009        |
|-----------------------------|-------------|-------------|-------------|
| Expected volatility         | 34.3%-43.8% | 42.8%-48.4% | 42.6%-47.7% |
| Weighted average volatility | 43.02%      | 43.7%       | 44.7%       |
| Risk free interest rate     | 0.2%-1.3%   | 0.8%-1.8%   | 1.2%-2.1%   |
| Expected dividend           | 0%          | 0%          | 0%          |
| Expected term (in years)    | 2.5-3.7     | 2.5-3.7     | 2.5-3.7     |

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## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

A summary of the Company's stock options activity and related information for the year ended December 31, 2011, is as follows:

|                                  | Number of options | Weighted-average exercise price | Weighted-average remaining contractual term (in years) | Aggregate intrinsic value |
|----------------------------------|-------------------|---------------------------------|--|---------------------------|
| Outstanding at January 1, 2011   | 5,227,075         | \$ 22.69                        | 4.15   | \$ 63,863                 |
| Granted                          | 1,173,178         | \$ 19.38                        |  |                           |
| Assumed                          | 148,392           | \$ 0.46                         |  |                           |
| Exercised                        | (1,291,535)       | \$ 20.16                        |  |                           |
| Forfeited                        | (258,317 )        | \$ 19.86                        |  |                           |
| Cancelled                        | (15,252 )         | \$ 31.76                        |  |                           |
| Outstanding at December 31, 2011 | 4,983,541         | \$ 22.01                        | 4.09   | \$ 62,049                 |
| Exercisable at December 31, 2011 | 1,940,390         | \$ 25.46                        | 3.10   | \$ 17,515                 |

On June 15, 2009, the Company repriced 1,020,400 outstanding options that were granted on September 2, 2008, from their previous exercise price of \$ 30.25 to an exercise price of \$ 22.53. The Company accounted for the re-pricing as a modification and recorded an additional compensation expense, in the amount of \$ 2,082, which is recognized over the remaining vesting period or immediately for vested options.

On June 15, 2009, the Company's Board of Directors resolved to approve a privately negotiated transaction with certain executive officers, pursuant to which the Company exchanged 265,000 options granted in 2007 having an exercise price per share ranging between \$ 34.00 and \$ 39.00 with new options having an exercise price per share equal to \$ 22.53. The new options vest in 25% annual increments over a four-year period from the new grant date and will expire six years following the new grant date. The Company accounted for the exchange as a modification and recorded an additional compensation expense, in the amount of \$ 1,140, which is recognized over the new vesting period.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

On August 5, 2009, pursuant to a tender offer commenced June 23, 2009, the Company exchanged on a three-for-one basis 1,492,204 options at exercise prices above \$ 30 into 311,454 options and 185,932 RSUs (at par value). The new awards vest in 25% annual increments over a four-year period and have a new six-year term. The Company accounted for the exchange of options as a modification and recorded total incremental costs in the amount of \$ 4,684 which is recognized over the new vesting period.

The weighted-average grant-date fair value of options granted during the years 2011, 2010 and 2009 was \$ 17.99, \$ 14.58 and \$ 10.43, respectively.

The total intrinsic value of options exercised during the years 2011, 2010 and 2009 was \$ 19,295, \$ 15,294 and \$ 13,457, respectively.

The options outstanding under the Company's stock option plans as of December 31, 2011 have been separated into ranges of exercise price as follows:

| Ranges of exercise price | Options outstanding as of December 31, 2011 | Weighted average remaining contractual Term (Years) | Weighted average exercise price \$ | Options exercisable as of December 31, 2011 | Weighted average exercise price of options exercisable \$ |
|--------------------------|---|---|------------------------------------|---|---|
| \$ 0.02                  | 828   | 1.66  | 0.02                               | 828   | 0.02  |
| \$ 0.26                  | 1,090,915                                   | 4.95  | 0.26                               | 168,955                                     | 0.26  |
| \$ 0.69                  | 51,831                                      | 5.82  | 0.69                               | 3,577                                       | 0.69  |
| \$ 2.89                  | 7,552                                       | 1.66  | 2.89                               | 7,552                                       | 2.89  |
| \$ 6.00-6.87             | 30,050                                      | 1.66  | 6.57                               | 30,050                                      | 6.57  |
| \$ 12.65-14.60           | 53,460                                      | 1.66  | 14.21                              | 53,460                                      | 14.21   |
| \$ 21.76-32.31           | 3,253,516                                   | 3.96  | 28.14                              | 1,401,906                                   | 27.78   |
| \$ 32.92-34.78           | 495,389                                     | 3.24  | 34.02                              | 274,062                                     | 34.40   |
|                          | 4,983,541                                   | 4.09  | 22.01                              | 1,940,390                                   | 25.46   |

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

A summary of the Company's Restricted Stock Awards ("RSA") activity and related information for the year ended December 31, 2011, is as follows:

|                                  | Number of<br>RSA | Weighted<br>average<br>exercise<br>price |
|----------------------------------|------------------|--|
| Outstanding at January 1, 2011   | 6,027            | \$ 2.07                                  |
| Vested                           | (5,988 )         | \$ 2.08                                  |
| Forfeited                        | (39 )            | \$ 0.02                                  |
| Outstanding at December 31, 2011 | -                | \$ -                                     |

A summary of the Company's Restricted Stock Units ("RSU") activity and related information for the year ended December 31, 2011, is as follows:

|                                  | Number of<br>RSU | Weighted<br>average<br>exercise<br>price *) |
|----------------------------------|------------------|---|
| Outstanding at January 1, 2011   | 421,579          | NIS 1                                       |
| Issued                           | 250,708          | NIS 1                                       |
| Assumed                          | 17,303           | NIS 1                                       |
| Vested                           | (106,144)        | NIS 1                                       |
| Forfeited                        | (57,946 )        | NIS 1                                       |
| Outstanding at December 31, 2011 | 525,500          | NIS 1                                       |

\*)Weighted average exercise price is NIS 1 (par value) which represents approximately \$ 0.26.

As of December 31, 2011, there was approximately \$ 39,487 of unrecognized compensation expense related to non-vested stock options and restricted stock awards, expected to be recognized over four years.

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

## c. Employee Stock Purchase Plan:

Eligible employees under the Employee Stock Purchase Plan ("ESPP") can have between 2% to 10% of their earnings withheld, under certain limitations, to be used to purchase ordinary shares. The price of ordinary shares purchased under the ESPP is equal to 95% of the fair market value of the ordinary shares.

During 2011, 2010 and 2009, employees purchased 16,582, 16,537 and 17,331 shares at average prices of \$ 33.88, \$ 26.38 and \$ 21.59 per share, respectively.

## d. Treasury shares:

On February 15, 2011 and on November 2, 2011, the board of directors of the Company authorized a program to repurchase up to \$ 100,000 and an additional \$ 100,000, respectively of the Company's issued and outstanding ordinary shares and ADRs. Repurchases may be made from time to time in the open market or in privately negotiated transactions and will be in accordance with applicable securities laws and regulations. The timing and amount of the repurchase transactions will be determined by management and may depend on a variety of factors, including market conditions, alternative investment opportunities and other considerations. The program does not obligate the Company to acquire any particular amount of ordinary shares and ADRs and the program may be modified or discontinued at any time without prior notice.

## e. Dividends:

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.

## NOTE 15:- REPORTABLE SEGMENTS AND GEOGRAPHICAL INFORMATION

## a. Reportable segments:

The Company operates in three operation-based segments: Customer Interactions Solutions, Security Solutions and Financial Crime and Compliance Solutions and these three segments comprise its reporting units.

Each of the operational segments is overseen by their respective segment managers. The segment managers report directly to the Chief Operating Decision Maker ("CODM") with respect to their operating results.



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 15:- REPORTABLE SEGMENTS AND GEOGRAPHICAL INFORMATION (Cont.)

The Company's segments are engaged in business activities for which they earn revenues and incur expenses, their results are reviewed by the CODM and discrete financial information is available.

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

|          | Year ended December 31, 2011    |                    |  |               |            |
|----------|---------------------------------|--------------------|--|---------------|------------|
|          | Customer Interactions Solutions | Security Solutions | Financial Crime and Compliance Solutions | Not allocated | Total      |
| Revenues | \$ 477,572                      | \$ 191,852         | \$ 124,407                               | \$ -          | \$ 793,831 |

|                         |            |           |             |              |           |
|-------------------------|------------|-----------|-------------|--------------|-----------|
| Operating income (loss) | \$ 141,771 | \$ 33,926 | \$ (6,662 ) | \$ (110,007) | \$ 59,028 |
|-------------------------|------------|-----------|-------------|--------------|-----------|

|          | Year ended December 31, 2010    |                    |  |               |            |
|----------|---------------------------------|--------------------|--|---------------|------------|
|          | Customer Interactions Solutions | Security Solutions | Financial Crime and Compliance Solutions | Not allocated | Total      |
| Revenues | \$ 403,940                      | \$ 165,998         | \$ 119,513                               | \$ -          | \$ 689,451 |

|                         |            |           |       |              |           |
|-------------------------|------------|-----------|-------|--------------|-----------|
| Operating income (loss) | \$ 126,537 | \$ 15,515 | \$ 71 | \$ (93,071 ) | \$ 49,052 |
|-------------------------|------------|-----------|-------|--------------|-----------|

|          | Year ended December 31, 2009    |                    |  |               |            |
|----------|---------------------------------|--------------------|--|---------------|------------|
|          | Customer Interactions Solutions | Security Solutions | Financial Crime and Compliance Solutions | Not allocated | Total      |
| Revenues | \$ 363,576                      | \$ 147,863         | \$ 71,676                                | \$ -          | \$ 583,115 |

|                         |            |           |              |              |           |
|-------------------------|------------|-----------|--------------|--------------|-----------|
| Operating income (loss) | \$ 117,648 | \$ 29,996 | \$ (15,733 ) | \$ (93,712 ) | \$ 38,199 |
|-------------------------|------------|-----------|--------------|--------------|-----------|

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 15:- REPORTABLE SEGMENTS AND GEOGRAPHICAL INFORMATION (Cont.)

The following presents long-lived assets of December 31, 2011 and 2010, based on operational segments:

|  | December 31, |        |
|--|--------------|--------|
|  | 2011         | 2010   |
| Customer Interactions Solutions          | 14,535       | 10,464 |
| Security Solutions                       | 4,533        | 4,109  |
| Financial Crime and Compliance Solutions | 7,319        | 5,997  |
| Non-allocated                            | 1,912        | 1,444  |
|  | 28,299       | 22,014 |

## b. Geographical information:

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

|          | Year ended December 31, |            |            |
|----------|-------------------------|------------|------------|
|          | 2011                    | 2010       | 2009       |
| Americas | \$ 499,162              | \$ 429,889 | \$ 365,817 |
| EMEA *)  | 196,640                 | 182,805    | 150,373    |
| APAC **) | 98,029                  | 76,757     | 66,925     |
|          | \$ 793,831              | \$ 689,451 | \$ 583,115 |

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

\*\*)Includes Asia Pacific.

The following presents long-lived assets of December 31, 2011 and 2010, based on geographical segments:

|          | December 31, |           |
|----------|--------------|-----------|
|          | 2011         | 2010      |
| Americas | \$ 7,735     | \$ 5,955  |
| EMEA     | 19,019       | 15,227    |
| APAC     | 1,545        | 832       |
|          | \$ 28,299    | \$ 22,014 |



## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 16:- SELECTED STATEMENTS OF INCOME DATA

|  | Research and development costs, net: |            |           |
|--|--------------------------------------|------------|-----------|
|  | Year ended December 31,              |            |           |
|  | 2011                                 | 2010       | 2009      |
| Total costs  | \$ 113,671                           | \$ 102,208 | \$ 82,463 |
| Less - grants and participations   | (3,394 )                             | (3,814 )   | (3,766 )  |
| Less - capitalization of software development costs                              | (1,150 )                             | (1,311 )   | (1,315 )  |
|  | \$ 109,127                           | \$ 97,083  | \$ 77,382 |
|  |                                      |            |           |
|  | Financial income and other, net:     |            |           |
|  | Year ended December 31,              |            |           |
|  | 2011                                 | 2010       | 2009      |
| Financial income:  |                                      |            |           |
| Interest and amortization/accretion of premium/discount on marketable securities | \$ 8,357                             | \$ 8,889   | \$ 9,076  |
| Gain on forward contracts  | 9,902                                | -          | -         |
| Realized gain on marketable securities   | 1,124                                | 1,435      | 984       |
| Interest   | 3,154                                | 1,787      | 1,962     |
| Foreign currency translation   | 1,725                                | 927        | 1,283     |
|  | 24,262                               | 13,038     | 13,305    |
| Financial expenses:  |                                      |            |           |
| Realized loss on marketable securities   | (333 )                               | (238 )     | (1,062 )  |
| Interest   | (930 )                               | (250 )     | (705 )    |
| Foreign currency translation   | (11,872 )                            | (2,109 )   | (2,672 )  |
| Other  | (1,109 )                             | (1,306 )   | (1,154 )  |
|  | (14,244 )                            | (3,903 )   | (5,593 )  |
| Other expenses, net  | (162 )                               | (154 )     | (115 )    |
|  | \$ 9,856                             | \$ 8,981   | \$ 7,597  |

## NICE SYSTEMS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 16:- SELECTED STATEMENTS OF INCOME DATA (Cont.)

## 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,       |           |           |
|  | 2011                          | 2010      | 2009      |
| Net income available to ordinary shareholders    | \$ 57,263                     | \$ 48,707 | \$ 42,756 |
|  | 2.Denominator (in thousands): |           |           |
|  | Year ended December 31,       |           |           |
|  | 2011                          | 2010      | 2009      |
| Denominator for basic net earnings per share -   |                               |           |           |
| Weighted average number of shares                | 62,924                        | 62,652    | 61,395    |
| Effect of dilutive securities:                   |                               |           |           |
| Add - employee stock options and RSU             | 1,317                         | 1,480     | 1,095     |
| Denominator for diluted net earnings per share - |                               |           |           |
| adjusted weighted average shares                 | 64,241                        | 64,132    | 62,490    |

## NOTE 17:- SUBSEQUENT EVENTS

On February 7, 2012, the Company completed the acquisition of all of the outstanding shares of Merced Systems, Inc. ("Merced"), a leading provider of performance management solutions that drive business execution in sales and service functions. The Company acquired Merced for a total consideration of approximately \$ 150,000, net of cash acquired (approximately \$ 22,000). The Company will pay Merced an additional amount of up to \$ 20,000 in cash subject to Merced meeting certain performance targets. It is expected that integrating Merced's and the Company's capabilities will create a closed-loop Performance Management solution.

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/ Zeev Bregman*  
Zeev Bregman  
President and Chief Executive  
Officer

Date: March 29, 2012

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