FORM 6−K

NICE SYSTEMS LTD − NICE

Filed: August 26, 2005 (period: August 26, 2005)

Report of foreign issuer rules 13a−16 and 15d−16 of the Securities Exchange Act

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6−K

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

For the month of August 2005

Commission File Number: 0−27466

NICE−SYSTEMS LTD.
(Translation of Registrant's Name into English)

8 Hapnina Street, P.O. Box 690, Ra'anana, Israel
(Address of Principal Executive Offices)

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

Form 20−F ☒ Form 40−F ☐

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

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333−111112 AND 333−111113), AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS SUBMITTED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

CONTENTS

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

99.1. Unaudited Financial Statements of NICE for the six−month period ended June 30, 2005 and the notes thereto.

99.2. Operating and Financial Review and Prospects relating to said interim financial statements.

99.3. Audited Financial Statements of Dictaphone Corporation's Communications Recording Systems division for the years ended December 31, 2004 and 2003 and for the nine−month period ended December 31, 2002 and the notes thereto.

99.4. Unaudited Pro Forma Condensed Combined Statement of Operations of NICE for the year ended December 31, 2004 and for the six−month period ended June 30, 2005 and the notes thereto.

99.5. Consent of PricewaterhouseCoopers LLP, in connection with their report dated August 15, 2005 related to the audited financial statements of Dictaphone Corporation's Communications Recording Systems division included herein.

SIGNATURES

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

NICE−SYSTEMS LTD.

By:/s/ Yechiam Cohen
Name: Yechiam Cohen
Title: General Counsel

Dated: August 26, 2005

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
99.1	Unaudited Financial Statements of NICE for the six−month period ended June 30, 2005 and the notes thereto.
99.2	Operating and Financial Review and Prospects relating to said interim financial statements.
99.3	Audited Financial Statements of Dictaphone Corporation's Communications Recording Systems division for the years ended December 31, 2004 and 2003 and for the nine−month period ended December 31, 2002 and the notes thereto.
99.4	Unaudited Pro Forma Condensed Combined Statement of Operations of NICE for the year ended December 31, 2004 and for the six−month period ended June 30, 2005 and the notes thereto.
99.5	Consent of PricewaterhouseCoopers LLP, in connection with their report dated August 15, 2005 related to the audited financial statements of Dictaphone Corporation's Communications Recording Systems division included herein.

EXHIBIT 99.1

NICE SYSTEMS LTD. AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

IN U.S. DOLLARS

INDEX

<TABLE>

	PAGE
INTERIM CONSOLIDATED BALANCE SHEETS	F-2 - F-3
INTERIM CONSOLIDATED STATEMENTS OF INCOME	F-4
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS	F-5 - F-7
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS	F-8 - F-16

</TABLE>

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NICE SYSTEMS LTD. AND SUBSIDIARIES

INTERIM CONSOLIDATED BALANCE SHEETS

U.S. DOLLARS IN THOUSANDS

<TABLE>

	JUNE 30, 2005	DECEMBER 31, 2004
	UNAUDITED	*)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 34,953	$ 26,579
Short-term bank deposits	126	175
Marketable securities	22,620	24,348
Trade receivables (net of allowance for doubtful accounts of $3,033 and $2,661 at June 30, 2005 and December 31, 2004, respectively)	54,951	46,407
Other receivables and prepaid expenses	8,064	7,937
Inventories	20,296	12,615
Assets of discontinued operation	653	652
Total current assets	141,663	118,713
LONG-TERM INVESTMENTS:		
Long-term marketable securities	111,621	114,805
Investment in affiliate	1,200	1,200
Severance pay fund	7,231	7,356
Long-term receivables and prepaid expenses	776	854
Total long-term investments	120,828	124,215
PROPERTY AND EQUIPMENT, NET	15,683	16,981
INTANGIBLE ASSETS, NET	26,087	12,665
GOODWILL	49,432	25,745
Total assets	$ 353,693	$ 298,319

</TABLE>

*) Derived from the audited balance sheet at December 31, 2004.

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

INTERIM CONSOLIDATED BALANCE SHEETS

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE DATA)

<TABLE>

	JUNE 30, 2005	DECEMBER 31, 2004
	UNAUDITED	*)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 17,121	$ 11,975
Accrued expenses and other liabilities	83,560	55,302
Liabilities of discontinued operation	6	8
Total current liabilities	100,687	67,285
ACCRUED SEVERANCE PAY	8,237	8,163
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS' EQUITY:		
Share capital-		
Ordinary shares of NIS 1 par value:		
Authorized: 50,000,000 shares as of June 30, 2005 and December 31, 2004;		
Issued and outstanding: 18,960,334 and 18,180,260 shares as of June 30, 2005 and December 31, 2004, respectively	5,643	5,464
Additional paid-in capital	255,690	244,400
Accumulated other comprehensive income	3,358	5,506
Accumulated deficit	(19,922)	(32,499)
Total shareholders' equity	244,769	222,871
Total liabilities and shareholders' equity	$ 353,693	$ 298,319

</TABLE>

*) Derived from the audited balance sheet at December 31, 2004.

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

NICE SYSTEMS LTD. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

U.S. DOLLARS IN THOUSANDS (EXCEPT PER SHARE DATA)

<TABLE>

	SIX MONTHS ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2004
	UNAUDITED	
Revenues:		
Products	$ 94,950	$ 85,554
Services	43,402	34,058
Total revenues	138,352	119,612
Cost of revenues:		
Products	30,903	30,616
Services	30,234	24,364
Total cost of revenues	61,137	54,980
Gross profit	77,215	64,632
Operating expenses:		
Research and development, net	13,756	12,433
Selling and marketing	33,979	30,404
General and administrative	17,241	15,684
Amortization of acquired intangible assets and restructuring expenses	244	175
Total operating expenses	65,220	58,696
Operating income	11,995	5,936
Financial income, net	2,297	2,078
Income before taxes on income	14,292	8,014
Taxes on income	1,715	895
Net income from continuing operations	12,577	7,119
Net income from discontinued operation	-	3,236
Net income	$ 12,577	$ 10,355
Net earnings per share:		
Basic:		
Continuing operations	$ 0.68	$ 0.41
Discontinued operation	-	0.19
	$ 0.68	$ 0.60
Diluted:		
Continuing operations	$ 0.63	$ 0.38
Discontinued operation	-	0.18
Net earnings	$ 0.63	$ 0.56

</TABLE>

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. DOLLARS IN THOUSANDS

<TABLE>

	SIX MONTHS ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2004
	UNAUDITED	
Cash flows from operating activities:		
Net income	$ 12,577	$ 10,355
Less: net income from discontinued operation	-	(3,236)
Net income from continuing operations	12,577	7,119
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,961	6,908
Accrued severance pay, net	199	88
Amortization of premium and accrued interest on held-to-maturity marketable securities	445	748
Decrease (increase) in trade receivables	(276)	139
Increase in other accounts receivable and prepaid expenses	(45)	(142)
Decrease (increase) in inventories	(1,295)	1,291
Decrease (increase) in long-term prepaid expenses	61	(17)
Increase (decrease) in trade payables	4,706	(1,078)
Increase in accrued expenses and other liabilities	9,656	788
Other	9	(8)
Net cash provided by operating activities from continuing operations	31,998	15,836
Net cash provided by operating activities from discontinued operation	-	850
Net cash provided by operating activities	31,998	16,686

</TABLE>

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

U.S. DOLLARS IN THOUSANDS

<TABLE>

	Six months ended June 30, 2005	Six months ended June 30, 2004
	Unaudited	Unaudited
Cash flows from investing activities:		
Purchase of property and equipment	(2,722)	(3,189)
Proceeds from sale of property and equipment	45	60
Investment in marketable securities	(151,123)	(69,863)
Proceeds from maturity of marketable securities	149,460	14,985
Proceeds from sale and call of a held-to-maturity marketable securities	6,130	19,802
Investment in short-term bank deposits, net	(25)	(39)
Proceeds from short-term bank deposits, net	67	71
Decrease in accrued acquisition costs	-	(75)
Payment for the acquisition of certain assets and liabilities of Dictaphone CRS Division (a)	(38,939)	-
Payment in respect of terminated contract from TCS acquisition	-	(1,483)
Proceeds from related party in respect of TCS acquisition	2,531	4,013
Capitalization of software development costs	(427)	(674)
Net cash used in investing activities from continuing operations	(35,003)	(36,392)
Net cash provided by investing activities from discontinued operation	-	4,136
Net cash used in investing activities	(35,003)	(32,256)
Cash flows from financing activities		
Proceeds from issuance of shares upon exercise of options and ESPP, net	11,469	9,918
Net cash provided by financing activities	11,469	9,918
Effect of exchange rate changes on cash	(90)	(77)
Increase (decrease) in cash and cash equivalents	8,374	(5,729)
Cash and cash equivalents at the beginning of the period	26,579	29,859
Cash and cash equivalents at the end of the period	$ 34,953	$ 24,130

</TABLE>

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. DOLLARS IN THOUSANDS

<TABLE>

		SIX MONTHS ENDED JUNE 30, 2005
		UNAUDITED
Payment for the acquisition of certain assets and liabilities of Dictaphone CRS Division		
Estimated fair value of assets acquired and liabilities assumed at the acquisition date:		
Working capital deficit (excluding cash and cash equivalents)	$	(1,288)
Property and equipment		265
Intangible assets		15,400
Goodwill		25,623
Less - accrued acquisition costs		(1,061)
	$	38,939

</TABLE>

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

NOTE 1:- GENERAL

a. NICE Systems Ltd. ("NICE") and subsidiaries (collectively - "the Company") develop, market and support integrated, scalable multimedia digital recording platforms, enhanced software applications and related professional services. These solutions capture and analyze unstructured (non-transaction) data and convert it for business and security performance management applications. The Company's solutions capture multiple forms of interaction, including voice, fax, email, web chat, radio, and video transmissions over wire line, wireless, packet telephony, terrestrial trunk radio and data networks.

The Company's products are based on two types of recording platforms - audio and video. The Company's solutions are offered to various vertical markets in two major sectors: (1) the Enterprise Interaction Solutions Sector - contact centers and trading floors and (2) the Public Safety and Security Sector - safety organizations, transportation, corporate security, gaming and correctional facilities and government and intelligence agencies.

The Company's products are sold primarily through a global network of distributors, system integrators and strategic partners; a portion of product sales and most services are sold directly to end-users.

The Company's markets are located primarily in North America, EMEA and the Far East.

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

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

As for major customer data, see Note 5c.

b. Acquisition of Dictaphone's Communications Recording Systems ("CRS"):

On June 1, 2005, the Company consummated an agreement to acquire the assets and assume certain liabilities of Dictaphone's Communications Recording Systems ("CRS") business for $ 40,000 (including acquisition costs). Dictaphone's CRS business is a leading provider of liability and quality management systems for first responders, critical facilities, contact centers and financial trading floors.

The acquisition was accounted for by the purchase method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of CRS. The results of the CRS's operations have been included in the consolidated financial statements since June 1, 2005 ("the closing date").

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE DATA)

NOTE 1:- GENERAL (CONT.)

With the acquisition of CRS, the Company expects to expand its customer base, presence in the U.S and Europe, and its network of distributors and partners. Additionally, the Company expects to broaden its product offerings and global professional services team, and to reduce costs through economies of scale.

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

<TABLE>

Trade receivables	$ 9,087
Other receivables and prepaid expenses	216
Inventories	7,687
Property and equipment	265
Trademarks	400
Core technology	4,900
Distribution network	10,100
Goodwill	25,623
Total assets acquired	58,278
Trade payables	(571)
Accrued expenses and other liabilities	(17,707)
Total liabilities assumed	(18,278)
Net assets acquired	$ 40,000

</TABLE>

Trademarks, core technology and distribution network in the amount of $ 15,400 are amortized using the straight-line method at an annual weighted average rate of 19.5%.

The following represents the unaudited pro-forma condensed results of operations for the six month periods ended June 30, 2005 and 2004 and for the year ended December 31, 2004, assuming that the acquisition occurred on January 1, 2005 and 2004, respectively. The pro-forma information is not necessarily indicative of the results of operations, which actually would have occurred if the acquisition had been consummated on that dates, nor does it purport to represent the results of operations for future periods.

<TABLE>

	SIX MONTHS ENDED JUNE 30, 2005	YEAR ENDED DECEMBER 31, 2004
	UNAUDITED	UNAUDITED
Revenues	$ 160,880	$ 316,830
Net income (loss)	$ 7,775	$ (2,186)
Basic net earnings (loss) per share	$ 0.42	$ (0.13)
Diluted net earnings (loss) per share	$ 0.39	$ (0.13)

</TABLE>

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE DATA)

NOTE 1:- GENERAL (CONT.)

c. Disposal by sale of the COMINT/DF operation:

In the fourth quarter of 2003, the Company reached a definitive agreement to sell the assets and liabilities of its COMINT/DF military-related business to ELTA Systems Ltd. for $ 4,000 in cash. On March 31, 2004, the Company completed the sale of the COMINT/DF operation. The COMINT/DF business was treated as a discontinued operation in the financial statements.

The Company's balance sheets at June 30, 2005 and December 31, 2004 reflect the assets and liabilities of the COMINT/DF operation, as assets and liabilities of the discontinued operation within current assets and current liabilities.

The carrying amounts of the major classes of assets and liabilities included as part of the discontinued operation are:

<TABLE>

	JUNE 30, 2005
	UNAUDITED
Trade receivables	$ 653
Assets of discontinued operation	$ 653
Accrued expenses and other liabilities	$ 6
Liabilities of discontinued operation	$ 6

</TABLE>

Summarized selected financial information of the discontinued operation is as follows:

<TABLE>

	SIX MONTHS ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2004
	UNAUDITED	
Revenues	$ -	$ 816
Net income	$ -	$ *) 3,236

</TABLE>

*) Includes gain from the sale in the amount of $ 3,286.

NOTE 1:- GENERAL (CONT.)

d. Basis of preparation:

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2005, are not necessarily indicative of the results of operations that may be expected for the year ended December 31, 2005.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2004 are applied consistently in these financial statements.

a. Use of estimates:

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

b. For further information, refer to the consolidated financial statements as of December 31, 2004.

c. Stock-based compensation:

The Company follows Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and FIN No. 44, "Accounting for Certain Transactions Involving Stock Compensation" in accounting for its employee stock option plan. Under APB No. 25, when the exercise price of the Company's options is less than the market value of the underlying shares on the date of grant, compensation expense is recognized and amortized ratably over the vesting period of the options.

The Company adopted the disclosure provisions of Statement of Financial Accounting Standard ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which amended certain provisions of SFAS No. 123. The Company continues to apply the provisions of APB No. 25, in accounting for stock-based compensation.

Pro forma information regarding net income and net earnings per share is required by SFAS No. 123, "Accounting for Stock-Based Compensation", and has been determined as if the Company had accounted for its employee options under the fair value method prescribed by that statement. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE DATA)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

<TABLE>

	SIX MONTHS ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2004
	UNAUDITED	
Risk free interest rate	3.8%	2%
Dividend yield	0%	0%
Volatility factor	0.429	0.457
Expected life of the options	3	3

</TABLE>

Pro forma information under SFAS No. 123:

<TABLE>

	SIX MONTHS ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2004
	UNAUDITED	
Net income as reported	$ 12,577	$ 10,355
Add: Stock-based compensation expense included in the determination of net income as reported	-	-
Deduct: Stock-based compensation expense determined under fair value method for all awards	(3,803)	(3,471)
Pro forma net income	$ 8,774	$ 6,884
Basic net earnings per share as reported	$ 0.68	$ 0.60
Diluted net earnings per share as reported	$ 0.63	$ 0.56
Pro forma basic net earnings per share	$ 0.47	$ 0.40
Pro forma diluted net earnings per share	$ 0.44	$ 0.37

</TABLE>

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE DATA)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

d. Recently issued accounting pronouncements:

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123 (revised 2004), "Share-Based Payment" ("Statement 123R"), which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("Statement 123"). Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statements 123 permitted, but not required, share-based payments to employees to be recognized based on their fair values while Statement 123R requires all share-based payments to employees to be recognized based on their fair values. Statement 123R also revises, clarifies and expands guidance in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods. The new Standard will be effective for the Company in the first fiscal year beginning after June 15, 2005. The adoption of Statement 123R will have a significant effect on the Company's results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4". SFAS No. 151 amends Accounting Research Bulletin ("ARB") No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight handling costs and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No. 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect that the adoption of SFAS No. 151 will have a material effect on its financial position or results of operations.

NOTE 3:- INVENTORIES

<TABLE>

	JUNE 30, 2005
	UNAUDITED
Raw materials	$ 986
Work-in-progress	27
Finished goods	19,283
	$ 20,296

</TABLE>

NOTE 4:- CONTINGENT LIABILITIES

a. Legal proceedings

1. On October 19, 2004, CipherActive filed an action against the Company in the District Court of Tel Aviv, State of Israel. In this lawsuit, CipherActive claimed that under a development agreement with the Company, it is entitled to receive license fees in respect of certain software that it allegedly developed for the Company and which has been embedded in one of the Company's products. CipherActive claimed that it is entitled to license fees in the amount of $ 600, in addition to the amount of $ 100 already paid to CipherActive by the Company in respect of such license fees. In the Company's statement of defense it claimed that the software developed by CipherActive under the agreement has not been successful in the market, is no longer embedded in the Company's product and, therefore, CipherActive is not entitled to any additional license fees.

2. In July 2004, the Company's wholly owned subsidiary, STS Software Systems Ltd. ("STS"), filed a lawsuit in the U.S. District Court for the Southern District of New York charging Witness Systems, Inc. ("Witness") with infringement of one of the Company's VoIP patents in the U.S, by marketing and selling products that incorporate methods of detecting, monitoring and recording information - all fully protected by that patent. STS is seeking an injunction against Witness, preventing the sale of any solution that infringes the Company's patent. On the same day that STS commenced this lawsuit, Witness filed a declaratory judgment action against STS in the U.S. District Court for the Northern District of Georgia, alleging that the same patent is invalid and not infringed. The lawsuit begun by STS in New York was subsequently transferred to the Federal Court in Georgia and has been consolidated with the case brought by Witness. In July, 2005, STS was granted leave to supplement its complaint to assert that Witness also infringes three other VoIP patents which were recently issued to STS. Witness has responded by filing counterclaims asserting that those patents are invalid and not infringed.

   In August 2004, Witness filed a patent infringement action in the Federal Court for the Northern District of Georgia against the Company's wholly owned subsidiary NICE Systems, Inc. Witness subsequently filed an identical action in February 2005 against NICE in the same court. The two actions were consolidated in March 2005. Witness accuses the Company of infringing two U.S patents relating to certain technology used with some of the Company's products. Witness is requesting a permanent injunction against alleged future infringement and damages for past alleged infringement. The Company has responded to Witness' claims and has asserted that the patents are invalid and not infringed. At this stage, the Company cannot predict the outcome of the case, nor can it make any estimate of the amount of damages, if any, for which it will be held responsible in the event of a negative conclusion to the claim.

3. The U.S Consumer Product Safety Commission has brought to the Company's attention and provided it an opportunity to comment on an alleged incident of a fire allegedly involving a NICE product used in a school building in the Evesham New Jersey School District. The Company has retained specialized counsel and engineering consultants and has investigated this matter. The Company believes, based on this investigation and on the facts known at present, that it is not expected that this matter will

result in any regulatory action.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE DATA)

NOTE 5: - GEOGRAPHIC INFORMATION

a. Summary information about geographic areas:

The Company manages its business on a basis of one reportable segment. See Note 1a for a brief description of the Company's business. Total revenues are attributed to geographic areas based on the location of end customers.

The following presents total revenues and long-lived assets for the six months ended June 30, 2004, 2005 and for the year ended December 31, 2004:

<TABLE>

	JUNE 30, 2005		JUNE 30, 2004	
	UNAUDITED		UNAUDITED	
	TOTAL REVENUES	LONG-LIVED ASSETS	TOTAL REVENUES	LONG-LIVED ASSETS
Americas	$ 67,683	$ 42,994	$ 58,346	$ 9,715
EMEA (*	46,840	25,190	43,645	18,960
Far East	22,511	196	16,561	125
Israel	1,318	22,822	1,060	28,218
	$ 138,352	$ 91,202	$ 119,612	$ 57,018

</TABLE>

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

b. Product lines:

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

<TABLE>

	SIX MONTHS ENDED JUNE 30,	
	2005	2004
	UNAUDITED	
Enterprise Interaction Solutions	$ 106,473	$ 90,752
Public Safety and Security sector	31,879	28,860
	$ 138,352	$ 119,612

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

Customer A	24.7%	18.5%

</TABLE>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

U.S. DOLLARS IN THOUSANDS (EXCEPT SHARE DATA)

NOTE 6:- EARNINGS PER SHARE

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

1. Numerator:

<TABLE>

	SIX MONTHS ENDED JUNE 30, 2005	SIX MONTHS ENDED JUNE 30, 2004
	UNAUDITED	
Numerator for basic and diluted net earnings per share -		
Net income from continuing operations	$ 12,577	$ 7,119
Net income from discontinued operation	-	3,236
Net income available to Ordinary shareholders	$ 12,577	$ 10,355
2. Denominator (in thousands):		
Denominator for basic net earnings per share - Weighted average number of shares	18,590	17,251
Effect of dilutive securities:		
Add - Employee stock options	1,487	1,305
Add - Employee Stock Purchase Plan	6	5
Denominator for diluted net earnings per share - adjusted weighted average shares assuming exercise of options	20,083	18,561

NOTE 7:- TOTAL COMPREHENSIVE INCOME

	2005	2004
Net income	$ 12,577	$ 10,355
Unrealized gains on derivative instruments, net	(297)	41
Foreign currency translation adjustments	(1,851)	99
Total comprehensive income	$ 10,429	$ 10,495

</TABLE>

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

We may from time to time make written or oral forward-looking statements, including in filings with the United States Securities and Exchange Commission ("SEC"), in reports to shareholders and in press releases and investor webcasts. You can identify these forward-looking statements by use of words such as "strategy", "expects", "continues", "plans", "anticipates", "believes", "may", "estimates", "intends", "projects", "goals", "targets", and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

We cannot assure you that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. 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. 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 partners, one of which constitutes 24.7% of our revenues for the six-month period ended June 30, 2005; the financial strength of our key distribution partners; 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. Please read the section entitled "Factors That May Affect Future Results" in our annual report on Form 20-F to review conditions that we believe could cause actual results to differ materially from those contemplated by the forward-looking statements. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect our view only as of June 30, 2005 unaudited interim financial reports. Except as required by law, we undertake no obligation to update these forward-looking statements to reflect future events or circumstances or the occurrence of unanticipated events.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the interim financial statements for the period ended June 30, 2005 and in conjunction with our consolidated financial statements and the related notes and other financial information included in our 20-F for the year ended December 31, 2004.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The critical accounting policies described in Item 5 in the Company's Annual Report on Form 20−F are those that are both most important to the portrayal of the Company's financial position and results of operations, and require management's most difficult, subjective or complex judgments. As of June 30, 2005, there have been no material changes to any of the critical accounting policies contained therein.

RESULTS OF OPERATIONS

The following table sets forth selected consolidated income statement data for NICE for each of the six month periods ended June 30, 2005 and 2004 expressed as a percentage of total revenues. Figures may not add up due to rounding.

<TABLE>

	SIX MONTHS ENDED JUNE 30,	
	2004	2005
Revenues		
Products	71.5 %	68.6 %
Services	28.5	31.4
	100.0	100.0
Cost of revenues		
Products*	35.8	32.5
Services*	71.5	69.7
	46.0	44.2
Gross Profit	54.0	55.8
Operating expenses		
Research and development, net	10.4	9.9
Selling and marketing	25.4	24.6
General and administrative	13.1	12.5
Amortization of acquired intangibles	0.1	0.2
Total operating expenses	49.1	47.1
Operating income	5.0	8.7
Financial income, net	1.7	1.7
Income before taxes	6.7	10.3
Taxes on income	0.7	1.2
Net income from continuing operations	6.0	9.1
Net income from discontinued operations	2.7	
Net income	8.7	9.1

</TABLE>

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* percent of related revenue

SIX MONTHS ENDED JUNE 30, 2005 AND 2004

REVENUES

Our total revenues rose approximately 16% to $138.4 million in the first six months of 2005 from $119.7 million in the same period of 2004. Enterprise Interaction Solutions revenues were $106.5 million in the first half of 2005, an increase of 17% from the same period of the prior year, and revenues from sales to the public safety and security market were $31.9 million, an increase of 10% from the prior year. We believe that our growth in revenues was due primarily to market share gains in these markets and market growth and to a lesser extent to the inclusion of Dictaphone Corporation's

Communications Recordings Systems division ("Dictaphone CRS business") beginning on June 1, 2005.

	SIX MONTHS ENDED JUNE 30, 2004	2005	$ CHANGE	% CHANGE
Product Revenues	$85.6	$95.0	9.4	11.0 %
Service Revenues	34.1	43.4	9.3	27.3
TOTAL REVENUES	$119.7	$138.4	18.7	15.6 %

The increase in product revenues was due primarily to higher sales of our multimedia platforms and applications to enterprise market and public safety institutions. There can be no assurance that we will continue to experience market share gains, or that our new products will be broadly accepted, or that given weak fiscal spending, we will continue to report growth in our platform and related software applications.

The increase in services revenues was generated by an increasing portion of our installed base engaging us for maintenance services and higher installation and training revenues related mainly to the increase in product sales to the enterprise market. Service revenues represented 31% of total revenues compared with approximately 29% in 2004. Although we typically generate lower profit margins on services than on products, our strategy is to continue to grow our global services business, which we believe increases the competitiveness of our product offerings, and thus expect services to represent a growing portion of total revenues in the future. Our long-term target is for services to be higher than 30% of total revenues.

Revenues in the first half of 2005 in the Americas, which includes the United States, Canada and Latin and South America, rose 16% to $67.7 million from $58.3 million in the first half of 2004. The increase was largely attributable to higher post-contract support and the inclusion of Dictaphone CRS business beginning on June 1, 2005. Sales to Europe, Middle East and Africa ("EMEA") rose 8% to $48.2 million in the first half of 2005 from $44.7 million in the first half of 2004. The increase was due mainly to higher sales to the security market and post-contract support. Sales to Asia-Pacific ("APAC") increased 36% to $22.5 million in the first half of 2005 from $16.6 million in the first half of 2004 due mainly to higher sales to the enterprise market in the region.

COST OF REVENUES:

	SIX MONTHS ENDED JUNE 30, 2004	2005	$ CHANGE	% CHANGE
Cost of Product Revenues	$30.6	$30.9	0.3	1.0 %
Cost of Service Revenues	24.4	30.2	5.8	23.8
TOTAL COST OF REVENUES	$55.0	$61.1	6.1	11.1 %

Cost of product revenues increased slightly on a dollar basis while decreasing as a percentage of product revenues. The slight increase was due mainly to the higher sales volume. Cost of services revenue increased on a dollar basis while decreasing as a percentage of service revenues. The increase was due principally to higher labor, subcontractor and material costs associated with the growth in product installations and maintenance contracts.

GROSS PROFIT

	SIX MONTHS ENDED JUNE 30,			
	2004	2005	$ CHANGE	% CHANGE
Gross Profit on Product Revenues	$54.9	$64.0	9.1	16.6%
as a percentage of product revenues	64.1%	67.4%		
Gross Profit on Service Revenues	9.7	13.2	3.5	36.1
as a percentage of service revenues	28.4%	30.4%		
TOTAL GROSS PROFIT	$64.6	$77.2	12.6	19.5%
as a percentage of total revenues	54.0%	55.8%		

The improvement in gross profit on product revenues was due primarily to the higher sales volume, product cost reductions and a higher proportion of software in the product mix. The improvement in gross profit margin on services revenue reflects improved staff utilization and efficiencies. On a forward-looking basis, we expect our gross margins to increase gradually to the extent that we are successful in realizing the benefit of a growing proportion of software applications in our product revenue mix, higher volume and improved efficiencies in our global service operations.

EXPENSES

	SIX MONTHS ENDED JUNE 30,			
	2004	2005	$ CHANGE	% CHANGE
Research and development, net	$12.4	$13.8	1.4	11.3
Selling and marketing	30.4	34.0	3.6	11.8
General and administrative	15.7	17.2	1.5	9.6
Amortization of acquired intangible assets	0.2	0.2	0	0

RESEARCH AND DEVELOPMENT, NET. Research and development expense, before capitalization of software development costs and grants, increased to $14.9 million in the first six months of 2005 from $13.3 million in the same period of 2004 and represented 10.8% and 11.2% of revenues in the first half of 2005 and 2004, respectively. The increase in gross outlays was due mainly to the increase of R&D labor costs.

Software development costs capitalized were $0.4 million in the first six months of 2005 compared with $0.7 million in the same period of 2004. Amortization of capitalized software development costs, included in cost of product revenues, was $1.3 million and $1.9 million in first half of 2005 and 2004, respectively.

SELLING AND MARKETING EXPENSES. The increase in selling and marketing expenses was due primarily to an increase in our corporate and regional sales and marketing efforts, higher sales commissions resulting mainly from the increase in sales and to the inclusion of Dictaphone CRS business beginning on June 1, 2005. Selling and marketing expenses represented 24.6% of total revenues in the first six months of 2005 compared with 25.4% in the same period of 2004. We expect that we will continue to leverage our global sales and distribution infrastructure by increasing our corporate and regional marketing efforts in the future.

GENERAL AND ADMINISTRATIVE EXPENSES. The increase in general and administrative expenses in the first half of 2005 was due principally to an increase in labor costs and legal expenses. General and administrative expenses represented 12.5% of total revenues in the first half of 2005 compared with 13.1% in the first half of 2004. On a forward-looking basis, general and administrative expenses, while increasing on an absolute dollar basis, are expected to decline as a percentage of total revenues.

FINANCIAL AND OTHER INCOME

	SIX MONTHS ENDED JUNE 30,			
	2004	2005	$ CHANGE	% CHANGE
Financial income	$2.1	$2.3	0.2	9.5

FINANCIAL INCOME, NET. The increase in financial income, net reflects a higher average cash balance and higher prevailing average interest rates in 2005 compared with 2004.

TAXES ON INCOME In the first six months of 2005, we recorded a provision for income taxes of $1.7 million compared with $0.9 million in the same period of 2004. The increase was primarily related to the increase in operating profits and a slight increase in the company effective tax rate as a result of profit recorded at certain distribution subsidiaries and utilization of NOL in 2004. We expect that the company effective tax rate will continue to increase moderately in the future.

NET INCOME FROM CONTINUING OPERATIONS. Net income from continuing operations was $12.6 million in the first half of 2005 compared with $7.1 million in the same period of 2004. The increase in 2005 resulted primarily from the increase in revenues and gross margin.

NET INCOME FROM DISCONTINUED OPERATIONS. Net income from the discontinued operation of our COMINT/DF military-related business was $0 in the first six months of 2005 and approximately $3.2 million (including gain on disposition) in the first six months of 2004.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations through cash generated from operations and sales of equity securities. Generally, we invest our excess cash in instruments that are highly liquid, investment grade securities. At June 30, 2005, we had approximately $169.3 million of cash and cash equivalents and short and long−term investments compared with $135.8 million at June 30, 2004. The increase in 2005 was due to higher net income and the proceeds from the issuance of shares upon the exercise of stock options and under our employee share purchase plan partly offset by the acquisition of Dictaphone CRS business.

Cash provided by operating activities of continuing operations was $32.0 million and $15.8 million in the first six months of 2005 and 2004, respectively. The improvement in 2005 compared with 2004 was primarily attributable to higher net operating income and increase in accrued expenses and other liabilities.

Net cash used in investing activities from continuing operations was $35.0 million and $36.4 million in the first half of 2005 and 2004, respectively. In June 2005, we paid $38.9 million for the Dictaphone CRS business (including acquisition related costs). Capital expenditures were $2.7 million in the first six months of 2005 and $3.2 million in the same period of 2004. Capital expenditures in 2005 and 2004 included investment in back−office IT systems, equipment for research and development and testing purposes, and general computer equipment. As of June 30, 2005, we had no material commitment for capital expenditures.

Net cash provided by financing activities was $11.5 million and $9.9 million in the first six months of 2005 and 2004, respectively, almost entirely as a result of net proceeds from the issuance of shares upon the exercise of stock options and under our employee share purchase plan. As of June 30, 2005, we had authorized credit lines from banks in the amount of $132 million. When utilized, the credit lines will be denominated in dollars and will bear interest at the rate of up to LIBOR + 1.5 % per year. An amount of $110 million out of the total credit lines is secured by our marketable securities. There are no financial covenants associated with these credit lines. As of June 30, 2005, $6.3 million of the $132 million referred to above was used for bank guarantees.

We believe that based on our current operating forecast, the combination of existing working capital, expected cash flows from operations and available credit lines will be sufficient to finance our ongoing operations for the next twelve months. This belief takes into consideration the steps we have taken to limit certain customer−related risks through insuring a significant portion of our accounts receivable and achieving ISO 9000−2001 certification to help ensure the quality of our products and services, which in turn lowers our exposure to certain commercial risks. Depending upon our future growth, the success of our business initiatives and acquisition opportunities, and our transition towards an enterprise software business model, we will consider from time to time various financing alternatives and may seek to raise additional capital to finance our strategic efforts through debt or equity financing, the sale of non−strategic assets or entry into strategic arrangements.

EXHIBIT 99.3

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS

CRS DIVISION
(A business unit of Dictaphone Corporation)

As of and for the years ended December 31, 2004 and 2003 and as of and for the nine−months ended December 31, 2002

CRS DIVISION
FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT AUDITORS
As of December 31, 2004, 2003 and 2002 and for the periods then ended

C O N T E N T S

	Page(s)
Report of Independent Auditors	2
Financial Statements	
Balance Sheets	3
Statements of Operations	4
Statements of Cash Flows	5
Notes to Financial Statements	6 − 16

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Dictaphone Corporation:

In our opinion, the accompanying balance sheets and the related statements of operations and of cash flows present fairly, in all material respects, the financial position of the CRS Division of Dictaphone Corporation ("CRS") as of December 31, 2004, December 31, 2003 and December 31, 2002, and the results of their operations and their cash flows for the years ended December 31, 2004 and December 31, 2003 and the nine months ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. 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 audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Notes 2 and 3, the financial statements of CRS have been derived from the financial statements and accounting records of the Dictaphone Corporation using the historical results of operations and the historical carrying values of assets and liabilities of CRS and may not reflect CRS's results of operations, financial position and cash flows as a stand-alone entity.

/s/ PricewaterhouseCoopers LLP
August 15, 2005

CRS DIVISION
CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS)

<TABLE>

	DECEMBER 31, 2004	DECEMBER 31, 2003	DECEMBER 31, 2002
ASSETS			
Current assets:			
Accounts receivable, net	$17,329	$15,447	$15,481
Inventories	7,270	6,656	6,248
Other current assets	1,504	1,463	542
Total current assets	26,103	23,566	22,271
Property, plant and equipment, net	1,409	2,056	1,664
Excess reorganization value and goodwill	12,846	28,096	28,096
Intangible assets, net	18,683	19,911	19,005
TOTAL ASSETS	$59,041	$73,629	$71,036
LIABILITIES AND NET INVESTMENT			
Current liabilities:			
Accounts payable	$ 1,628	$ 1,568	$ 2,278
Accrued liabilities	4,011	4,472	3,969
Current portion of deferred revenue	11,132	9,775	10,670
Other current liabilities	2,337	870	1,345
Total current liabilities	19,108	16,685	18,262
Deferred revenue	5,407	5,394	5,401
Total liabilities	24,515	22,079	23,663
Commitments and contingencies			
Net investment:			
Dictaphone net investment in CRS	34,526	51,550	47,373
TOTAL LIABILITIES AND NET INVESTMENT	$59,041	$73,629	$71,036

</TABLE>

The accompanying notes are an integral part of these statements.

CRS DIVISION
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS)

<TABLE>

	YEAR ENDED DECEMBER 31, 2004	YEAR ENDED DECEMBER 31, 2003	NINE MONTHS ENDED DECEMBER 31, 2002
REVENUES:			
Product sales	$29,859	$31,491	$29,540
Support and maintenance services	34,328	35,093	31,911
Other	1,000	9,000	--
Total revenues	65,187	75,584	61,451
COSTS AND EXPENSES:			
Cost of sales	18,092	18,056	15,858
Cost of service	18,791	19,843	13,662
Selling, general and administrative	26,606	29,612	22,793
Research and development	3,512	4,007	2,156
Depreciation	1,000	802	502
Amortization of intangibles	3,837	3,096	1,932
Impairment of intangibles	15,250	--	--
Total costs and expenses	87,088	75,416	56,903
(LOSS) INCOME BEFORE INCOME TAXES	(21,901)	168	4,548
Provision for income taxes	(196)	(75)	(73)
NET (LOSS) INCOME	$(22,097)	$ 93	$ 4,475

</TABLE>

The accompanying notes are an integral part of these statements.

CRS DIVISION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

<TABLE>

	YEAR ENDED DECEMBER 31, 2004	YEAR ENDED DECEMBER 31, 2003	NINE MONTHS ENDED DECEMBER 31, 2002
OPERATING ACTIVITIES:			
Net (loss) income	$(22,097)	$ 93	$ 4,475
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	4,837	3,898	2,434
Provision for doubtful accounts receivable	262	402	493
Impairment of intangibles	15,250	--	--
Changes in assets and liabilities:			
Accounts receivable	(2,053)	(368)	3,683
Inventories	(404)	(408)	(1,940)
Accounts payable and accrued liabilities	61	(207)	(2,869)
Deferred revenue	1,370	(903)	122
Other current liabilities	1,467	(465)	(1,483)
Other	(26)	(1,011)	264
Net cash (used in) provided by operating activities	(1,333)	1,031	5,179
INVESTING ACTIVITIES:			
Software development	(2,494)	(4,002)	(3,180)
Net investment in fixed assets	(353)	(1,193)	(119)
Acquisition of Switzerland distributor	--	(52)	(512)
Net cash used in investing activities	(2,847)	(5,247)	(3,811)
FINANCING ACTIVITIES:			
Net financing provided by (repaid to) Dictaphone	4,180	4,216	(1,368)
Net cash provided by (used in) financing activities	4,180	4,216	(1,368)
Changes in cash	--	--	--
Cash and cash equivalents, beginning of period	--	--	--
Cash and cash equivalents, end of period	$ --	$ --	$ --
Supplemental disclosure of cash flow information:			
Income taxes paid	$ 70	$ 165	$ 58

</TABLE>

The accompanying notes are an integral part of these statements.

CRS BUSINESS UNIT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002

NOTE 1 − NATURE OF OPERATIONS

The CRS Division ("CRS"), a business unit of Dictaphone Corporation ("Dictaphone"), is a leader in the development, sale and service of communications recording systems. CRS's products are used primarily by public safety agencies (such as 911 centers, fire departments, police departments and prison facilities), financial institutions (such as banks, mutual funds and brokerage houses) and customer call centers. Customers use CRS's products for critical applications involving the recording and archiving of telephone conversations or other voice broadcasts to protect against financial or other liability relating to misinterpreted telephone conversations as well as to monitor applications and evaluate the quality of customer call center employees' performances.

The CRS Division is headquartered in Stratford, Connecticut, and has marketing, sales, service and support organizations in the United States, United Kingdom, Canada and Europe. The CRS Division markets its products worldwide with approximately 78%, 77% and 75% of its revenue generated from the United States market in 2004, 2003 and 2002, respectively.

As discussed in further detail in Note 14, Dictaphone completed the sale of the CRS Division to Nice Systems, Inc. on May 31, 2005.

NOTE 2 − SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements of CRS have been derived from the financial statements and accounting records of Dictaphone using the historical results of operations and the historical carrying value of assets and liabilities of the CRS business, adjusted for certain allocations as further described below. Management believes the assumptions underlying the financial statements are reasonable. However, the financial statements contained herein may not necessarily reflect CRS's results of operations, financial position and cash flows in the future or what the results of operations, financial position and cash flows would have been had the CRS business operated as a stand−alone entity. The CRS financial statements represent the combination of the CRS operations from Dictaphone and certain of Dictaphone's majority−owned subsidiaries as follows: Dictaphone Canada Ltd, DSP Inc., Dictaphone International Ltd. (99.99% owned), Dictaphone Deutschland GmbH, Dictaphone NV, Dictaphone International A.G., and Dictaphone Europe A.G. (formerly VoiceCom, A.G., "VoiceCom"). All intercompany accounts and transactions have been eliminated.

As further discussed in Note 7, Dictaphone completed a reorganization under Chapter 11 of the United States Bankruptcy Code when the Plan was confirmed on March 13, 2002 by the Bankruptcy Court and became effective on March 28, 2002. For financial reporting purposes, Dictaphone used an effective emergence date of March 31, 2002. The financial statements of Dictaphone have been prepared and presented in accordance with the American Institute of Certified Public Accountants Statement of Position 90−7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90−7"), and in conformity with accounting principles generally accepted in the United States of America.

The financial statements include allocations of certain Dictaphone shared expenses. Shared expenses include corporate expenses which are included in selling, general and administrative and customer support expenses included in cost of sales and service. Shared expenses have been allocated based on CRS's sales in relationship to Dictaphone's consolidated sales and on CRS's service hours and service call activity in relationship to Dictaphone's consolidated service hours and service call activity. CRS's allocated selling, general and administrative expenses primarily include accounting services, real estate costs, legal costs, pension costs and human resources costs. Shared expenses allocated to CRS for cost of sales and service include professional services, technical support and in−house repairs. Management believes the amount of allocated Dictaphone shared expenses is a reasonable representation of the services performed on behalf of or benefited by the CRS business. The financial statements do not include any allocation of interest costs due to Dictaphone's centralized approach to cash management. If interest expense had been recorded, by allocating

Dictaphone's total interest bearing debt to CRS based upon CRS' net assets as a percentage of Dictaphone's net assets, and an interest rate of 10%, interest expense for the years ended December 31, 2004 and 2003 and the nine-month period ending December 31, 2002 would have been approximately $1.4 million, $1.4 million and $1.0 million, respectively.

CRS BUSINESS UNIT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002

A summary of direct costs that can be specifically attributable to CRS, and allocated costs for the years ended December 31, 2004 and 2003 and the nine-month period ended December 31, 2002 is as follows (in thousands):

<TABLE>

	December 31, 2004		December 31, 2003		December 31, 2002	
	Cost of sales and service	Selling, general & administrative	Cost of sales and service	Selling, general & administrative	Cost of sales and service	Selling, general & administrative
Direct costs	$21,697	$16,207	$20,378	$17,541	$18,597	$11,723
Allocated costs	15,186	10,399	17,521	12,071	10,923	11,070
Total	$36,883	$26,606	$37,899	$29,612	$29,520	$22,793

</TABLE>

In addition, CRS purchased $13.6 million, $13.0 million and $10.7 million, respectively, of inventory at fair market value from Dictaphone for the years ended December 31, 2004 and 2003 and the nine-month period ended December 31, 2002. These purchases have been included in CRS's cost of sales or inventory, as appropriate.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results could differ from those estimates. The most significant estimates relate to the allowance for doubtful accounts, inventory valuation provisions, the fair value of assets and liabilities upon emergence from the Chapter 11 bankruptcy, property, plant & equipment and intangible asset impairment, tax liabilities and allocation of shared expenses.

Cash and cash equivalents

Dictaphone uses a centralized approach to cash management and the finance of its operations. As a result, none of Dictaphone's cash, cash equivalents or debt at the corporate level is reported at the CRS business level.

Fair value of financial instruments

The recorded values of accounts receivable, accounts payable and accrued liabilities reflected in the financial statements approximate their fair values due to the short-term nature of the instruments.

Inventory valuation

Inventories are valued at the lower of cost (determined on a first-in-first out basis) or market. Provisions are made for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions.

Research and development expenses

All costs incurred to establish the technological feasibility of software products or product enhancements are expensed as incurred. Research and development expenses were $3.5 million and $4.0 million for the years ended December 31, 2004 and 2003, respectively, and $2.2 million for the nine-month period ended December 31, 2002.

Computer software development costs

The Company records at cost purchased software and capitalizes certain software costs in accordance with the provisions of Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" ("SFAS 86"), which is included in intangible assets on the balance sheets (see Note 8). In accordance with SFAS 86, software development costs are capitalized once a product reaches technological feasibility until such time the product is released for sale. Such amounts totaled $2.6 million and $4.0 million for the years ended December 31, 2004 and 2003, respectively, and $3.2 million for the nine-month period ended December 31, 2002. Capitalized software development costs are amortized ratably over their expected life of approximately 36 months. Amortization expense was $1.3 million and $0.6 million for the years ended December 31, 2004 and 2003, respectively. There was no amortization expense for the nine-month period ended December 31, 2002 since capitalization of such costs commenced upon emergence from bankruptcy in March 2002, and no projects were made available for release prior to 2003. Amortization expense of capitalized software development costs is included in amortization of intangibles in the statements of operations.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost and depreciated using the straight−line method over the useful lives of the various assets ranging from three to twelve years for machinery and equipment. Major improvements which add to productive capacity or extend the life of an asset are capitalized while repairs and maintenance are charged to expense as incurred. As part of the 2002 reorganization and implementation of fresh−start accounting in accordance with SOP 90−7, Dictaphone adjusted the historical cost of property, plant, and equipment to its fair value on March 31, 2002.

In December each year, or whenever events or changes in circumstances indicated that the carrying amount of such assets or intangibles might not be recoverable, the CRS Division evaluates its long−lived assets for impairment in accordance with SFAS 144. No impairment charge was required as a result of these reviews for any of the periods.

Intangible assets, excess reorganization value and goodwill

In connection with fresh−start accounting, Dictaphone has fair valued intangibles for patents and technology, which are being amortized over three to four years, and intangibles for customer service relationships that are being amortized over seven years. Values ascribed to trade names, trademarks and excess reorganization value having indefinite lives are not being amortized but are reviewed annually as of December 31 for impairment in accordance with SFAS no. 142 (see Notes 7 and 8). Recoverability of long−lived assets is assessed by a comparison of the carrying amount of the asset to the estimated discounted future net cash flows expected to be generated by the asset or the market−value approach. As a result of such review, management determined that the future cash flows from the business, which has been adversely effected by continued competitive market conditions throughout 2004, no longer supported the carrying value of the goodwill and excess reorganization value attributed to CRS. Accordingly, in 2004, an impairment in the value of this business of $15.3 million was recorded (see Note 7). There were no impairments for the year ended December 31, 2003 and for the nine−months ended December 31, 2002.

Intangible assets acquired that are obtained through contractual or legal right, or are capable of being separately sold, transferred, licensed, rented or exchanged are recognized as an asset apart from goodwill. Goodwill and intangibles with indefinite lives are no longer subject to amortization, but are subject to at least an annual assessment for impairment by applying a fair−value based test.

Revenue

Revenue is recognized when earned. The CRS Division records revenue attributable to the hardware and software elements upon installation and acceptance from the customer and defers revenue attributable to undelivered elements, including training, maintenance and product warranties to the periods in which the related obligations are performed. Vendor−specific objective evidence exists for each of these undelivered elements and is derived from the sale prices of each element of the sales arrangement when sold separately. Revenue from maintenance and support services is recognized ratably over the relevant contractual period. The CRS Division may grant sales discounts to customers, which are reflected as a reduction in the revenue from product sales or services. All amounts billed to a customer in a sales transaction related to shipping and handling are included as revenue.

Maintenance contracts

Maintenance contracts (support services) are generally billed in advance; the related revenue is deferred and amortized ratably into income as earned over the term of the contract.

Allowance for doubtful accounts

Accounts receivable are stated at amounts due from customers net of allowance for doubtful accounts, discounts, rebates and allowances. Accounts outstanding longer than the contractual payment terms are considered past due. The CRS Division estimate for the allowance for doubtful accounts is calculated in two steps. First, CRS evaluates specific accounts where it has information that the customer may not have the ability to meet its obligations (bankruptcy, etc.) or the obligation is in dispute (litigation, etc.). In these cases CRS uses its judgment based upon available facts and circumstances and records a specific reserve. Second, a reserve is established for all customers based on several factors, including historical write−offs as a percentage of sales and anticipated returns. When a receivable balance is known to be uncollectible, such receivable is written−off.

Reserve for cancellations and returns

The CRS Division provides a reserve for maintenance contracts expected to be cancelled and returns for product sales. All cancellations and returns are recorded as a reduction of revenue to the extent earned or as a reduction of deferred revenue. The CRS Division estimates the amount of maintenance contracts to be cancelled and expected product returns based on historical experience and known cancellations or returns. As of December 31, 2004, 2003 and 2002, the CRS Division had $1.0 million, $0.8 million and $0.9 million, respectively, recorded for such cancellations and returns which is reflected in accrued liabilities on the balance sheets.

Advertising expenses

The CRS Division expenses all advertising costs as incurred and classifies these costs under selling, general and administrative expenses. Advertising costs were $0.7 million and $0.6 million, respectively, for the years ended December 31, 2004 and 2003 and $0.3 million for the nine-month period ended December 31, 2002.

Income taxes

Historically, the CRS Division's operations have been included in Dictaphone's consolidated income tax returns. Income tax expense, as presented herein, has been calculated on a separate return method in accordance with SFAS No. 109, "Accounting for Income Taxes." The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period of the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

Translation of foreign currencies

Assets and liabilities of foreign operations are translated at the rate of exchange in effect on the balance sheet date, while income and expenses are translated at the average rates of exchange prevailing during the period. As detailed in Note 12, the resulting translation adjustment is reflected within net investment on the consolidated balance sheet, and the change in the cumulative translation adjustment is reflected as a separate component of comprehensive income (loss). Foreign currency gains and losses resulting from transactions are included in the results of operations.

Recent accounting pronouncements

Exchanges of Nonmonetary Assets: In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets." SFAS 153 amends the guidance in Accounting Principles Board ("APB") Opinion No. 29, "Accounting for Nonmonetary Transactions," to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The standard is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The CRS Division has historically not had such nonmonetary exchanges and does not anticipate any such material exchanges in the foreseeable future. Accordingly, the adoption of SFAS 153 is not expected to be material to the business's operating results or financial position.

Discontinued Operations: In November 2004, the FASB issued EITF Issue No. 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations." EITF Issue No. 03-13 discusses issues pertaining to how an ongoing entity should evaluate whether the operations and cash flows of a disposed component have been or will be eliminated from the ongoing operations of the entity as well as the types of continuing involvement that constitute significant continuing involvement in the operations of the disposed component. EITF Issue No. 03-13 should be applied to a component of an enterprise that is either disposed of or classified as held for sale in fiscal periods beginning after December 15, 2004. EITF 03−13 is not expected to be material to the business's operating results or financial position.

Equity Accounting: In July 2004, the FASB issued EITF Issue No. 02−14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock." EITF Issue No. 02−14 discusses issues pertaining to investors who have the ability to exercise significant influence over the operating and financial policies of an investee and indicated that this type of investor should apply the equity method of accounting only when it has an investment in common stock and/or an investment that is in−substance common stock. EITF Issue No. 02−14 defines in−substance common stock and provides related guidance. EITF Issue No. 02-14 became effective for reporting periods after September 15, 2004. The CRS Division does not have investments in common stock or investments that could be considered in-substance common stock and, therefore, the adoption of EITF Issue No. 02-14 had no material impact on the business's operating results or financial position.

Postretirement Benefits: In May 2004, the FASB issued Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," which provides guidance on accounting for the new Medicare prescription drug legislation. The CRS Division is not affected by this pronouncement since it provides a fixed subsidy to retirees.

NOTE 3 - DICTAPHONE NET INVESTMENT IN CRS, RELATED PARTY TRANSACTIONS AND LIQUIDITY

The CRS Division participates in the centralized cash management system used by Dictaphone to finance its operations. Cash deposits from CRS are transferred to Dictaphone on a daily basis and Dictaphone funds CRS as required. Therefore, no cash or cash equivalents are reflected in the CRS financial statements.

Dictaphone's investment in the CRS Division includes its investment in CRS and the net intercompany amount with Dictaphone, reflecting a variety of transactions discussed below. The following analyzes Dictaphone's investment in the CRS Division for the periods presented:

<TABLE>

	December 31, 2004	December 31, 2003	December 31, 2002
Balance at beginning of period	$ 51,550	$ 47,373	$ 44,171
Net (loss) income	(22,097)	93	4,475
Net intercompany activity	4,180	4,216	(1,368)
Other	893	(132)	95
Balance at end of period	$ 34,526	$ 51,550	$ 47,373

</TABLE>

Included as a component of the Dictaphone net investment in CRS are net cash advances from Dictaphone to CRS and general and administrative expenses allocated from Dictaphone to CRS. No interest expense on net advances from Dictaphone to CRS has been reflected in the accompanying financial statements. In 2004 and 2003, CRS incurred a net loss and generated negative operating cash flow. As a result, Dictaphone was required to provide cash advances to CRS. Dictaphone continued to fund operating cash requirements of CRS through the date of disposal (see Note 14).

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

<TABLE>

	December 31, 2004	December 31, 2003	December 31, 2002
Trade receivables	$18,566	$13,404	$18,200
Other receivables	1,067	4,400	--
Total receivables	19,633	17,804	18,200
Less allowance for doubtful accounts	(2,304)	(2,357)	(2,719)
Accounts receivable, net	$17,329	$15,447	$15,481

</TABLE>

Changes in the allowance for doubtful accounts for the years ended December 31, 2004 and 2003 and the nine-month period ended December 31, 2002 are as follows (in thousands):

<TABLE>

	Year ended December 31, 2004	Year ended December 31, 2003	Nine-months ended December 31, 2002
Balance at beginning of period	$2,357	$2,719	$2,576
Provision for bad debts	262	402	493
Accounts written off	(315)	(764)	(350)
Balance at end of period	$2,304	$2,357	$2,719

</TABLE>

The majority of CRS's receivables were pledged as collateral under Dictaphone's revolving-credit agreement with GMAC Commercial Finance LLC. Dictaphone did not have any borrowings outstanding under this agreement as of December 31, 2004. These assets were released from any pledges at the time of the sale of the CRS Division (See Note 14).

NOTE 5 - INVENTORIES

Inventories consist of the following (in thousands):

<TABLE>

	December 31, 2004	December 31, 2003	December 31, 2002
Raw materials and work in process	$1,485	$ 721	$ 959
Supplies and service parts	4,293	4,535	4,090
Finished products	1,492	1,400	1,199
Total inventories	$7,270	$6,656	$6,248

</TABLE>

The majority of CRS's inventories are pledged as collateral under Dictaphone's revolving-credit agreement with GMAC Commercial Finance LLC.

Dictaphone did not have any borrowings outstanding under this agreement as of December 31, 2004. These assets were released from any pledges at the time of the sale of the CRS Division (See Note 14).

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consist of the following (in thousands):

<TABLE>

	December 31, 2004	December 31, 2003	December 31, 2002
Machinery, equipment and other	$5,772	$5,528	$3,993
Accumulated depreciation	(4,363)	(3,472)	(2,329)
Property, plant and equipment, net	$1,409	$2,056	$1,664

</TABLE>

Depreciation expense was $1.0 million and $0.8 million, respectively, for the years ended December 31, 2004 and 2003 and $0.5 million for the nine-month period ended December 31, 2002.

The majority of CRS's property, plant and equipment is pledged as collateral under Dictaphone's revolving-credit agreement with GMAC Commercial Finance LLC. Dictaphone did not have any borrowings outstanding under this agreement as of December 31, 2004. These assets will be released from any pledges at the time of the sale of the CRS Division (See Note 14).

NOTE 7 - EXCESS REORGANIZATION VALUE AND GOODWILL

Dictaphone was acquired by Lernout & Hauspie Speech Products N.V. ("L&H NV"), a Belgian-based speech and language company, in May 2000. In November 2000, L&H NV and certain of its United States subsidiaries, including Dictaphone, filed voluntary petitions for relief under Chapter 11 of title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. In connection with the emergence from bankruptcy, Dictaphone experienced a change in control, whereby the previous creditors of L&H NV acquired the majority interest in the Company.

Dictaphone's emergence from Chapter 11 bankruptcy proceedings on March 28, 2002 resulted in a new reporting entity and adoption of fresh-start accounting, which required the Company to record its assets and liabilities at fair value. In conjunction with fresh-start accounting, Dictaphone recorded excess reorganization value of $27.8 million, which represents the fair value of the business in excess of the fair values ascribed to the assets of CRS net of the liabilities assumed.

The following summarizes excess reorganization value and goodwill, assigned to CRS. for the periods ended December 31, 2004, 2003 and 2002 (in thousands):

<TABLE>

	December 31, 2004	December 31, 2003	December 31, 2002
Excess reorganization value	$ 27,778	$27,778	$27,778
Acquired goodwill	318	318	318
Impairment	(15,250)	--	--
Total	$ 12,846	$28,096	$28,096

</TABLE>

As discussed in Note 2, the Company recorded a $15.3 million impairment charge in December 2004.

In August 2002, Dictaphone acquired VoiceCom, a distributor of dictation and communication recording equipment based in Switzerland, for total consideration and expenses of $1.4 million in cash. Included in the CRS Division are certain of VoiceCom's assets and $0.3 million of goodwill recorded in connection with the acquisition.

NOTE 8 - INTANGIBLE ASSETS, NET

The following summarizes intangible assets as of December 31, 2004, 2003 and 2002 (in thousands):

<TABLE>

	Useful life (in years)	December 31, 2004	December 31, 2003	December 31, 2002
Unamortizable intangible assets:				
Trade name and trademarks	indefinite	$ 2,443	$ 2,443	$ 2,443
Amortizable intangible assets:				
Patents and technology	4	3,140	3,140	3,140
Capitalized software	3	9,772	7,162	3,180
Customer service relationships	7	12,174	12,174	12,174
Subtotal		25,086	22,476	18,494
Total gross intangible assets		27,529	24,919	20,937
Accumulated amortization:				
Patents and technology		(2,159)	(1,374)	(589)
Capitalized software		(1,904)	(590)	(39)
Customer service relationships		(4,783)	(3,044)	(1,304)
Total accumulated amortization		(8,846)	(5,008)	(1,932)
Intangible assets, net		$ 18,683	$ 19,911	$ 19,005

</TABLE>

Amortization expense was $3.8 million and $3.1 million, respectively, for the years ended December 31, 2004 and 2003 and $1.9 million for the nine-month period ended December 31, 2002. Estimated annual amortization expense of the intangibles is approximately $5.2 million, $4.6 million, $3.8 million, $2.2 million and $0.4 million for the years ended December 31, 2005, 2006, 2007, 2008 and 2009, respectively. No amortization expense has been estimated for future software development projects where the cost has not been incurred as of December 31, 2004.

NOTE 9 - ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

<TABLE>

	December 31, 2004	December 31, 2003	December 31, 2002
Sales returns	$ 963	$ 820	$ 850
Sales incentives and bonus	942	369	435
Professional fees	333	386	404
Payroll and payroll taxes	293	588	374
Other	1,480	2,309	1,906
Total accrued liabilities	$ 4,011	$ 4,472	$ 3,969

</TABLE>

NOTE 10 - INCOME TAXES

The provision for income taxes for the years ended December 31, 2004 and 2003 and the nine-month period ended December 31, 2002 consists of the following (in thousands):

<TABLE>

	Year ended December 31, 2004	Year ended December 31, 2003	Nine-months ended December 31, 2002
Current provision:			
Federal	$ --	$ --	$ --
State	--	--	--
Foreign	196	75	73
Subtotal	196	75	73
Deferred benefit:			
Federal	(1,473)	(1,147)	(1,626)
State	(350)	(273)	(387)
Foreign	--	--	--
Subtotal	(1,823)	(1,420)	(2,013)
Valuation allowance	1,823	1,420	2,013
Provision for income taxes	$ 196	$ 75	$ 73

</TABLE>

A reconciliation of income tax expense computed at the United States Federal statutory rate of 35% and the CRS Division's effective tax rate for the years ended December 31, 2004 and 2003 and the nine-month period ended December 31, 2002 is as follows:

<TABLE>

	Year ended December 31, 2004	Year ended December 31, 2003	Nine-months ended December 31, 2002
Statutory income tax (benefit)/expense	$(7,665)	$ 59	$ 1,591
State income tax	--	--	--
Foreign operations income tax	196	75	73
Other	125	128	78
Impairment of intangibles	5,355	--	--
Deferred income taxes	2,185	(187)	(1,669)
Total income tax expense	$ 196	$ 75	$ 73

</TABLE>

The components of the deferred tax assets and liabilities as of December 31, 2004, 2003 and 2002 were as follows (in thousands):

<TABLE>

	December 31, 2004	December 31, 2003	December 31, 2002
Deferred tax assets:			
Net operating loss carryforwards	$ 21,904	$ 17,748	$ 11,743
Amortization of intangibles	9,161	10,443	12,287
Advanced billings	798	489	336
Tax credit carryover	1,346	1,033	924
Other	4,764	5,280	6,352
Total deferred tax assets	37,973	34,993	31,642
Deferred tax liabilities:			
Capitalized software costs	(3,809)	(2,669)	(763)
Other	(93)	(76)	(51)
Total deferred tax liabilities	(3,902)	(2,745)	(814)
Valuation allowance	(34,098)	(32,275)	(30,855)
Net deferred tax liabilities	$ (27)	$ (27)	$ (27)

</TABLE>

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities and net operating loss carryforwards for which income tax expenses or benefits are expected to be realized in future years. The valuation allowance was established since, in the opinion of management, it is more likely than not that all, or some portion, of net deferred tax assets will not be realized.

Upon emergence from bankruptcy, Dictaphone realized cancellation of indebtedness income ("CODI"), for financial reporting purposes, which is the amount the indebtedness discharged exceeded the consideration given in exchange thereof, of which Dictaphone ascribed a portion of the CODI to the CRS Division. The Internal Revenue Code provides that a debtor emerging from bankruptcy must reduce certain of its tax attributes such as net operating loss carryforwards, by certain types of CODI actually realized.

The CRS Division's estimated United States net operating loss carryforwards at December 31, 2004, as determined on a separate return basis, after reduction of applicable allocated CODI, are approximately $55.4 million and foreign net operating loss carryforwards are $2.9 million.

In addition, as a result of the emergence from bankruptcy, Dictaphone experienced an ownership change pursuant to and as defined by Internal Revenue Code Section 382 ("IRC 382"). As a result, the CRS Division's United States net operating loss carryforwards would be subject to the limitations imposed by IRC 382, as determined on a separate return basis. Furthermore, as discussed in Note 14, Dictaphone completed the sale of CRS in May 2005.

NOTE 11 − PATENT SETTLEMENT

On September 19, 2000, Dictaphone filed a complaint (the "Dictaphone Complaint") in the United States District Court for the District of Connecticut, on behalf of the CRS Division, against a competitor alleging that the competitor's products infringe on various CRS digital logger patents.

On December 11, 2003, a settlement was reached regarding the patent infringement suit. As part of the settlement, Dictaphone and the competitor agreed to dismiss all claims and counterclaims against each other and grant each other a worldwide, royalty−free, perpetual license to certain of their respective patents including the disputed patents. Additionally, the CRS Division was to receive payments totaling $10.0 million in several installments, of which $8.0 million was received within 30 days of the settlement date ($5.0 million was received in December 2003 and $3.0 million was received in January 2004). The remaining $2.0 million has been or is to be received in six quarterly installments of $333 thousand commencing in March 2004, with the final payment due in June 2005 ($1.3 million was received in 2004). Of the $2.0 million to be paid over such time, $1.0 million was subject to CRS's performance of certain obligations. Accordingly, for the year ended December 31, 2003, the CRS Division recognized $9.0 million of this settlement as other revenue, representing $8.0 million due within 30 days of signing this agreement plus $1.0 million future payments not subject to future performance obligations. In 2004, the CRS Division satisfied the remaining performance obligations of the settlement agreement and the CRS Division recorded an additional $1.0 million as other revenue in 2004. The remaining $0.7 million to be received is included in accounts receivable as of December 31, 2004.

NOTE 12 - COMPREHENSIVE (LOSS) INCOME

Comprehensive (loss) income includes net (loss) income and all other changes in equity exclusive of owners' investments and distributions. As discussed in Note 2, the differences between net (loss) income and comprehensive net (loss) income are due to translation adjustments related to foreign operations. Details relating to these translation adjustments are as follows (in thousands):

<TABLE>

	Year ended December 31, 2004	Year ended December 31, 2003	Nine-months ended December 31, 2002
Net (loss) income	$(22,097)	$ 93	$4,475
Translation adjustments	(138)	(132)	95
Total comprehensive (loss) income	$(22,235)	$ (39)	$4,570

</TABLE>

NOTE 13 - COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS OF RISK

Concentrations of Risk

Substantial portions of the CRS Division's revenues are derived from the sale of products manufactured at Dictaphone's manufacturing facility that is located in Melbourne, Florida. This manufacturing facility is subject to the normal hazards of any such facility that could result in damage to the facility. Any such damage to this facility or prolonged delay in the operations of this facility for repairs or other reason would have a materially adverse effect on the business's financial position and results of operations.

Contingencies

From time to time, the CRS Division may be involved in litigation relating to claims arising out of its ordinary course of business. Management believes that there are no claims or actions pending or threatened against the business, the ultimate disposition of which would have a material impact on the business's financial position or results of operations, nor does Management believe that the ultimate resolution of the litigation, administrative proceedings and environmental matters mentioned above in the aggregate will have a material adverse effect on the business's financial position or results of operations.

NOTE 14 - SUBSEQUENT EVENT

As a result of the Company's decision to focus more on its Healthcare business, the Company committed to a plan to sell its CRS business unit. Dictaphone completed the sale of the CRS Division on May 31, 2005 to Nice Systems Ltd., for approximately $38.5 million.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

The following unaudited pro forma condensed combined statement of operations has been prepared to give effect to the acquisition by NICE of certain assets and liabilities of Dictaphone's Communications Recording Systems ("CRS") business under the purchase method of accounting after giving effect to the pro forma adjustments described in the accompanying notes.

A pro forma condensed balance sheet as of June 30, 2005, is not presented since the transaction is already reflected in the consolidated balance sheet of NICE as of June 30, 2005.

The following unaudited pro forma condensed combined statement of operations combines the historical statements of operations of NICE and CRS. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2004, gives effect to the acquisition as if it had occurred on January 1, 2004 and combines the historical audited statement of operations of NICE for such year and the audited statement of operations of CRS for the year ended December 31, 2004. The unaudited pro forma condensed combined statement of operations for the six-month period ended June 30, 2005, gives effect to the acquisition as if it had occurred on January 1, 2005 and combines the historical unaudited statement of operations of NICE for such period and the unaudited statement of operations of CRS for the five-month period ended May 31, 2005 (The results of CRS's operations have been included in the consolidated financial statements of NICE since the acquisition date - June 1, 2005). Integration costs are not included in the accompanying unaudited pro forma condensed combined statement of operations.

This pro forma information should be read in conjunction with the respective consolidated historical financial statements (including notes thereto) of NICE, for the year ended December 31, 2004, as presented in our Annual Report on Form 20-F, which is incorporated by reference herein and the historical financial statements of CRS included elsewhere herein.

Unaudited pro forma condensed combined financial information is presented for illustrative purposes only and is not necessarily indicative of the results of operations that would have actually been reported had the acquisition occurred at the beginning of the periods presented, nor is it indicative of future results of operations. This unaudited pro forma condensed combined statement of operations is based upon the respective historical financial statements of NICE and CRS and does not incorporate, nor does it assume, any benefits from cost savings or synergies of the combined company. The pro forma adjustments are based on available financial information and certain estimates and assumptions that NICE believes are reasonable and that are set forth in the notes to the unaudited pro forma condensed combined statements of operations.

<TABLE>

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

U.S. DOLLARS IN THOUSANDS (EXCEPT PER SHARE DATA)

	SIX MONTHS ENDED JUNE 30, 2005	FIVE MONTHS ENDED MAY 31, 2005			SIX MONTHS ENDED JUNE 30, 2005
	NICE	CRS	PRO FORMA ADJUSTMENTS	NOTE	PRO FORMA COMBINED
Revenues	$ 138,352	$ 22,528	$ -	(a)	$ 160,880
Cost of revenues	61,137	13,093	698	(b)	74,928
Gross profit (loss)	77,215	9,435	(698)		85,952
Operating expenses:					
Research and development, net	13,756	2,173	-		15,929
Selling, general and administrative	51,220	8,646	-		59,866
Amortization of acquired intangible assets	244	1,818	551	(c)	2,613
Total operating expenses	65,220	12,637	551		78,408
Operating income (loss)	11,995	(3,202)	(1,249)		7,544
Financial income (expenses), net	2,297	-	(519)	(d)	1,778
Income (loss) before taxes on income	14,292	(3,202)	(1,768)		9,322
Taxes on income	1,715	55	(223)	(e)	1,547
Net income (loss)	$ 12,577	$ (3,257)	$ (1,545)		$ 7,775
Net earnings per share:					
Basic	$ 0.68				$ 0.42
Diluted	$ 0.63				$ 0.39

</TABLE>

<TABLE>

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

U.S. DOLLARS IN THOUSANDS (EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31, 2004	YEAR ENDED DECEMBER 31, 2004			YEAR ENDED DECEMBER 31, 2004
	NICE	CRS	PRO FORMA ADJUSTMENTS	NOTE	PRO FORMA COMBINED
Revenues	$ 252,643	$ 65,187	$ (1,000)	(a)	$ 316,830
Cost of revenues	114,308	36,883	1,675	(b)	152,866
Gross profit (loss)	138,335	28,304	(2,675)		163,964
Operating expenses:					
Research and development, net	24,866	3,512	-		28,378
Selling, general and administrative	93,123	27,606	-		120,729
Amortization of acquired intangible assets	318	3,837	1,322	(c)	5,477
Impairment of intangible assets	-	15,250	-		15,250
Total operating expenses	118,307	50,205	1,322		169,834
Operating income (loss)	20,028	(21,901)	(3,997)		(5,870)
Financial income (expenses), net	3,556	-	(1,168)	(d)	2,388
Other income, net	54	-	-		54
Income (loss) before taxes on income	23,638	(21,901)	(5,165)		(3,428)
Taxes on income	2,319	196	(521)	(e)	1,994
Net income (loss) from continuing operations	21,319	(22,097)	(4,644)		(5,422)
Net income from discontinued operation	3,236	-	-		3,236
Net income (loss)	$ 24,555	$ (22,097)	$ (4,644)		$ (2,186)
Net earnings (loss) per share:					
Basic:					
Continuing operations	$ 1.22				$ (0.31)
Discontinued operation	0.18				0.18
Net earnings	$ 1.40				$ (0.13)
Diluted:					
Continuing operations	$ 1.14				$ (0.31)
Discontinued operation	0.17				0.18
Net earnings	$ 1.31				$ (0.13)

</TABLE>

U.S. DOLLARS IN THOUSANDS

NOTE 1- GENERAL - BASIS OF PROFORMA PRESENTATION:-

On June 1, 2005, the Company consummated an agreement to acquire the assets and assume certain liabilities of Dictaphone's Communications Recording Systems ("CRS") business for $ 40,000 (including acquisition costs). Dictaphone's CRS business is a provider of liability and quality management systems for first responders, critical facilities, contact centers and financial trading floors.

The acquisition was accounted for by the purchase method and accordingly, the purchase price has been allocated according to the estimated fair value of the assets acquired and liabilities assumed of CRS. The results of the CRS's operations have been included in the consolidated financial statements since June 1, 2005 ("the closing date").

With the acquisition of CRS, the Company significantly expanded its customer base, presence in the U.S and Europe, and its network of distributors and partners. Additionally, the Company broadened its product offerings and global professional services team.

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

Trade receivables	$ 9,087
Other receivables and prepaid expenses	216
Inventories	7,687
Property and equipment	265
Trademarks	400
Core technology	4,900
Distribution network	10,100
Goodwill	25,623
Total assets acquired	58,278
Trade payables	(571)
Accrued expenses and other liabilities	(17,707)
Total liabilities assumed	(18,278)
Net assets acquired	$ 40,000

Trademarks, core technology and distribution network in the amount of $ 15,400 are amortized using the straight-line method at an annual weighted average rate of 19.5%.

NOTE 2 - PRO FORMA ADJUSTMENTS:-

The pro forma condensed combined statement of operations for the year ended December 31, 2004 and the six-month period ended June 30, 2005 includes the adjustments necessary to give effect to the acquisition as if it had occurred on January 1, 2004 and January 1, 2005, respectively. Adjustments included in the pro forma condensed combined statement of operations are summarized as follows:

(a) To eliminate $ 1,000 of revenues from NICE in respect of litigation settlement.

(b) To record amortization of core technology acquired in the acquisition for the six-month period ended June 30, 2005 and for the year ended December 31, 2004.

(c) To record amortization of trademarks and distribution network acquired in the acquisition for the six-month period ended June 30, 2005 and for the year ended December 31, 2004.

(d) To reduce interest income as if the cash paid for the acquisition and acquisition costs, totaling $ 40,000, was paid on January 1, 2005 and 2004, using an interest rate of 3.2% and 3.0%, respectively.

(e) Tax effect of b, c and d.

EXHIBIT 99.5

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-11842, 333-9352, 333-11154, 333-13686, 333-111112 and 333-111113) and on Form F-3 (Registration Nos. 333-12996, 333-11250 and 333-109766) of our report dated August 15, 2005, with respect to the consolidated financial statements of CRS Division, a business unit of Dictaphone Corporation for the years ended December 31, 2004 and 2003 and for the nine-month period ended December 31, 2002, which is included in this Report on Form 6-K of NICE-Systems Ltd. for the month of August 2005.

/s/ PricewaterhouseCoopers LLP

Stamford, CT
August 25, 2005