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 September 2007 (report no. 1)

Commission File Number: 0-27466

NICE-SYSTEMS LTD.

(Translation of Registrant's Name into English)

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

(Address of Principal Executive Offices)

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

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. 333-07130, 333-07266, 333-07740, 333-12996, 333-12350, 333-109766 AND 333-127883) AND NICE`S REGISTRATION STATEMENTS ON FORM S-8 (REGISTRATION STATEMENT NOS. 333-06784, 333-08146, 333-11842, 333-09350, 333-11154, 333-13686, 333-111112, 333-111113, 333-134355, 333-144589 AND 333-145981), AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS SUBMITTED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.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 Interim Consolidated Financial Statements of NICE for the six-month period ended June 30, 2007.

99.2. Operating and Financial Review and Prospects for the six-month period ended June 30, 2007.

99.3 Audited Financial Statements of IEX Corporation for the year ended December 31, 2005 and the notes thereto and Unaudited Interim Financial Statements of IEX Corporation for the six-month period ended June 30, 2006.

99.4. Audited Financial Statements of Performix Holdings, Inc. for the year ended December 31, 2005 and the notes thereto.

99.5. Audited Financial Statements of Actimize Ltd. for the year ended December 31, 2006 and the notes thereto and Unaudited Interim Financial Statements of Actimize Ltd. for the six-month period ended June 30, 2007.

99.6. Unaudited Pro Forma Condensed Combined Statement of Operations of NICE for the year ended December 31, 2006 and for the six-month period ended June 30, 2007 and the notes thereto.

99.7. Consent of PricewaterhouseCoopers LLP, in connection with their report dated June 8, 2006 related to the audited financial statements of IEX Corporation included herein.

99.8. Consent of Feeley & Driscoll, P.C., in connection with their report dated February 24, 2006 related to the audited financial statements of Performix Holdings, Inc. included herein.

99.9. Consent of Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, in connection with their report dated April 12, 2007 related to the audited financial statements of Actimize Ltd. included herein.

99.10. English Summary of Loan Agreement and Letter of Undertaking, dated August 29, 2007, between NICE and Bank Hapoalim Ltd.

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: September 12, 2007

EXHIBIT INDEX

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99.10. English Summary of Loan Agreement and Letter of Undertaking, dated August 29, 2007, between NICE and Bank Hapoalim Ltd.

Document — EX-99.1
Description — Unaudited Interim Consolidated Fin. Statements

NICE SYSTEMS LTD. AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

IN U.S. DOLLARS

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INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30, 2007	December 31, 2006
	Unaudited	*)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 76,971	$ 67,365
Short-term bank deposits	153	130
Marketable securities	99,964	92,859
Trade receivables (net of allowance for doubtful accounts of $ 3,117 and $ 1,951 at June 30, 2007 and December 31, 2006, respectively)	87,922	81,312
Other receivables and prepaid expenses	16,569	11,399
Inventories	13,580	18,619
Deferred tax assets	12,963	14,478
Total current assets	308,122	286,162
LONG-TERM ASSETS:		
Marketable securities	179,268	135,810
Investment in affiliates	1,200	1,200
Severance pay fund	10,923	9,998
Other receivables and prepaid expenses	837	832
Deferred tax assets	4,276	2,917
Property and equipment, net	15,750	15,813
Other intangible assets, net	102,450	111,182
Goodwill	221,590	220,430
Total long-term assets	536,294	498,182
Total assets	$ 844,416	$ 784,344

*) Derived from the audited balance sheet at December 31, 2006.

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)

	June 30, 2007	December 31, 2006
	Unaudited	*)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 19,907	$ 22,845
Accrued expenses and other liabilities	164,753	146,990
Total current liabilities	184,660	169,835
LONG-TERM LIABILITIES:		
Accrued severance pay	13,508	11,743
Deferred tax liabilities	30,497	33,130
Other long-term liabilities	63	62
Total long-term liabilities	44,068	44,935
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS' EQUITY:		
Share capital-		
Ordinary shares of NIS 1 par value:		
Authorized: 125,000,000 shares at June 30, 2007 and December 31, 2006; Issued and outstanding: 52,130,738 and 51,091,512 shares at June 30, 2007 and December 31, 2006, respectively;	13,005	12,754
Additional paid-in capital	547,897	522,866
Accumulated other comprehensive income	7,594	7,483
Retained earnings	47,192	26,471
Total shareholders' equity	615,688	569,574
Total liabilities and shareholders' equity	$ 844,416	$ 784,344

*) Derived from the audited balance sheet at December 31, 2006.

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

INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	Six months ended June 30, 2007	Six months ended June 30, 2006
	Unaudited	
Revenues:		
Products	$ 149,501	$ 118,818
Services	92,632	66,799
Total revenues	242,133	185,617
Cost of revenues:		
Products	42,018	38,867
Services	55,452	42,160
Total cost of revenues	97,470	81,027
Gross profit	144,663	104,590
Operating expenses:		
Research and development, net	26,699	20,420
Selling and marketing	55,338	41,426
General and administrative	40,543	26,149
Amortization of acquired intangible assets	3,692	1,226
In-process research and development	—	212
Total operating expenses	126,272	89,433
Operating income	18,391	15,157
Financial and other income, net	6,742	8,008
Income before taxes on income	25,133	23,165
Taxes on income	5,236	5,305
Net income	$ 19,897	$ 17,860
Net earnings per share:		
Basic	$ 0.39	$ 0.36
Diluted	$ 0.37	$ 0.35

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended June 30,	
	2007	2006
	Unaudited	
Cash flows from operating activities:		
Net income	$ 19,897	$ 17,860
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,525	8,173
Stock-based compensation	9,943	5,114
In-process research and development	—	212
Accrued severance pay, net	840	649
Amortization of premium (accretion of discount) and accrued interest on held-to-maturity marketable securities	(146)	151
Deferred taxes, net	(2,571)	(281)
Increase in trade receivables	(6,440)	(1,082)
Increase in other receivables and prepaid expenses	(5,629)	(292)
Decrease in inventories	5,389	4,395
Decrease in trade payables	(2,970)	(1,628)
Increase in accrued expenses and other liabilities	19,024	509
Other	(34)	(64)
Net cash provided by operating activities from continuing operations	50,828	33,716
Net cash provided by operating activities from discontinued operation	476	—
Net cash provided by operating activities	51,304	33,716
Cash flows from investing activities:		
Purchase of property and equipment	(4,147)	(3,671)
Proceeds from sale of property and equipment	53	22
Investment in marketable securities	(160,731)	(128,375)
Proceeds from maturity of marketable securities	104,450	95,086
Proceeds from call of long-term held-to-maturity marketable securities	5,864	—
Investment in short-term bank deposits	(77)	(34)
Proceeds from short-term bank deposits	55	54
Capitalization of software development costs	(455)	(526)
Final settlement related to the purchase of Dictaphone CRS division (a)	—	2,000
Payment for the acquisition of FAST Video Security AG (b)	—	(21,313)
Payment of earn-out related to the acquisition of Hannamax Hi-Tech Pty. Ltd.	(500)	(500)
Payment for the acquisition of certain assets and liabilities of Performix (c)	—	(14,170)
Payment of accrued acquisition costs related to IEX acquisition	(1,500)	—
Deferred acquisition costs	—	(223)
Decrease in accrued acquisition costs	(88)	(16)
Other	—	69
Net cash used in investing activities	(57,076)	(71,597)
Cash flows from financing activities:		
Proceeds from issuance of shares and exercise of share options, net	11,741	12,711
Tax benefit from exercised options	3,486	2,536
Decrease in accrued offering expenses	—	(273)
Decrease in short-term bank credit assumed in the acquisition of FAST	—	(785)
Net cash provided by financing activities	15,227	14,189
Effect of exchange rate changes on cash	151	145
Increase (decrease) in cash and cash equivalents	9,606	(23,547)
Cash and cash equivalents at the beginning of the period	67,365	254,956
Cash and cash equivalents at the end of the period	$ 76,971	$ 231,409

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

		Six months ended June 30,	
		2007	2006
		Unaudited	
(a)	Final settlement related to the purchase of Dictaphone CRS division		
	Working capital deficit (excluding cash and cash equivalents)	$ —	$ (3,000)
	Goodwill	—	1,000
		$ —	$ (2,000)
(b)	Payment for the acquisition of FAST:		
	Estimated fair value of assets acquired and liabilities assumed at the acquisition date:		
	Working capital deficit (excluding cash and cash equivalents)	$ —	$ (15)
	Property and equipment	—	256
	In-process research and development	—	212
	Other intangible assets	—	11,753
	Goodwill	—	10,755
	Long-term deferred tax liability	—	(1,449)
		—	21,512
	Less – decrease in prepaid acquisition costs	—	(256)
	Less – accrued acquisition costs	—	57
		$ —	$ 21,313
(c)	Payment for the acquisition of Performix:		
	Estimated fair value of assets acquired and liabilities assumed at the acquisition date:		
	Working capital deficit (excluding cash and cash equivalents)	$ —	$ (2,717)
	Property and equipment	—	360
	Other intangible assets	—	8,030
	Goodwill	—	8,754
	Long-term deferred tax liability	—	(24)
		—	14,403
	Less – accrued acquisition costs	—	(533)
	Add – receivable from escrow	—	300
		$ —	$ 14,170

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:— GENERAL

a. General:

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, Europe, the Middle East and Africa (“EMEA”) and Asia Pacific (“APAC”).

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

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

As for major customer data, see Note 5c.

b. Acquisitions:

1. 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:— GENERAL (Cont.)

On June 27, 2006, the Company and Dictaphone agreed to amend the CRS's purchase agreement, according to which, Dictaphone paid to the Company $ 2,000 as a final adjustment to the purchase price under the purchase agreement.

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

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

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

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

Trade receivables	$ 6,561
Other receivables and prepaid expenses	25
Inventories	7,426
Property and equipment	198
Trademarks	400
Core technology	4,900
Distribution network	10,100
Goodwill	26,311
Total assets acquired	55,921
Trade payables	(569)
Accrued expenses and other liabilities	(17,352)
Total liabilities assumed	(17,921)
Net assets acquired	$ 38,000

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%.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:— GENERAL (Cont.)

In connection with Dictaphone’s patent infringement claim against the Company (filed in June 2000), the Company reached a settlement agreement with Dictaphone (in December 2003) and agreed to dismiss all claims and counterclaims. In connection with the settlement agreement, each of the companies granted the other a perpetual license to certain of their respective patents including the disputed patents. Because the rights were restrictive in terms of transferability, enforceability and the right to sublicense by the grantee, the Company determined that the rights obtained and granted were of equivalent and insignificant value and, therefore, no separate amounts were recorded in the business combination in accordance with Emerging Issues Task Force (“EITF”) 04-01 “Accounting for Preexisting Relationship between the parties to a Business combination”.

2. Acquisition of Hannamax Hi-Tech Pty. Ltd, (“Hannamax”):

On September 1, 2005, the Company consummated an agreement to acquire the assets and assume certain liabilities of Hannamax Hi-Tech Pty. Ltd, (“Hannamax”) business for $ 2,011 (including acquisition costs), with potential earn out cash payment of up to $ 1,000 based on certain financial performance criteria covering 2005 through 2006. In the second quarter of 2006 and in the second quarter of 2007, the Company paid additional consideration in the amounts of $ 500 and $ 500, respectively due to meeting the performance criteria relating to years 2005 and 2006. Accordingly, the Company recorded additional goodwill in the total amount of $ 1,000.

Hannamax is NICE’s distributor in Australia and New Zealand markets. With the acquisition of Hannamax, the Company expects to expand its customer base and presence in Australia and New Zealand and to expand and strengthen the Company’s support organization in the region.

The factors that contributed to the purchase price that resulted in recognition of goodwill included: the benefits of increased market share geographically, the benefits of vertical integration and time-to-market benefits.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:— GENERAL (Cont.)

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

Trade receivables	$ 332
Other receivables and prepaid expenses	16
Inventories	318
Property and equipment	10
Customer relationships	930
Goodwill	2,159
Total assets acquired	3,765
Trade payables	(91)
Accrued expenses and other liabilities	(625)
Other long-term liability	(38)
Total liabilities assumed	(754)
Net assets acquired	$ 3,011

Customer relationships in the amount of $ 930 are amortized using the straight-line method at an annual rate of 10%.

3. Acquisition of FAST Video Security AG (“FAST”):

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

During the fourth quarter of 2006, the Company estimated that an additional consideration for earn out in the amount of approximately $ 6,200 will be paid by the Company on account of 2006 earn out; accordingly, the Company recorded additional goodwill in this amount.

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:— GENERAL (Cont.)

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

Should any contingent payment be made under the agreement in the future, the additional consideration, when determinable, will increase the purchase price and accordingly additional goodwill will be recorded.

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

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

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:— GENERAL (Cont.)

4. Acquisition of Performix:

On May 22, 2006, the Company consummated an agreement to acquire all of the outstanding shares of Performix Software Limited and to acquire the assets and assume certain liabilities of Performix Holdings Inc. and its subsidiaries (collectively “Performix”). Under the agreement, the Company acquired Performix for a total purchase price of $ 13,910 in cash (including acquisition costs). The purchase price may increase by up to an additional $ 3,150 based on certain performance criteria for the twelve month period ending July 1, 2007.

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

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

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

Should any contingent payment be made under the agreement in the future, the additional consideration, when determinable, will increase the purchase price and accordingly additional goodwill will be recorded.

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:— GENERAL (Cont.)

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

5. Acquisition of IEX:

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

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

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:— GENERAL (Cont.)

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

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

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

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:— GENERAL (Cont.)

6. Unaudited Pro-forma condensed results of operations:

The following represents the unaudited pro-forma condensed results of operations for the six months ended June 30, 2006, assuming that the acquisitions of FAST, Performix and, IEX occurred on January 1, 2006. The pro-forma information is not necessarily indicative of the results of operations, which actually would have occurred had the acquisitions been consummated on that dates, nor does it purport to represent the results of operations for future periods.

	Six months ended June 30, 2006
	Unaudited
Revenues	$ 223,888
Net income	$ 21,262
Basic net earnings per share	$ 0.43
Diluted net earnings per share	$ 0.41

c 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, 2007, are not necessarily indicative of the results of operations that may be expected for the year ended December 31, 2007.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:— SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2006 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 affect 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, 2006.

c. Accounting for Stock-based compensation:

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123(R)”) which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors. SFAS 123(R) supersedes Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”), for periods beginning in fiscal year 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (“SAB 107”) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R). SFAS 123(R) requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company’s consolidated income statements.

Prior to January 1, 2006, the Company accounted for options granted to employees and directors under the recognition and measurement provisions of APB 25 as permitted by Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”) whereby compensation expenses is equal to the excess, if any of the quoted market price of the stock over the exercise price at the grant date of the award.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R), using the modified prospective transition method. Under that transition method, compensation cost recognized in the six month periods ended June 30, 2007 and 2006, includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). The Company recognizes compensation expenses for the value of its awards, which have graded vesting, based on the accelerated attribution method over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:— SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Recently issued accounting pronouncements:

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). This interpretation prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition of tax positions, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. The company adopted FIN No. 48 effective January 1, 2007. FIN No. 48 requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position. Changes in judgment as to recognition or measurement of tax positions can materially affect the estimate of the effective tax rate and consequently, affect the operating results of the Company.

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

The Company has unrecognized tax benefits of approximately $ 10,800 as of January 1, 2007, of which $ 10,200 if recognized would result in a reduction of the Company's effective tax rate. Interest and penalties are immaterial at the date of adoption and are included in the unrecognized tax benefits.

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

As of January 1, 2007, the Company is subject to Israeli income tax examinations for the tax years 2002 through 2006, to U.S. Federal income tax examinations for the tax years of 2003 through 2006 and to other income tax examinations for the tax years of 2002 through 2006.

During the six month period ended June 30, 2007, the Company recorded an increase of its unrecognized tax benefits for the current year of approximately $ 1,400 and a reduction for tax positions of prior years of approximately $ 780.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management believes this standard will not have a material effect on its consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:— SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), which permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS No. 159 no later than January 1, 2008. The Company has not yet determined the effect that the adoption of SFAS No. 159 will have on its consolidated financial statements.

NOTE 3:— INVENTORIES

	June 30, 2007	December 31, 2006
	Unaudited	*)
Raw materials	$ 1,639	$ 2,457
Work-in-progress	75	56
Finished goods	11,866	16,106
	$ 13,580	$ 18,619

*) Derived from the audited balance sheet at December 31, 2006.

NOTE 4:— LEGAL PROCEEDINGS

a. On October 19, 2004, CipherActive filed an action against the Company in the District Court of Tel Aviv, State of Israel. In this lawsuit, CipherActive claims that under a development agreement with the Company, it is entitled to receive license fees in respect of certain software that it allegedly developed for the Company and which has been embedded in one of the Company's products. CipherActive claims that it is entitled to license fees in the amount of $ 600 in addition to the amount of $ 100 already paid to CipherActive by the Company in respect of such license fees. In the Company's statement of defense it claims that the software developed by CipherActive under the agreement has not been successful in the market, is no longer embedded in the Company's product and, therefore, CipherActive is not entitled to any additional license fees. On February 1, 2007, a preliminary hearing took place, during which the Company suggested that the parties submit the dispute to mediation. Although the court approved the mediation, the parties failed to find an appropriate mediator. In a pretrial hearing that took place on May 27, 2007, the court accepted CipherActive's request to allow additional time for negotiations between the parties. An additional pretrial hearing that was scheduled to take place on July 8, 2007, has been postponed by the court and a new date for the hearing is yet to be determined.

NOTE 4:— LEGAL PROCEEDINGS (Cont.)

b. On July 20, 2004, STS Software System Ltd. (“STS”), a wholly owned subsidiary of the Company, brought a lawsuit against Witness Systems, Inc. (currently: Verint America Inc. , a wholly owned subsidiary of Verint Systems, Inc.) (“Witness Systems”) asserting that Witness Systems is infringing three U.S. patents of STS relating to Voice over Internet Protocol (“VoIP”). STS claims that Witness Systems infringes the VoIP patents by marketing and selling products that incorporate methods of detecting, monitoring and recording information – all fully protected by the patents. STS is seeking a permanent injunction to prevent Witness Systems from making, using, offering to sell or selling any product in the United States that infringes these patents. In response, Witness Systems is asserting that the patents are invalid and not infringed. By order of the court on June 26, 2007, the Company joined as a plaintiff in the litigation. The case, which is pending in the U.S. District Court for the Northern District of Georgia is in discovery. A trial is set to begin no later than March 15, 2008.

On August 30, 2004, Witness Systems filed a lawsuit in the United States District Court for the Northern District of Georgia against NICE Systems Inc., a wholly owned subsidiary of the Company. Witness Systems is alleging infringement of two U.S. patents entitled “Method and Apparatus for Simultaneously Monitoring Computer User Screen and Telephone Activity from a Remote Location” and is seeking unspecified damages and injunctive relief. On February 24, 2005, Witness Systems filed a similar action in the Northern District of Georgia against the Company alleging infringement of the same two patents. The two actions were consolidated in April 2005. The Company has denied infringing these patents and is vigorously defending against Witness Systems’ claims. In addition, the Company has asserted its right to be indemnified for losses arising out of the claims of infringement in this litigation pursuant to an agreement between the Company and Netopia, Inc., the Company’s vendor. The case is currently in discovery and no trial date has been set.

On January 19, 2006, Witness Systems filed a new patent infringement action in the United States District Court for the Northern District of Georgia against the Company and its wholly owned subsidiary, NICE Systems Inc., alleging infringement of a U.S. patent relating to technology to extract particular information from recorded telephone conversations. This technology is used as an option with a Company product called NicePerform. Witness Systems is requesting unspecified damages and a permanent injunction to prevent any sale of allegedly infringing products. The Company has denied all material allegations and is asserting a number of defenses. The Company believes that the claims are without merit and intends to vigorously defend against them. The case is currently in discovery.

NOTE 4:— LEGAL PROCEEDINGS (Cont.)

On May 10, 2006, the Company and its wholly owned subsidiary, NICE Systems, Inc. filed a new lawsuit against Witness Systems, Inc. in the United States District Court for District of Delaware claiming that Witness Systems is infringing ten U.S. patents. These patents cover various aspects of recording customer interaction communications and traditional logging including event triggered call and screen recording, “cradle-to-grave” recording of customer calls, traditional TDM loggers, off-site storage of calls, and multi-stage telephone data logging. In this lawsuit, the Company claims that Witness Systems infringes the Company’s patents by marketing and selling products that use methods, products and systems which the Company believes are protected by Company’s patents. The Witness products the Company has accused of infringing its patents include Impact 360®, ContactStore®, eQuality ContactStore®, ContactStore for Communication Manager®, eQuality ContactStore for Communication Manager® and Eyretel’s MediaStore®. The Company is seeking a permanent injunction to prevent Witness Systems from making, using, or offering to sell or selling any product in the United States which infringes these patents. In addition, the Company is seeking damages for Witness Systems’ past willful infringement of these patents. The case is in discovery and a trial is scheduled to begin on January 15, 2008.

On December 28, 2006, the Company and its wholly owned subsidiary, Nice Systems Inc., filed an action against Witness Systems, Inc., seeking a declaration from the court that a certain patent, which is closely related to the patent aforementioned with respect to the lawsuit filed by Witness Systems on January 19, 2006, is invalid and not infringed. The case is in its very early stages and discovery has not yet begun.

For the above-mentioned legal proceedings, the Company currently is not able to evaluate the probability of favorable or unfavorable outcome with any degree of certainty.

c. The Company is currently in dispute with Origin Data Realisation Limited (“Origin”) relating to the terms of a license of software and other matters. The dispute was submitted to mediation and a settlement dialogue is ongoing. To date, no formal legal proceedings have been instituted by either side.

d. On July 27, 2004, Dictaphone Corp. filed an action against VoicePrint in the United States District Court for the Central District of California asserting the infringement by VoicePrint of two U.S patents, which the Company subsequently acquired from Dictaphone. This lawsuit has been settled in principle. The documentation for this settlement has been finalized and is expected to be signed.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4:— LEGAL PROCEEDINGS (Cont.)

e. In December 2006, Calyon Corporate and Investment Bank (“Calyon”) filed a suit against the Company in the District Court of Tel Aviv, demanding repayment of $ 648 plus accrued interest, totaling an amount of $ 740. The Company deducted this amount in January 2004 from a payment transferred from an account of Thales maintained with Calyon to the Company’s account, at the instruction of Thales, in connection with the acquisition of Thales Contact Solutions (“TCS”) from Thales. The Company notified TCS in 2004 that it had setoff such amount with respect to an overdue payment by TCS to the Company. The dispute was submitted to mediation and a preliminary mediation hearing took place on July 26, 2007. This lawsuit is in its initial stages.

f. On March 9, 2007, Formatest AG filed a claim against NICE Switzerland AG, a wholly owned subsidiary of the Company, in the Cantonal Court of Zug, Switzerland. The claim is in the amount of approximately $ 1,600 (EUR 1,187,793), plus interest at 5% per annum, and is made in connection with an agreement dated December 10, 2004 between FAST Video Security AG (now NICE Switzerland AG) and Formatest AG. On June 19, 2007, the Company and Formatest AG entered into an agreement settling all claims. The Company believes it is entitled to recover all or a substantial part of the settlement amount paid to Formatest AG (with the addition of legal costs), under the terms of indemnification provision contained in the sale and purchase agreement between the Sellers and the Company dated November 16, 2006, relating to the acquisition of the shares in FAST Video Security AG (now NICE Switzerland AG). The Company has issued a set-off letter to the Sellers dated July 11, 2007, for full indemnity of the settlement amount. However, the Sellers contest any such liability to pay the indemnification amount. The Company and the Sellers are discussing potential settlement; however no assurance can be made that such a settlement will be reached.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5:— GEOGRAPHIC SEGMENT, PRODUCT LINE AND MAJOR CUSTOMER INFORMATION

Summary financial information based on reportable segments is provided in the tables below. Each geographical segment represents revenues originating from that reportable segment.

a.

	Six months ended June 30, 2007 (unaudited)				
	Americas	EMEA*)	APAC**)	Not allocated	Total
Revenues	$ 138,477	$ 71,838	$ 31,818	—	$ 242,133
Gross profit (loss)	$ 85,860	$ 46,452	$ 21,815	($9,464)	$ 144,663
Operating expenses	$ 31,797	$ 17,505	$ 6,422	$ 70,548	$ 126,272
Operating income (loss)	$ 54,064	$ 28,946	$ 15,393	($80,012)	$ 18,391

	Six months ended June 30, 2006 (unaudited)				
	Americas	EMEA*)	APAC**)	Not allocated	Total
Revenues	$ 108,413	$ 53,622	$ 23,582	—	$ 185,617
Gross profit (loss)	$ 60,696	$ 33,248	$ 15,370	($4,724)	$ 104,590
Operating expenses	$ 26,321	$ 13,671	$ 4,452	$ 44,989	$ 89,433
Operating income (loss)	$ 34,375	$ 19,577	$ 10,918	($49,713)	$ 15,157

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

**) Includes Asia Pacific

The following presents long-lived assets of June 30, 2007 and December 31, 2006:

	June 30, 2007	December 31, 2006
	Unaudited	*)
Americas	$ 255,324	$ 261,408
EMEA	80,639	82,966
APAC	3,827	3,051
	$ 339,790	$ 347,425

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5:— GEOGRAPHIC SEGMENT, PRODUCT LINE AND MAJOR CUSTOMER INFORMATION (Cont.)

b. Product lines:

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

	Six months ended June 30,	
	2007	2006
	Unaudited	
Enterprise Interaction Solutions	$ 188,375	$ 134,589
Public Safety and Security sector	53,758	51,028
	$ 242,133	$ 185,617

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

Customer A	13 %	18 %

NOTE 6:— EARNINGS PER SHARE

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

a. Numerator:

	Six months ended June 30,	
	2007	2006
	Unaudited	
Numerator for basic and diluted net earnings per share -		
Net income available to Ordinary shareholders	$ 19,897	$ 17,860

b. Denominator (in thousands):

Denominator for basic net earnings per share -		
Weighted average number of shares	51,668	48,985
Effected of dilutive securities:		
Add – Employee stock options	2,134	2,563
Add – Employee Stock Purchase Plan	—	1
Denominator for diluted net earnings per share – adjusted weighted average shares assuming exercise of options	53,802	51,549

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:— TOTAL COMPREHENSIVE INCOME

	Six months ended June 30,	
	2007	2006
	Unaudited	
Net income	$ 19,897	$ 17,860
Unrealized gains (losses) on derivative instruments, net	(951)	411
Foreign currency translation adjustments	1,062	3,159
Total comprehensive income	$ 20,008	$ 21,430

NOTE 8:— SUBSEQUENT EVENT

On July 2, 2007 the Company signed an agreement to acquire all of the outstanding shares of Actimize Ltd ("Actimize"), a leading provider of transactional risk management software for the financial services industry, for an aggregate consideration of approximately $ 285,000 (including acquisition costs), including $ 224,300 in cash and 1,501,933 American Depositary Shares ("ADSs") of NICE valued at approximately $ 52,900. In addition, NICE issued 987,104 options and restricted shares to the holders of partially vested options and restricted shares of Actimize upon closing of the acquisition. The fair value of the vested portion of these options in the amount of approximately $ 7,600 was added to the purchase price. The acquisition of Actimize will be accounted for by the purchase method and accordingly, the purchase price will be allocated according to the estimated fair value of the assets acquired and liabilities assumed of Actimize.

On August 29, 2007, to finance a portion of the cash consideration for the Actimize transaction, the Company entered into an unsecured loan agreement and a letter of undertaking with a bank, which provide for a term loan of $ 120,000. The loan is repayable in one installment on February 29, 2008. The Company may voluntarily prepay all or part of the loan, with no penalty, in amounts of no less than $ 5,000, on any interest repayment date. The loan bears interest payable monthly, at an annual rate of LIBOR plus a margin of 0.45%. The letter of undertaking includes financial covenants requiring the Company to maintain a ratio of total debt and financial obligations to cash and cash equivalents and marketable securities of not more than 2.0, and shareholders' equity at a rate of at least 45% of the total liabilities and shareholders' equity, provided that shareholders' equity shall in any event total at least $ 500,000. The letter of undertaking also includes covenants restricting the creation of liens on the Company's assets other than liens on its cash and cash equivalents and marketable securities in the aggregate amount of $ 150,000, and the granting of guarantees by the Company for the benefit of any third parties.

Document — EX-99.2
Description — Operating and Financial Review and Prospectus

Operating and Financial Review and Prospects

We may from time to time make written or oral forward-looking statements, including in filings with the U.S. 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 13% of our revenues for the six-month period ended June 30, 2007; 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 "Risk Factors" 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 said section to be a complete discussion of all potential risks or uncertainties. Readers are cautioned not to place undue reliance on these forward-looking statements. 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 unaudited interim consolidated financial statements for the period ended June 30, 2007 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, 2006.

Recent Acquisition

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

On August 30, 2007, we acquired Actimize Ltd. Under the terms of the Agreement and Plan of Merger, dated July 2, 2007 (the "Merger Agreement"), the consideration paid for Actimize was approximately $280 million, approximately 80% of which was in cash and approximately 20% was satisfied through the issuance of 1,501,933 of our ordinary shares.

Results of Operations

The following table sets forth our selected consolidated statements of income for each six month period ended June 30, 2006 and 2007 expressed as a percentage of total revenues. Totals may not add up due to rounding.

	Six months ended June 30,	
	2006	2007
Revenues		
Products	64.0 %	61.7 %
Services	36.0	38.3
	100.0	100.0
Cost of revenues		
Products*	32.7	28.1
Services*	63.1	59.9
	43.7	40.3
Gross Profit	56.3	59.7
Operating expenses		
Research and development, net	11.0	11.0
Selling and marketing	22.3	22.9
General and administrative	14.1	16.7
Amortization of acquired Intangibles	0.7	1.5
In process research and development write-off	0.1	—
Total operating expenses	48.2	52.1
Operating income	8.2	7.6
Financial and other income, net	4.3	2.8
Income before taxes	12.5	10.4
Taxes on income	2.9	2.2
Net income	9.6	8.2

* Respective revenues

Comparison of the Six Months ended June 30, 2007 and 2006.

Revenues

Our total revenues rose approximately 30.4% to $242.1 million in the first six months of 2007 from $185.6 million in the same period of 2006. Revenues from sales to the enterprise market were $188.4 million in the first six months of 2007, an increase of 40.0% from the same period of 2006, and revenues from sales to the security market were $53.7 million in 2007, an increase of 5.3% from the same period of 2006. Approximately 50% of the growth in revenues is attributable to the inclusion of the results of IEX Corporation for the first time beginning on July 7, 2006 and the inclusion of Performix Technologies Ltd. beginning on May 22, 2006. Approximately 50% of the growth is due to organic growth.

	Six months ended June 30, (U.S. dollars in millions)			
	2006	**2007**	**Dollar Change**	**Percentage Change**
Product Revenues	$ 118.8	$ 149.5	$ 30.7	25.8 %
Service Revenues	66.8	92.6	25.8	38.6
Total Revenues	$ 185.6	$ 242.1	$ 56.5	30.4 %

Approximately 37% of the increase in product revenues is attributable to the inclusion of the results of IEX Corporation and Performix. The remainder of the growth is due to organic growth.

Approximately 65% of the increase in service revenues in the first six months of 2007 was attributable to the inclusion of the results of IEX Corporation and Performix. The remaining 35% growth in service revenue was due to an increase in our installed customer base resulting from new product sales to the enterprise market.

Service revenues represented 38.3% of total revenues, as compared to approximately 36% in the first six months of 2006. 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, as a result, we expect services to represent a growing portion of total revenues in the future.

Revenues in the first six months of 2007 in the Americas, which include the United States, Canada and Central and South America, rose 27.8% to $138.5 million, as compared to $108.4 million in the same period of 2006. Approximately 81% of the increase is attributable to the inclusion of the results of IEX Corporation and Performix. The remaining 19% growth is due to an increase in our products revenue and higher post-contract service and maintenance revenue. Sales to Europe, Middle East and Africa (EMEA) rose 34.0% to $71.8 million in the first six months of 2007, as compared to $53.6 million in the same period of 2006. Approximately 16% of the increase is attributable to the inclusion of the results of IEX Corporation and Performix. Approximately 74% of the increase is attributable to a growth in product revenues in the

enterprise and security market. Sales to Asia-Pacific (APAC) increased 34.9% to $31.8 million in the first six months of 2007, as compared to $23.6 million in the same period of 2006; approximately 10% of the increase is attributable to the inclusion of the results of IEX Corporation. Approximately 50% of the increase is attributed to a growth in enterprise product revenues.

Cost of Revenues

	Six months ended June 30, (U.S. dollars in millions)			
	2006	2007	Dollar Change	Percentage Change
Cost of Product Revenues	$ 38.9	$ 42.0	$ 3.1	8.0 %
Cost of Service Revenues	42.1	55.5	13.4	31.8
Total Cost of Revenues	$ 81.0	$ 97.5	$ 16.5	20.4

Cost of product revenues increased on a dollar basis while decreasing as a percentage of product revenues. The increase on a dollar basis was due to higher sales volume, amortization of intangible assets in the amount of $5.0 million in the first six months of 2007 compared to $2.2 million in the first six months of 2006, which was partially offset by the lower cost of product resulting from a higher proportion of software in the product mix. Cost of service revenues increased on a dollar basis while decreasing as a percentage of service revenues. Approximately 53% of the increase is attributable to the inclusion of the results of IEX Corporation and Performix. The decrease as a percentage of service revenues is due to a better utilization of the service organization and a higher volume of service revenues.

Gross Profit

	Six months ended June 30, (U.S. dollars in millions)			
	2006	2007	Dollar Change	Percentage Change
Gross Profit on Product Revenues	$ 80.0	$ 107.5	$ 27.5	34.4 %
as a percentage of product revenues	67.3 %	71.9 %		
Gross Profit on Service Revenue	24.6	37.2	12.6	51.2
as a percentage of service revenues	36.9 %	40.1 %		
Total Gross Profit	$ 104.6	$ 144.7	$ 40.1	38.3
as a percentage of total revenues	56.3 %	59.7 %		

The improvement in gross profit on product revenues was primarily due to higher sales volume, product cost reductions and a higher proportion of software in the product mix. The improvement in gross profit margin on service revenues reflected improved staff utilization and higher volume of service revenues.

Operating Expenses

	Six months ended June 30, (U.S. dollars in millions)			
	2006	**2007**	**Dollar Change**	**Percentage Change**
Research and development, net	$ 20.4	$ 26.7	$ 6.3	30.9 %
Selling and marketing	41.4	55.3	13.9	33.6
General and administrative	26.2	40.6	14.4	55.0
Amortization of acquired intangible assets	1.2	3.7	2.5	208.3
In process research and development write-off	0.2	—	(0.2)	(100.0)

Research and Development, Net. Research and development expenses, before capitalization of software development costs and government grants, increased to $28.5 million in the first six months of 2007, as compared to $21.4 million in the same period of 2006 and represented 11.8% and 11.5% of revenues in the first six months of 2007 and 2006, respectively. Approximately 79% of the increase in research and development, net is attributable to the inclusion of IEX Corporation and Performix. Approximately 10% of the increase is attributable to the increase of stock-based compensation expenses, and the remaining is due to a business growth.

Capitalized software development costs were $0.5 million in the first six months of 2007, as compared to $0.2 million in the same period of 2006. Amortization of capitalized software development costs included in cost of product revenues was $0.5 million and $0.8 million in the first six months of 2007 and 2006, respectively.

Selling and Marketing Expenses. Selling and marketing expenses represented 22.9% of total revenues in the first six months of 2007, as compared to 22.3% in the same period of 2006. Approximately 48% of the increase is attributable to the inclusion of IEX Corporation and Performix. Approximately 10% of the increase is attributable to an increase of stock-based compensation expense and the remaining is due to a business growth.

General and Administrative Expenses. General and administrative expenses represented 16.7% of total revenues in the first six months of 2007, as compared to 14.1% in the same period of 2006. Approximately 19% of the increase is attributable to the inclusion of IEX Corporation and Performix, approximately 13% of the increase is attributable to the increase of stock-based compensation expenses, approximately 36% is due to an increase of legal expenses and the remaining is due to a business growth.

Amortization of acquired intangible assets. Amortization of acquired intangibles included in the operating expenses represent 1.5% and 0.7% of revenues in the first six months of 2007 and 2006. The increase is due to the acquisitions of IEX Corporation and Performix.

In process research and development write-off. In process research and development write-off represents a one-time write-off of in process research and development of FAST Video Security AG.

Financial Income

	Six months ended June 30, (U.S. dollars in millions)			
	2006	**2007**	**Dollar Change**	**Percentage Change**
Financial and other income, net	$ 8.0	$ 6.7	($1.3)	(16.3 %)

Financial Income, Net. The decrease in financial income, net reflects a lower average cash balance in the first six months of 2007, as compared to the same period of 2006.

Taxes on Income. In the first six months of 2007, taxes on income amounted to $5.2 million, as compared to $5.3 million in the same period of 2006.

Our effective tax rate was 22.9% in the first six months of 2007, compared with 20.8% in the same period of 2006. The marginal difference arose mainly as a result of an increase in permanent items not deductible for tax purposes and a change in the geographic mix of where our profits are earned.

Further information with regard to our Approved and Privileged Enterprise programs can be found in Item 3 - Risk Factors under the caption "We depend on the availability of government grants and tax benefits" in our annual report on Form 20-F for the year ended December 31, 2006 and in Note 13 of our consolidated financial statements for the year ended December 31, 2006, under the caption "Taxes on Income."

Net Income from Continuing Operations. Net income from continuing operations was $19.9 million in the first six months of 2007, as compared to $17.9 million in the same period of 2006. The increase in the first six months of 2007 resulted primarily from the increase in revenues and an increase in the gross margin.

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, 2007, there have been no material changes to any of the critical accounting policies contained therein.

Liquidity and Capital Resources

In recent years, we financed our operations through cash generated from operations. Generally, we invest our excess cash in instruments that are highly liquid and investment grade securities. At June 30, 2007, we had $356.3 million of cash and cash equivalents and short-term and long-term investments, as compared to $296.2 million at December 31, 2006 and $411.6 million at December 31, 2005.

Cash provided by operating activities of continuing operations was $50.8 million and $33.7 million in the six months ended June 30, 2007 and 2006, respectively. Net cash from operations in the six months ended June 2006 consisted primarily of net income of $17.9 million and adjustments for non-cash activities including depreciation and amortization of $8.2 million, stock-based compensation of $5.1 million and a decrease in inventories of $4.4 million, which were partially offset by a decrease in trade payables of $1.6 million. Net cash from operations in the six months ended June 30, 2007 consisted primarily of net income of $19.9 million and adjustments for non-cash activities including depreciation and amortization of $13.5 million, stock-based compensation of $9.9 million, a decrease in inventories of $5.4 million and an increase in accrued expenses and other liabilities of $19.0 million, which were partially offset by an increase in trade receivables of $6.4 million, an increase in other receivables and prepaid expenses of $5.6 million and a decrease in trade payables of $3.0 million.

Net cash used in investing activities from continuing operations was $57.1 million and $71.6 million in the six months ended June 30, 2007 and 2006 respectively. In the six months ended June 30, 2006, net cash used in investing activities consisted primarily of investment in marketable securities of $128.4 million, payment of $21.3 million for the acquisition of FAST Video Security AG, payment of $14.2 million for the acquisition of Performix Technologies Ltd. and purchases of property and equipment totaling $3.7 million, which were partially offset by proceeds from the maturity of marketable securities of $95.1 million and proceeds from settlement related to the purchase of Dictaphone CRS division of $2.0 million. In the six months ended June 30, 2007, net cash used in investing activities consisted primarily of investment in marketable securities of $160.7 million and purchase of property and equipment of $4.1 million, which were partially offset by proceeds from the maturity of marketable securities of $104.4 million and proceeds from the sale and call of marketable securities of $5.9 million.

Net cash provided by financing activities was $15.2 million and $14.2 million in the six months ended June 30, 2007 and 2006 respectively. In the six months ended June 30, 2006, net cash provided from financing activities consisted of proceeds from the issuance of shares upon exercise of options and purchase of shares under the employee share purchase plan of $12.7 million and an excess tax benefit from share-based payments agreements of $2.5 million. In the six months ended June 30, 2007, net cash provided from financing activities consisted of proceeds from the issuance of shares upon exercise of options and purchase of shares under the employee share purchase plan of $11.7 million and an excess tax benefit from share-based payments agreements of $3.5 million.

As of June 30, 2007, we had authorized credit lines in the amount of $288 million. As of June 30, 2007, we had no outstanding borrowings under these credit lines; however, $6.7 million of the $288 million was utilized for bank guarantees. Any borrowing under these credit lines will be denominated in dollars and will bear interest at the rate of up to LIBOR + 0.45% per year. Any borrowing under three of these credit lines, having an aggregate borrowing limit of $249 million, would be secured by our marketable securities.

On August 29, 2007, to finance a portion of the cash consideration for the Actimize transaction, we entered into an unsecured loan agreement and a letter of undertaking with Bank Hapoalim B.M., which provide for a term loan of $120 million. The loan is repayable in one installment on February 29, 2008. We may voluntarily prepay all or part of the loan, with no penalty, in amounts of no less than $5 million, on any interest repayment date. The loan bears interest payable monthly, at an annual rate of LIBOR plus a margin of 0.45%.

The letter of undertaking includes financial covenants requiring us to maintain a ratio of total debt and financial obligations to cash and cash equivalents and marketable securities of not more than 2.0, and shareholders' equity at a rate of at least 45% of the total liabilities and shareholders' equity, provided that shareholders' equity shall in any event total at least $500 million. The letter of undertaking also includes covenants restricting the creation of liens on our assets other than liens on its cash and cash equivalents and marketable securities in the aggregate amount of $150 million, and the granting of guarantees by us for the benefit of any third parties.

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 by 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.

Document — EX-99.3
Description — Audited Financial Statements of IEX Corporation

Exhibit 99.3

IEX Corporation

Financial Statements

December 31, 2005

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Report of Independent Auditors

To the Stockholders and Board of Directors of
Tekelec:

In our opinion, the accompanying statements of assets, liabilities, and net investment of the Parent Company and the related statements of operations, of changes in net investment of the Parent Company, and of cash flows for each of the three years in the period ended December 31, 2005 present fairly, in all material respects, the financial position of IEX Corporation (the ''Company'') at December 31, 2005 and 2004, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2005 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 audits. We conducted our audits 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 audits provide a reasonable basis for our opinion.

The Company is a wholly-owned subsidiary of Tekelec, and relies upon Tekelec for certain administrative, management and other services, as described in Note 1. Accordingly, these financial statement do not necessarily reflect the financial position, results of operations and cash flows of the Company had it been a separate and stand-alone entity, independent of Tekelec.

/s/PricewaterhouseCoopers LLP

June 8, 2006

IEX CORPORATION
(a wholly-owned subsidiary of Tekelec)
STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2005	2004	2003
		(Thousands)	
Revenues:			
Software	$ 23,290	$ 19,325	$ 15,258
Professional services, maintenance and other	27,114	22,621	20,092
Total revenues	50,404	41,946	35,350
Costs of sales:			
Software	4,642	2,979	2,520
Professional services, maintenance and other	8,503	7,583	7,409
Total costs of sales	13,145	10,562	9,929
Gross profit	37,259	31,384	25,421
Operating expenses:			
Research and development	6,430	6,036	6,161
Selling, general and administrative	14,048	13,520	17,856
Total operating expenses	20,478	19,556	24,017
Income from operations	16,781	11,828	1,404
Interest and other income (expense), net	(78)	53	188
Income before provision for income taxes	16,703	11,881	1,592
Provision for income taxes	6,230	4,479	594
Net income	$ 10,473	$ 7,402	$ 998

See notes to financial statements.

IEX CORPORATION
(a wholly-owned subsidiary of Tekelec)
STATEMENTS OF ASSETS, LIABILITIES AND NET INVESTMENT OF THE PARENT COMPANY

	December 31,	
	2005	2004
	(Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ —	$ 992
Accounts receivable, less allowances of $306 and $527, respectively	6,994	8,264
Prepaid royalties and other costs	835	814
Deferred income taxes	346	396
Prepaid expenses and other current assets	441	224
Total current assets	8,616	10,690
Property and equipment, net	320	330
Deferred income taxes, net	13	7
Goodwill	9,698	9,698
Total assets	$ 18,647	$ 20,725
LIABILITIES AND NET INVESTMENT OP THE PARENT COMPANY		
Current liabilities:		
Trade accounts payable	$ 880	$ 288
Accrued expenses	2,689	751
Accrued payroll and related expenses	1,235	1,102
Current portion of deferred revenues	18,475	18,202
Total current liabilities	23,279	20,343
Commitments and Contingencies (Note 5)		
Total net investment of the Parent Company	(4,632)	382
Total liabilities and net investment of the Parent Company	$ 18,647	$ 20,725

See notes to financial statements.

IEX CORPORATION
(a wholly-owned subsidiary of Tekelec)
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2005	2004	2003
		(Thousands)	
Cash flows from operating activities:			
Net income	$ 10,473	$ 7,402	$ 998
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for doubtful accounts and returns	250	—	—
Depreciation	337	312	663
Amortization	—	2,105	5,944
Deferred income taxes	44	(734)	841
Changes in operating assets and liabilities:			
Accounts receivable	1,020	(3,207)	(434)
Inventories	(21)	(170)	(463)
Prepaid expenses and other current assets	(217)	162	(56)
Trade accounts payable	592	126	(313)
Accrued expenses	1,938	(81)	299
Accrued payroll and related expenses	133	116	71
Deferred revenues	273	6,882	1,290
Total adjustments	4,349	5,511	7,842
Net cash provided by operating activities	14,822	12,913	8,840
Cash flows from investing activities:			
Purchase of property and equipment	(327)	(223)	(629)
Net cash used in investing activities	(327)	(223)	(629)
Cash flows from financing activities:			
Distributions to the Parent Company	(15,487)	(16,461)	(17,236)
Net cash used in financing activities	(15,487)	(16,461)	(17,236)
Net decrease in cash and cash equivalents	(992)	(3,771)	(9,025)
Cash and cash equivalents at beginning of the year	992	4,763	13,788
Cash and cash equivalents at end of the year	$ —	$ 992	$ 4,763

See notes to financial statements.

IEX CORPORATION
(a wholly-owned subsidiary of Tekelec)
STATEMENTS OF CHANGES IN NET INVESTMENT OF THE PARENT COMPANY
(thousands)

Balance, December 31, 2002	$ 25,679
Distributions to the Parent Company, net	(17,236)
Net income	998
Balance, December 31, 2003	9,441
Distributions to the Parent Company, net	(16,461)
Net income	7,402
Balance, December 31, 2004	382
Distributions to the Parent Company, net	(15,487)
Net income	10,473
Balance, December 31, 2005	$ (4,632)

See notes to financial statements.

IEX CORPORATION
(a wholly-owned subsidiary of Tekelec)
NOTES TO FINANCIAL STATEMENTS

Note 1 — Business, Basis of Presentation and Summary of Significant Accounting Policies

Business

IEX Corporation (''IEX'' or the ''Company'') is a wholly owned subsidiary of Tekelec (the ''Parent Company''), a public company traded on NASDAQ under the ticker symbol ''TKLC.'' The Company represents the Parent Company's IEX Contact Center Group operating segment. The Company is headquartered in Richardson, Texas and designs, markets and supports products that provide workforce management and performance management solutions for single and multiple-site contact centers. The Company's customers operate in industries with significant contact center operations such as financial services, telecommunications and retail businesses.

On April 27, 2006, the Parent Company entered into a Stock Purchase Agreement (the ''Sales Agreement'') pursuant to which the Parent Company agreed to sell to NICE-Systems Ltd. (''NICE''), all of the outstanding shares of capital stock (the ''IEX Shares'') of IEX. The sale price for the IEX Shares is $200 million in cash, subject to a post-closing adjustment based on the working capital of IEX as of the closing date. The closing of the sale of the IEX Shares is scheduled to occur on June 13, 2006, or as soon thereafter as all conditions to the closing have been satisfied or waived, including without limitation the satisfaction or waiver of any applicable regulatory requirements; provided, however, that in the event the closing has not occurred on or before September 1, 2006, the Parent Company or NICE may, subject to certain limitations, elect to terminate the Sales Agreement.

Basis of Presentation

Historically, separate financial statements have not been prepared for IEX. The accompanying financial statements of IEX for the three years ended December 31, 2005, have been carved out of the consolidated financial statements of the Parent Company. These financial statements include certain cost allocations, related to expenses that had historically been incurred by the Parent Company on the Company's behalf, which management believes are reasonable and necessary for a fair presentation of the Company's results of operations, financial position and cash flows in accordance with generally accepted accounting principles in the United States (''GAAP''). As such, certain corporate expenses of the Parent Company that were not historically allocated to the Company in the Parent Company's reportable segment disclosures have been allocated to IEX based on the determination of whether (i) IEX derived any benefit from the cost incurred and (ii) whether IEX would need to replace the cost if acting as a stand-alone entity. Such items included certain management, legal, finance, human resources, information technology, facilities and internal audit costs, among others. Specifically, these services includes the cost associated with the proportional time dedicated to the Company by (i) executive management for oversight, (ii) accounting and finance personnel for accounts payable processing and accounting oversight, (iii) human resource personnel for payroll processing, benefits management, and recruiting services, and (iv) information technology personnel associated with maintaining the information technology infrastructure. These allocations were based on management's estimates after considering all functions in which the Parent Company had historically incurred costs on the Company's behalf. The expenses allocated to IEX amounted to approximately $2.8 million, $2.5 million and $4.2 million for the years ended December 31, 2005, 2004 and 2003, respectively, and are included in the accompanying statements of operations. In addition, certain intangible assets, goodwill, and amortization of purchased technology and other intangibles recorded in connection with the Parent Company's acquisition of IEX, which were not allocated to the IEX Contact Center Group in the Parent Company's consolidated financial statements, have been allocated to IEX in these financial statements. Refer to Note 2 for further information concerning the allocated costs and expenses from the Parent Company.

The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions concerning the allocation of certain expenses of the Parent

Company to the Company. Management believes that the financial statements presented herein have been presented using reasonable allocation methods that are indicative of the Company's relative share of the Parent Company's related costs, consistent with the description above. Although management believes reasonable allocation methodologies have been employed in preparing these financial statements, the costs allocated to the Company based on these methodologies may not be indicative of the actual costs that would have been incurred had the Company operated on a standalone basis.

Use of Estimates

The financial statements have been prepared in accordance with GAAP. The preparation of these financial statements requires that management make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These, estimates are periodically evaluated, including those related to revenue recognition, provision for doubtful accounts and sales returns, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, income taxes, employee stock options, and contingencies and litigation, among others. Estimates are generally based on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from current estimates with respect to these and other items.

Fair Value of Financial Instruments

The fair value of cash, cash equivalents, accounts receivable and accounts payable approximate their respective carrying amounts.

Cash and Cash Equivalents

All highly liquid investments with an original maturity of three months or less at the date of purchase are considered to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value.

Accounts Receivable

The Company typically invoices its customers upon shipment, or other means of delivery, for the value of the related products delivered. Accounts receivable are recorded at the invoiced amount, net of any amounts included in deferred revenue that are not yet due based on the payment terms, and do not bear interest. We do not have any off-balance sheet credit exposure related to our customers.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the shorter of the estimated useful lives of the respective assets or any applicable lease term. The useful lives of the assets are generally as follows:

Furniture and office equipment	3 to 5 years
Computer equipment	3 years
Leasehold improvements	Shorter of the estimated useful life or lease term

Expenditures for maintenance and repairs are charged to expense as incurred. Cost and accumulated depreciation of assets sold or retired are removed from the respective property accounts, and the gain or loss is reflected in the statements of operations.

Software Development Costs

Under the provisions of Statements of Financial Accounting Standards (''SFAS'') No. 86, ''Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed,''

certain software development costs are capitalized once technological feasibility is established. The costs capitalized are amortized on a straight-line basis over the estimated product life, or on the ratio of current revenue to total projected product revenues, whichever is greater. To date, the establishment of technological feasibility of the Company's products and their general release has substantially coincided. As a result, the Company has not capitalized any internal software development costs as costs qualifying for such capitalization have not been significant.

Intangible Assets and Goodwill

Business combinations are accounted for in accordance with SFAS No. 141 ''Business Combinations'' (''SFAS 141'') and the related acquired intangible assets and goodwill in accordance with SFAS No. 142 ''Goodwill and Other Intangible Assets'' (''SFAS 142''). SFAS 141 specifies the accounting for business combinations and the criteria for recognizing and reporting intangible assets apart from goodwill.

SFAS 142 requires that intangible assets with an indefinite life should not be amortized until their life is determined to be finite, and all other intangible assets must be amortized over their useful lives. Acquired intangible assets with definite lives are amortized over periods ranging from one to ten years. SFAS 142 also requires that goodwill not be amortized but instead be tested for impairment in accordance with the provisions of SFAS 142 at least annually and more frequently upon the occurrence of certain events.

The Company had no intangible assets other than goodwill as of December 31, 2005 and 2004. Amortization of purchased technology and other intangible assets for the years ended December 31, 2004 and 2003 was approximately $2.8 million and $5.9 million, respectively. No amortization of purchased technology or other intangible assets was recorded in the year ended December 31, 2005.

As of December 31, 2005 and 2004, the Company had approximately $9.7 million of goodwill that was recorded on the Parent Company's financial statements relating to its acquisition of the Company. Goodwill is tested for impairment in accordance with SFAS 142. SFAS 142 requires that goodwill be tested for impairment at least annually and more frequently upon the occurrence of certain events, as defined by SFAS 142. Goodwill is tested for impairment annually on October 1st using a two-step process. First, it is determined if the carrying amount of the Company's assets and liabilities exceeds their fair values (determined using a blend of the discounted cash flows and market multiples based on revenues), which would indicate a potential impairment of goodwill. If a potential impairment of goodwill is determined to exist, the implied fair value of the goodwill is compared to its carrying amount to determine if there is an impairment loss. Goodwill was tested for impairment as of October 1, 2005, 2004 and 2003 and no impairment was indicated.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144 ''Accounting for the Impairment or Disposal of Long-Lived Assets'' (''SFAS 144''), long-lived assets, including intangible assets other than goodwill, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment exists if the total estimated future undiscounted cash flows are less than the carrying amount of the assets, including goodwill, if any. If an impairment exists, the impairment loss is measured and recorded for the difference between the related asset's fair value and carrying amount with fair value based on the estimated discounted future cash flows attributable to the asset. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of cash flows from other asset groups. Assumptions underlying future cash flow estimates are subject to significant risks and uncertainties. There were no impairments of long-lived assets in the years ending December 31, 2005, 2004, and 2003.

Contingent Liabilities

The Company has a number of unresolved regulatory, legal and tax matters, as discussed further in Note 5. Contingent liabilities are accounted for in accordance with SFAS No. 5 ''Accounting for Contingencies'' (''SFAS 5''). In accordance with SFAS 5, a loss contingency is charged to income when (i) it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (ii) the amount of the loss can be reasonably estimated. Disclosure in the notes to the financial statements is required for loss contingencies that do not meet both those conditions if there is a reasonable possibility that a loss may have been incurred. Gain contingencies are not recorded until realized. All legal costs incurred to resolve regulatory, legal and tax matters are expensed as incurred.

Periodically, the status of each significant matter is reviewed to assess the potential financial exposure. If a potential loss is considered probable and the amount can be reasonably estimated as defined by SFAS 5, the estimated loss is recognized in results of operations. Significant judgment is required to determine the probability that a liability has been incurred and whether such liability is reasonably estimable. Because of uncertainties related to these matters, accruals are based on the best information available at the time. Further, estimates of this nature are highly subjective, and the final outcome of these matters could vary significantly from the amounts that have been included in the accompanying financial statements. As additional information becomes available related to pending claims and litigation, the potential liability is reassessed and estimates may be revised accordingly. Such revisions in the estimates of potential liabilities could have a material impact on the Company's results of operations and financial position.

Net Investment of the Parent Company

As these financial statements represent a subsidiary or division of the Parent Company, the Parent Company's net investment in the Company is shown in lieu of shareholder's equity. The net investment includes the Company's accumulated earnings as well as cash contributions and distributions to and from the Parent Company in connection with Parent Company's cash management function. Historically, the Company's cash resources had been managed within the Parent Company's consolidated cash management function. The settlement of intercompany receivables and payables resulting from the Parent Company's consolidated cash management has not been required and will not be required in connection with the sale of the Company. The net impact of these intercompany receivables and payables have therefore been reflected as contributions from or distributions to the Parent Company in these financial statements.

Revenue Recognition

Substantially all of the Company's revenues are derived from the sale or licensing of (i) workforce management software products, (ii) professional services including installation, training, and general support, and (iii) warranty-related support, comprised of telephone support, repair and return of defective products, and product updates (commonly referred to as maintenance, post-contract customer support or PCS). The Company's customers generally purchase a combination of software products and services as part of a multiple element arrangement.

The Company recognizes revenue in accordance with American Institute of Certified Public Accountants Statement of Position (''SOP'') No. 97-2, ''Software Revenue Recognition'' as amended by SOP 98-9, ''Software Revenue Recognition with Respect to Certain Arrangements'' (collectively, ''SOP 97-2'').

The following is a summary of the key areas where judgment is exercised and estimates used in connection with the determination of the amount of revenue to be recognized in each accounting period:

Determining Separate Elements and Allocating Value to Those Elements

Sales of the Company's products generally include post-contract customer support services (''PCS'') as defined by SOP 97-2. As the products are not sold without PCS, vendor-specific objective evidence of fair value (''VSOE'') cannot be established for the Company's products. Accordingly, the residual method is utilized as prescribed by SOP 97-2 to allocate revenue to each of the elements in an arrangement. Under the residual method, the total fee in an arrangement is allocated first to the undelivered elements (i.e., typically maintenance, training or other professional services) based on the VSOE of those elements and the remaining, or ''residual,'' portion of the fee to the delivered elements (i.e., typically the product or products).

Revenue is allocated to the undelivered service elements in an arrangement (e.g., maintenance, training and other professional services) based upon their respective fair values, with the fair values determined by the price charged when the service is sold separately. The fair value of maintenance services is determined based on the price charged to the customer for renewing their maintenance coverage. The fair value of the professional services in an arrangement is determined based on the rates that are charged for these services when sold independently from the Company's products.

If evidence of fair value cannot be established for the undelivered elements of an arrangement, revenue is deferred until the earlier of the point in time in which (i) delivery occurs or (ii) the fair values of all undelivered elements exist, unless the undelivered element is a service, in which case revenue is recognized as the service is performed.

Product Revenue

For substantially all of the Company's arrangements, revenue is deferred for the fair value of maintenance and professional services to be provided to the customer and recognized for all products in an arrangement when persuasive evidence of an arrangement exists and delivery of the last product has occurred, provided the fee is fixed or determinable and collection is deemed probable. Each of these criterion is evaluated as follows:

- Persuasive evidence of an arrangement exists. A non-cancelable agreement (such as an irrevocable customer purchase order, contract, etc.) to be evidence of an arrangement.
- Delivery has occurred. Delivery is considered to occur when title to the Company's products has passed to the customer, which typically occurs at physical delivery of the products to the customer.
- The fee is fixed or determinable. Whether fees are fixed or determinable is assessed at the time of sale. If the arrangement fee is not fixed or determinable, revenue is recognized as amounts become due and payable.
- Collection is probable. Collection is deemed probable if it is expected that the customer will be able to pay amounts under the arrangement as payments become due. If collection is determined not to be probable, revenue is deferred and revenue is recognized upon cash collection.

Certain of the Company's arrangements include acceptance provisions allowing the customer to cancel the arrangement if the Company's products do not operate in accordance with documented specifications. Other arrangements allow the customer to terminate in the event the product does not work appropriately in the customer's IT environment after certain customization, configuration or engineering services have been performed by the Company. When acceptance criteria in an arrangement are based solely on the Company products operating to specifications, revenue is recognized upon shipment, assuming all other revenue recognition criteria are met, because the

Company has demonstrated, over time, that the product meets the specified criteria and has an established history of receiving acceptance in similar transactions.

If an arrangement includes a right of return that is short term in nature, a sales return allowance is provided in accordance with SFAS No. 48 ‘‘Revenue Recognition when Right of Return Exists.’’ In the event that the incidence of returns cannot be reasonably estimated, revenue is deferred until the earlier that such estimate can reasonably be made or the expiration of the customer’s return right.

Maintenance Revenue

The Company’s arrangements typically include one year of maintenance service. A portion of the arrangement fee is allocated to the maintenance service based on the VSOE of its fair value. The related revenue is deferred and recognized ratably over the maintenance term based on the number of days of coverage included in each accounting period. Customers may extend their maintenance coverage after the initial year expires. Renewal rates for maintenance arrangements are typically established based upon a specified percentage of net product fees as set forth in the arrangement.

Professional Services Revenue

Professional services revenue primarily consists of implementation services related to the installation of our products and training revenues. The Company’s products are ready to use by the customer upon receipt and, accordingly, the implementation services typically do not require significant production, modification or customization of the product. Substantially all of our professional service arrangements are related to installation and training services and are billed on a fixed-fee basis. Revenue is typically recognized related to our fixed-fee service arrangements upon completion of the services, as these services are relatively short-term in nature (i.e., typically a matter of days or, in limited cases, several weeks). For arrangements that are billed on a time and materials basis, revenue is recognized as the services are performed. If there exists a significant uncertainty about the project completion or receipt of payment for the professional services, revenue is deferred until the uncertainty is sufficiently resolved.

Deferred Costs

When it is determined that the recognition of revenue is to be deferred relating to a sales arrangement the associated costs are also deferred. Costs are only deferred up to the fair value of the products or services being sold and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Cost of Sales

Cost of sales consists primarily of third-party royalties, labor and overhead costs incurred internally and paid to personnel and other implementation costs incurred to install the products and train customer personnel and customer service costs to provide continuing support to customers.

Income Taxes

The income taxes of the Company are based on the income and expenses of the Company as if the Company had been a separate tax paying legal entity filing separate tax returns for all the periods presented. However, income tax payable or receivable balances have not been provided in these financial statements as any income tax payable or receivable balance will not be assumed or acquired as part of the Sales Agreement. The asset and liability method of accounting for income taxes is followed as prescribed by SFAS No. 109, ‘‘Accounting for Income Taxes.’’ Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss carryforwards and credit carryforwards, if it is

more likely than not that the tax benefits will be realized. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances are established. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

Shipping and Handling Costs

Shipping and handling costs are included as a component of costs of sales in the accompanying statements of operations.

Advertising

The costs of producing advertisements are expensed at the time production occurs. The cost of communicating the advertising is expensed in the period in which the advertising is used. Advertising costs are included in selling, general and administrative expenses and amounted to approximately $106,000, $90,000, and $200,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Provision for Doubtful Accounts

A provision for doubtful accounts is recorded based upon historical experience and adjusted at the end of each reporting period based on a detailed assessment of outstanding accounts receivable and the allowance for doubtful accounts.

Lease Obligations

Lease obligations with fixed escalations of rental payments are accounted for on a straight-line basis in accordance with Financial Accounting Standards Board Technical Bulletin 85-3 ''Accounting for Operating Leases with Scheduled Rent Increases'' (''FTB 85-3''). Accordingly, the total amount of base rentals over the terms of the Company's leases is charged to expense on a straight-line method, with the amount of rental expense in excess of lease payments recorded as a deferred rent liability.

Stock-Based Compensation

Employees of IEX are eligible to participate in the Parent Company's employee stock-based compensation plans. As of December 31, 2005, the Parent Company has six stock-based employee compensation plans with a maximum term of ten years. Under these plans there are approximately 26 million shares of the Parent Company's common stock authorized for issuance. The terms of options granted under these plans are determined at the time of grant, the options generally vest ratably over one- to four-year periods, and the option price may not be less than the fair market value per share on the date of grant. Both incentive stock options and nonstatutory stock options can be issued under the Parent Company's stock-based employee compensation plans, as well as restricted stock units and restricted stock.

The intrinsic value method, as prescribed by APB No. 25 ''Accounting for Stock Issued to Employees'' and interpretations thereof (collectively referred to as ''APB 25'') has been used to account for options issued under the Parent Company's employee stock-based compensation plans. Accordingly, deferred compensation is measured and recorded for stock options granted to employees when the market price of the underlying stock on the date of the grant exceeds the exercise price of the stock option on the date of the grant. Deferred compensation is expensed on a straight-line basis over the respective vesting period. No deferred compensation has been reflected in the accompanying financial statements as no stock options have been granted to the Company's employees at exercise prices below the fair value of the Parent Company's common stock at the date of grant and as there have been no grants of restricted stock units or restricted stock.

An alternative to the intrinsic value method of accounting for stock-based compensation is the fair value approach prescribed by SFAS No. 123 ''Accounting for Stock-Based Compensation,'' as

amended by SFAS No. 148 ''Accounting for Stock-Based Compensation Transition and Disclosure'' (collectively referred to as ''SFAS 123''). Under the fair value approach, deferred compensation is recorded based on the fair value of the stock option at the date of grant as determined using the Black-Scholes option valuation model. The deferred compensation calculated under the fair value method is then amortized on a straight-line basis over the respective vesting period of the stock option.

As required by SFAS 123, the following reconciliation has been prepared of earnings as reported on the statement of operations to the earnings that would have been reported if the fair value approach had been followed for options issued to the Company's employees under the Parent Company's employee stock-based compensation arrangements:

	For the Years Ended December 31,		
	2005	2004	2003
		(Thousands)	
Net income (loss):			
As reported	$ 10,473	$ 7,402	$ 998
Less: additional stock-based compensation expense determined under the fair value method, net of tax	(1,593)	(2,214)	(2,530)
Pro forma	$ 8,880	$ 5,188	$ (1,532)

A tax benefit on the pro forma expense in the above table has been provided in a manner consistent with the accounting for deferred tax assets resulting from the exercise of employee stock options in the accompanying financial statements.

The fair value of stock options was estimated on the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

	For the Years Ended December 31,		
	2005	2004	2003
Expected life (in years)	3.6	3.3	4.1
Expected volatility	55%	60%	82%
Risk-free interest rate	4.0%	2.8%	2.2%
Expected dividend yield	0%	0%	0%

Concentrations of Risk

With respect to trade receivables, the Company sells contact center systems worldwide primarily to corporations such as financial services providers, telecommunications providers and retail businesses. Credit is extended based on an evaluation of each customer's financial condition, and generally collateral is not required. Generally, payment terms stipulate payment within 30 days of shipment and currently, the Company does not engage in leasing or other customer financing arrangements. Although there are processes in place to monitor and mitigate credit risk, there can be no assurance that such programs will be effective in eliminating such risk. The exposure to credit risk may increase as a result of weakened financial conditions in certain market segments. Credit losses for customers that are deemed to pose substantial collection risks have been provided for in the financial statements. Historically, credit losses have been within management's expectations. Future losses, if incurred, could have a material adverse effect on the Company's financial position, results of operations or cash flows.

Research and Development Costs

Research and development costs, which include costs in connection with new product development, improvement of existing products, process improvement, and quality assurance activities, are charged to operations in the period in which they are incurred.

Recent Accounting Pronouncements

Stock-Based Compensation

On December 16, 2004, the FASB issued SFAS 123(R), ''Share-Based Payment'' (''SFAS 123R''), which is a revision of SFAS 123, ''Accounting for Stock-Based Compensation'' (''SFAS 123''). SFAS 123R supersedes APB Opinion No. 25, ''Accounting for Stock Issued to Employees'' (''APB No. 25'') and amends SFAS 95, ''Statement of Cash Flows.'' SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values at the date of grant. Providing only pro forma disclosure in the footnotes to financial statements is no longer an alternative. The Company is required to adopt SFAS 123R effective January 1, 2006.

SFAS 123R permits companies to adopt its requirements using one of two methods. The ''modified prospective'' method recognizes compensation cost based on the requirements of SFAS 123R for all share-based payments granted after the effective date, and based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date. The ''modified retrospective'' method permits entities to restate their historical financial statements based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either for all prior periods presented or for prior interim periods of the year of adoption. The Parent Company has elected to adopt the requirements of SFAS 123R using the modified prospective method.

Prior to the effective date of SFAS 123R, the Parent Company accounted for share-based payments to employees using the intrinsic value method under APB No. 25, as permitted by SFAS 123, and, as such, recognized no compensation cost for employee stock options as long as the exercise price was at least equal to the fair value of the underlying stock on the date of grant. Accordingly, the adoption of SFAS 123R will cause the reported stock compensation cost to materially increase beginning in the first quarter of 2006 and will have a significant impact on the Company's results of operations. Although an evaluation of the impact of SFAS 123R is still ongoing, it is estimated that the adoption of SFAS 123R would result in a reduction of annual after tax earnings of the Company reasonably consistent with the fair value approach proforma disclosure for 2005 detailed herein. This estimate is preliminary, and the actual impact to annual earnings could differ materially from this estimate. The adoption and subsequent application of FAS 123R is expected to be complex and will require certain subjective judgments to be made.

Conditional Asset Retirement Obligations

In March 2005, the FASB issued Financial Interpretation No. 47 (''FIN 47''), ''Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143.'' FIN 47 requires asset retirement obligations to be recorded when a legal obligation exists even though the timing and/or method of the settlement of such obligations is conditional on a future event. FIN 47 is effective as of December 31, 2005. The adoption of FIN 47 did not have a material impact on the financial position, results of operations or cash flows of IEX.

Accounting Changes

In May 2005, the FASB issued SFAS No. 154 ''Accounting Changes and Error Corrections'' (''SFAS 154''). SFAS 154 replaces APB Opinion No. 20, *Accounting Changes*, and Statement of Financial Accounting Standards No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in an accounting principle. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 will not have a material impact on the financial position, results of operations or cash flows of IEX for the current or any prior periods.

Note 2 — Allocation of Corporate Activities and Related-Party Transactions

Shared Services and Support Activities

The Parent Company provides certain services to the Company, including financial and accounting services, information technology services, internal auditing and tax services, legal services, and corporate executive and administrative support. A portion of the cost of such shared services has been allocated to the Company based upon the use of such services and activities and the judgment of the management of the Parent Company. Where determinations based on use alone were not practical, other methods and criteria were used to provide a reasonable allocation of the cost of shared services. The following represents a summary of the costs allocated to the Company by the Parent Company:

	For the Years Ended December 31,		
	2005	2004	2003
		(Thousands)	
Corporate executive and administrative support	$ 102	$ 205	$ 244
Finance and accounting	614	451	624
Human resources and payroll	176	183	234
Legal	473	174	1,052
Tax	26	24	21
Information technology services	753	761	909
Facilities and maintenance	674	741	1,092
Total corporate allocation	$ 2,818	$ 2,539	$ 4,177

Allocation and related party transaction policies can be rescinded or amended at the discretion of the Parent Company. Any such changes so adopted would be based upon the best interests of the Parent Company and its stockholders. These certain services provided to the Company may continue to be provided for a period of time from the sale of IEX if so negotiated by NICE and the Parent Company.

Note 3 — Financial Statement Details

Property and Equipment, net

Property and equipment consist of the following:

	December 31,	
	2005	2004
	(Thousands)	
Leasehold improvements	$ 593	$ 593
Furniture and office equipment	118	118
Computer equipment	2,200	1,983
	2,911	2,694
Less, accumulated depreciation and amortization	(2,591)	(2,364)
	$ 320	$ 330

Accrued expenses

Accrued expenses consist of the following:

	December 31,	
	2005	2004
	(Thousands)	
Accrued expenses	$ 2,206	$ 358
Accrued commissions	483	393
Total	$ 2,689	$ 751

Accrued payroll and related expenses

Accrued payroll and related expenses consist of the following:

	December 31,	
	2005	2004
	(Thousands)	
Accrued payroll	$ 467	$ 685
Accrued vacation	747	401
Payroll taxes	21	16
Total	$ 1,235	$ 1,102

Note 4 — Income Taxes

The provision for income taxes consists of the following:

	For the Years Ended December 31,		
	2005	2004	2003
		(Thousands)	
Current:			
Federal	$ 5,638	$ 4,801	$ (287)
State	548	412	40
Deferred:			
Federal	44	(734)	841
Total provision for income taxes	$ 6,230	$ 4,479	$ 594

Income before income tax provision is principally comprised of domestic operations and less than 5% for foreign operations for all periods presented.

The provision for income taxes differs from the amount obtained by applying the federal statutory income tax rate to income before provision for income taxes as follows:

	For the Years Ended December 31,					
	2005		2004		2003	
			(Thousands)			
Federal statutory provision	$ 5,847		$ 4,158		$ 558	
State taxes, net of federal benefit	356		268		26	
Domestic production activities deduction	(78)		—		—	
Other	105		53		10	
Total income tax provision	$ 6,230	37.3%	$ 4,479	37.7%	$ 594	37.3%

The components of temporary differences that gave rise to deferred taxes at December 31, 2005 and 2004 are as follows:

	December 31,	
	2005	2004
	(Thousands)	
Deferred tax assets (liabilities):		
Allowance for doubtful accounts	$ 111	$ 192
Depreciation and amortization	13	7
Accrued liabilities	235	215
Other	—	(11)
Total net deferred tax assets	$ 359	$ 403
Deferred tax assets:		
Current portion	$ 346	$ 396
Long-term portion	13	7
Total net deferred tax assets	359	403
Total net deferred tax assets	$ 359	$ 403

Note 5 — Commitments and Contingencies

The Company leases a facility consisting of approximately 51,000 square feet in Richardson, Texas under a lease expiring in February 2013. This facility is used for engineering, product development, customer support, and general administrative and sales activities.

Rent expense, including any applicable rent escalations, is recognized on a straight-line basis. Total rent expense was approximately $0.9 million, $0.8 million and $1.2 million for 2005, 2004 and 2003, respectively.

Minimum annual non-cancelable lease commitments at December 31, 2005 are:

For the Years Ending December 31,	(Thousands)
2006	$ 833
2007	843
2008	843
2009	843
2010	843
Thereafter	1,826
	$ 6,031

The Company has an agreement with one vendor to purchase specified quantities of goods or services at agreed upon prices in the future. As of December 31, 2005, this unconditional purchase obligation totaled approximately $0.6 million and will be settled in 2006.

Indemnities, Commitments and Guarantees

In the normal course of business, certain indemnities, commitments and guarantees are made under which the Company may be required to make payments in relation to certain transactions. These indemnities, commitments and guarantees include, among others, intellectual property indemnities to customers in connection with the sale of products and licensing of technology, indemnities for liabilities associated with the infringement of other parties' technology based upon the Company's products and technology, guarantees of timely performance of obligations, and indemnities to directors and officers to the maximum extent permitted by law. The duration of these indemnities, commitments and guarantees varies, and, in certain cases, is indefinite. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential future payments that the Company could be obligated to make. A liability has not been recorded for these indemnities, commitments or guarantees in the accompanying balance sheets as future payment is not probable.

Litigation

From time to time, various claims and litigation are asserted or commenced against the Company arising from or related to contractual matters, intellectual property matters, product warranties and personnel and employment disputes. As to such claims and litigation, there is no assurance that the Company will prevail. However, it is not believed that the ultimate outcome of any pending matters, will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

IEX Corporation vs. Blue Pumpkin Software, Inc.

In January 2001, the Company filed suit against Blue Pumpkin Software, Inc. (''Blue Pumpkin''), in the United States District Court for the Eastern District of Texas, Sherman Division. IEX asserted that Blue Pumpkin's Director and Director Enterprise products infringed United States Patent No. 6,044,355 held by IEX. In the suit, IEX sought damages and an injunction prohibiting Blue Pumpkin's further infringement of the patent. In February 2001, Blue Pumpkin responded to the Company's suit denying that Blue Pumpkin infringed the Company's patent and asserting that such patent was invalid.

After numerous hearings, extensive discovery, and court rulings, in December 2005 the parties entered into a settlement agreement resolving both the Company's litigation against Blue Pumpkin and the Blue Pumpkin LLC litigation against the Company. Final settlement documents were executed by the parties on April 6, 2006, and both lawsuits have been dismissed with prejudice. Pursuant to the settlement agreement, each party granted to the other a release and cross-license of the patents asserted in the lawsuits. Blue Pumpkin made a balancing license payment to the Company in the amount of $8.25 million on April 7, 2006, and Blue Pumpkin is obligated to make six additional annual payments of $500,000 beginning April 1, 2007 and ending April 1, 2012.

Note 6 — Employee 401(k) Plan

The Parent Company sponsors a 401(k) tax-deferred savings plan to provide retirement benefits for its employees (the ''Plan''). As allowed under Section 401(k) of the Internal Revenue Code, the Plan provides tax deferred salary contributions for eligible employees. Participants in the Plan may authorize from 2% to 50% of their compensation to be invested in employee-elected investment funds managed by an independent trustee, subject to certain annual contribution limitations. The Parent Company generally contributes matching funds of up to 50% of the employees' first 12% of payroll deductions. During 2005, 2004 and 2003, matching contributions attributable to IEX employees amounted to approximately $0.5 million, $0.5 million and $0.4 million, respectively, and are reflected in the accompanying statements of operations.

Exhibit 99.3

IEX CORPORATION
(A wholly-owned subsidiary of Tekelec)

INTERIM FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

IN U.S. DOLLARS

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IEX CORPORATION
(A wholly-owned subsidiary of Tekelec)

INTERIM BALANCE SHEETS
U.S. dollars in thousands
(unaudited)

	June 30, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS:		
Trade receivables (net of allowance for doubtful accounts of $ 213 and $ 306 at June 30, 2006 and December 31, 2005, respectively)	$ 7,405	$ 6,994
Prepaid expenses and other receivables	328	441
Inventories	606	835
Deferred tax assets	454	346
Total current assets	8,793	8,616
LONG-TERM ASSETS:		
Property and equipment, net	317	320
Deferred tax assets	—	13
Goodwill	9,698	9,698
Total long-term assets	10,015	10,031
Total assets	$ 18,808	$ 18,647
LIABILITIES AND NET INVESTMENT OF THE PARENT COMPANY		
CURRENT LIABILITIES:		
Trade payables	$ 302	$ 880
Accrued expenses	257	2,689
Accrued payroll and related expenses	1,083	1,235
Deferred revenues	21,110	18,475
Total current liabilities	22,752	23,279
COMMITMENTS AND CONTINGENT LIABILITIES		
Total net investment of the Parent Company	(3,944)	(4,632)
Total liabilities and net investment of the Parent Company	$ 18,808	$ 18,647

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

IEX CORPORATION
(A wholly-owned subsidiary of Tekelec)

INTERIM STATEMENTS OF INCOME
U.S. dollars in thousands

	Six months ended June 30,	
	2006	2005
	Unaudited	
Revenues:		
Software	$ 19,264	$ 9,038
Professional services, maintenance and other	16,849	13,044
Total revenues	36,113	22,082
Cost of revenues:		
Software	1,205	1,642
Professional services, maintenance and other	5,662	4,390
Total cost of revenues	6,867	6,032
Gross profit	29,246	16,050
Operating expenses:		
Research and development	3,407	3,095
Selling and marketing	5,032	4,765
General and administrative	2,610	2,940
Total operating expenses	11,049	10,800
Operating income	18,197	5,250
Financial and other expenses, net	13	151
Income before taxes on income	18,184	5,099
Taxes on income	6,546	1,902
Net income	$ 11,638	$ 3,197

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

IEX CORPORATION
(A wholly-owned subsidiary of Tekelec)

INTERIM STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Six months ended June 30,	
	2006	2005
	Unaudited	
Cash flows from operating activities:		
Net income	$ 11,638	$ 3,197
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation	101	132
Deferred income taxes	(95)	149
Decrease (increase) in trade receivables	(411)	953
Decrease in prepaid expenses and other receivables	113	52
Decrease in inventories	229	395
Increase (decrease) in trade payables	(578)	211
Decrease in accrued expenses	(2,432)	(276)
Increase (decrease) in accrued payroll and related expenses	(152)	112
Increase in deferred revenues	2,635	4,327
Net cash provided by operating activities	11,048	9,252
Cash flows from investing activities:		
Purchase of property and equipment	(98)	(104)
Net cash used in investing activities	(98)	(104)
Cash flows from financing activities:		
Distribution to the parent company	(10,950)	(9,744)
Net cash used in financing activities	(10,950)	(9,744)
Decrease in cash and cash equivalents	—	(596)
Cash and cash equivalents at the beginning of the period	—	992
Cash and cash equivalents at the end of the period	$ —	$ 396

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

IEX CORPORATION
(A wholly-owned subsidiary of Tekelec)

NOTES TO INTERIM FINANCIAL STATEMENTS
U.S. dollars in thousands

NOTE 1:- GENERAL

a. General:

IEX Corporation (''IEX'' or the ''Company'') is a wholly owned subsidiary of Tekelec (the ''Parent Company''), a public company traded on NASDAQ under the ticker symbol ''TKLC.'' The Company represents the Parent Company's IEX Contact Center Group operating segment. The Company is headquartered in Richardson, Texas and designs, markets and supports products that provide workforce management and performance management solutions for single and multiple-site contact centers. The Company's customers operate in industries with significant contact center operations such as financial services, telecommunications and retail businesses.

On April 27, 2006, the Parent Company entered into a Stock Purchase Agreement (the ''Sales Agreement'') pursuant to which the Parent Company agreed to sell to NICE-Systems Ltd. (''NICE''), all of the outstanding shares of capital stock (the ''IEX Shares'') of IEX. The sale price for the IEX Shares is $ 200,000 in cash, subject to a post-closing adjustment based on the working capital of IEX as of the closing date. The closing of the transaction was on July 6, 2006.

b. Basis of preparation:

The accompanying unaudited interim 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, 2006, are not necessarily indicative of the results of operations that may be expected for the year ended December 31, 2006.

The financial statements of IEX have been carved out of the consolidated financial statements of the Parent Company. These financial statements include certain cost allocations, related to expenses that had historically been incurred by the Parent Company on the Company's behalf, which management believes are reasonable and necessary for a fair presentation of the Company's results of operations, financial position and cash flows in accordance with generally accepted accounting principles in the United States (''GAAP''). As such, certain corporate expenses of the Parent Company that were not historically allocated to the Company in the Parent Company's reportable segment disclosures have been allocated to IEX based on the determination of whether (i) IEX derived any benefit from the cost incurred and (ii) whether IEX would need to replace the cost if acting as a stand-alone entity. Such items included certain management, legal, finance, human resources, information technology, facilities and internal audit costs, among others. Specifically, these services includes the cost associated with the proportional time dedicated to the Company by (i) executive management for oversight, (ii) accounting and finance personnel for accounts payable processing and accounting oversight, (iii) human resource personnel for payroll processing, benefits management, and recruiting services, and (iv) information technology personnel associated with maintaining the information technology infrastructure. These allocations were based on management's estimates after considering all functions in which the Parent Company had historically incurred costs on the Company's behalf. The expenses allocated to IEX are included in the accompanying interim statements of income. In addition, certain intangible assets, goodwill, and amortization of purchased technology and other

NOTE 1:- GENERAL (Cont.)

intangibles recorded in connection with the Parent Company's acquisition of IEX, which were not allocated to the IEX Contact Center Group in the Parent Company's consolidated financial statements, have been allocated to IEX in these financial statements. Refer to Note 3 for further information concerning the allocated costs and expenses from the Parent Company.

The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions concerning the allocation of certain expenses of the Parent Company to the Company. Management believes that the financial statements presented herein have been presented using reasonable allocation methods that are indicative of the Company's relative share of the Parent Company's related costs, consistent with the description above. Although management believes reasonable allocation methodologies have been employed in preparing these financial statements, the costs allocated to the Company based on these methodologies may not be indicative of the actual costs that would have been incurred had the Company operated on a standalone basis.

c. Settlement with Blue Pumpkin:

As more fully described in Note 4, in April 2006, IEX settled litigation with Blue Pumpkin Software, Inc. (''Blue Pumpkin''). Pursuant to the settlement agreement, each party granted to the other a release and cross license of the patents asserted in the lawsuits. Blue Pumpkin made a balancing license payment to IEX in the amount of $ 8,250 on April 7, 2006, and Blue Pumpkin is obligated to make six additional annual payments of $ 500 each to Tekelec beginning April 1, 2007 and ending April 1, 2012. Included in IEX's operations for the six months ended June 30, 2006 is revenue and income of $ 8,250 from this settlement. The remaining six annual installments of $ 500 have been assigned by IEX to Tekelec. Subsequent to the acquisition of the Company by NICE these installments will be received by Tekelec.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2005 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 affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. For further information, refer to the financial statements of as of December 31, 2005.

c. Accounting for stock-based compensation:

Employees of IEX are eligible to participate in the Parent Company's employee stock-based compensation plans. As of June 30, 2006, the Parent Company has six stock-based employee compensation plans with a maximum term of ten years. Under these plans there are approximately 26,000,000 shares of the Parent Company's common stock authorized for issuance. The terms of options granted under these plans are determined at the time of grant, the options generally vest ratably over one- to four-year periods, and the option price may not be less than the fair market value per share on the date of grant. Both incentive stock

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

options and non-statutory stock options can be issued under the Parent Company's stock-based employee compensation plans, as well as restricted stock units and restricted stock.

Effective January 1, 2006, the Parent Company adopted the provisions of, and accounts for stock based compensation in accordance with Statement of Financial Accounting Standards No. 123 – revised 2004 (''SFAS 123R''), ''Share Based Payment'' which replaced Statement of Financial Accounting Standards No. 123 (''SFAS 123''), ''Accounting for Stock Based Compensation'' and supersedes APB Opinion No. 25 (''APB 25''), ''Accounting for Stock Issued to Employees.''

Under the fair value recognition provisions of this statement, stock based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is typically the vesting period. The Parent Company elected to adopt SFAS 123R utilizing the modified prospective method under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and to grants that are modified subsequent to the adoption date that were outstanding as of the effective date. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro forma disclosures. SFAS 123R also requires any benefits resulting from tax deductions in excess of recognized compensation expense to be reported as a cash flow from financing activities, rather than as a cash flow from operating activities.

Prior to the adoption of SFAS 123R, the Parent Company accounted for share-based payments to employees using the intrinsic value method prescribed by APB 25 and related interpretations, as permitted by SFAS 123, and, as such, recognized no compensation cost for employee stock options as long as the exercise price was at least equal to the fair value of the underlying stock on the date of grant. The Parent Company provided the required pro forma disclosures of SFAS 123. Applying the intrinsic value method generally resulted in no compensation expense being recognized related to employee stock option grants in periods prior to the adoption of SFAS 123R.

The effect of adopting SFAS 123R on January 1, 2006, was a decrease in the Company's income before taxes and net income for the six months ended June 30, 2006, of $996 and $628, respectively.

To determine the grant date fair value of stock option awards and rights of purchase under the employee stock purchase plan the Parent Company currently use the Black-Scholes option pricing model. The use of this model requires management to make a number of subjective assumptions.

During the six months period ended June 30, 2006 no options were granted by the Parent Company to IEX employees and directors.

The pro-forma table below reflects the Company's stock-based compensation expenses and net income for the six months ended June 30, 2005, had the Company applied the fair value recognition provisions of SFAS 123. The fair value for stock-based compensation expenses calculation was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate – 3.8%, dividend yields – 0%, volatility – 0.60, and a weighted average expected life of the option of 3.3 years.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	Six months ended June 30, 2005
	Unaudited
Net income as reported	$ 3,197
Deduct: total stock-based employee compensation expense determined under fair value based method	(796)
Pro forma net income	$ 2,401

For the purposes of pro-forma disclosures, stock-based compensation is amortized over the vesting period using the accelerated attribution method.

d. Recently issued accounting pronouncements:

In September 2006, the Financial Accounting Standards Board (‘‘FASB’’) issued SFAS No. 157, ‘‘Fair Value Measurements’’. This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management believes this Standard will not have a material effect on its financial statements.

In June 2006, the FASB issued Interpretation No. 48, ‘‘Accounting for Uncertainty in Income Taxes’’ (‘‘FIN 48’’). FIN 48 creates a single model to address uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from Financial Accounting Standards Board Statement No. 5, ‘‘Accounting for Contingencies.’’ FIN 48 utilizes a two-step approach for evaluating tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more-likely-than-not to be sustained). FIN 48 applies to all tax positions related to income taxes subject to Financial Accounting Standards Board Statement No. 109, ‘‘Accounting for Income Taxes.’’ This includes tax positions considered to be ‘‘routine’’ as well as those with a high degree of uncertainty. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. Management is in the process of evaluating the possible impact of the adoption of FIN 48 on its financial statements.

NOTE 3:- ALLOCATION OF CORPORATE ACTIVITIES AND RELATED-PARTY TRANSACTIONS

The Parent Company provides certain services to the Company, including financial and accounting services, information technology services, internal auditing and tax services, legal services, and corporate executive and administrative support. A portion of the cost of such shared services has been allocated to the Company based upon the use of such services and activities and the judgment of the management of the Parent Company. Where determinations based on use alone were not practical, other methods and criteria were used to provide a reasonable allocation of the cost of shared services. The following represents a summary of the costs allocated to the Company by the Parent Company:

	Six month ended June 30	
	2006	2005
	In thousands	
Corporate executive and administrative support	$ 53	$ 51
Finance and accounting	319	307
Human resources and payroll	92	88
Legal	246	237
Tax	13	13
Information technology services	392	376
Facilities and maintenance	350	337
Total corporate allocation	$ 1,465	$ 1,409

Allocation and related party transaction policies can be rescinded or amended at the discretion of the Parent Company. Any such changes so adopted would be based upon the best interests of the Parent Company and its stockholders. These certain services provided to the Company may continue to be provided for a period of time from the sale of IEX if so negotiated by NICE and the Parent Company.

NOTE 4:- LEGAL PROCEEDINGS

From time to time, various claims and litigation are asserted or commenced against the Company arising from or related to contractual matters, intellectual property matters, product warranties and personnel and employment disputes. As to such claims and litigation, there is no assurance that the Company will prevail. However, it is not believed that the ultimate outcome of any pending matters will have a material effect on the Company's financial position, results of operations or cash flows.

In January 2001, the Company filed suit against Blue Pumpkin Software, Inc. (''Blue Pumpkin''), in the United States District Court for the Eastern District of Texas, Sherman Division. IEX asserted that Blue Pumpkin's Director and Director Enterprise products infringed United States Patent No. 6,044,355 held by IEX. In the suit, IEX sought damages and an injunction prohibiting Blue Pumpkin's further infringement of the patent. In February 2001, Blue Pumpkin responded to the Company's suit denying that Blue Pumpkin infringed the Company's patent and asserting that such patent was invalid.

After numerous hearings, extensive discovery, and court rulings, in December 2005 the parties entered into a settlement agreement resolving both the Company's litigation against Blue Pumpkin and the Blue Pumpkin LLC litigation against the Company. Final settlement documents

NOTE 4:- LEGAL PROCEEDINGS (Cont.)

were executed by the parties on April 6, 2006, and both lawsuits have been dismissed with prejudice. Pursuant to the settlement agreement, each party granted to the other a release and cross-license of the patents asserted in the lawsuits. Blue Pumpkin made a balancing license payment to the Company in the amount of $ 8,250 on April 7, 2006. Blue Pumpkin is obligated to make six additional annual payments of $ 500 beginning April 1, 2007 and ending April 1, 2012. The remaining installments have been assigned by IEX to Tekelec. Subsequent to the acquisition of the Company by NICE these installments will be received by Tekelec.

Document — EX-99.4
Description — Audited Financial Statements of Performix Holdings

Exhibit 99.4

PERFORMIX HOLDINGS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

PERFORMIX HOLDINGS, INC.

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FEELEY & DRISCOLL, P.C.
Certified Public Accountants/Business Consultants

To the Board of Directors and Stockholders of
Performix Holdings, Inc.
Burlington, Massachusetts

Independent Auditors' Report

We have audited the accompanying consolidated balance sheets of Performix Holdings, Inc. and its Subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in redeemable convertible preferred stock, stockholders' deficit and comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Performix Holdings, Inc. and its Subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the consolidated financial statements and as discussed in Note 13 of the consolidated financial statements, the Company has suffered recurring losses since inception that raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

February 24, 2006

Feeley & Driscoll, P.C.

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PERFORMIX HOLDINGS, INC.

Consolidated Balance Sheets

December 31, 2005 and 2004

Assets

	2005	2004
Current assets:		
Cash and cash equivalents	$ 229,114	$ 1,701,230
Restricted cash	380,000	500,000
Accounts receivable, net of allowance for doubtful accounts of $25,000 as of December 31, 2005 and 2004	2,054,193	3,114,115
Prepaid expenses and other current assets	304,844	462,741
Total current assets	2,968,151	5,778,086
Property and equipment:		
Computer equipment	1,377,742	1,418,691
Leasehold improvements	609,494	616,187
Computer software	457,353	366,297
Furniture and fixtures	309,491	305,188
	2,754,080	2,706,363
Less accumulated depreciation	2,273,507	2,076,231
	480,573	630,132
Other assets:		
Goodwill	73,780	727,157
Intangible assets, net of accumulated amortization and impairment of $354,814 and $193,055 as of December 31, 2005 and 2004, respectively	35,186	196,945
	108,966	924,102
	$ 3,557,690	$ 7,332,320

See accompanying notes to consolidated financial statements.

PERFORMIX HOLDINGS, INC.

Consolidated Balance Sheets – Continued

December 31, 2005 and 2004

Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Deficit

	2005	2004
Current liabilities:		
Line of credit	$ 250,000	$ —
Accounts payable	697,423	808,096
Accrued expenses	1,271,660	1,879,036
Deferred revenue	2,475,223	2,849,716
Total current liabilities	4,694,306	5,536,848
Commitments and contingencies		
Redeemable convertible preferred stock, $.001 par value; 175,234,328 and 99,417,797 shares authorized as of December 31, 2005 and 2004, respectively:		
Series A-4, 79,702,908 and -0- shares designated, issued and outstanding as of December 31, 2005 and 2004, respectively (liquidation preference of $5,700,528 and $-0- as of December 31, 2005 and 2004, respectively)	5,572,001	—
Series A-3, 50,877,496 and 51,617,272 shares designated, issued and outstanding as of December 31, 2005 and 2004, respectively (liquidation preference of $9,856,680 and $10,000,000 as of December 31, 2005 and 2004, respectively)	9,804,918	9,932,102
Series A-2, 34,628,928 and 37,775,529 shares designated, issued and outstanding as of December 31, 2005 and 2004, respectively (liquidation preference of $15,515,420 and $16,628,719 as of December 31, 2005 and 2004, respectively)	10,325,551	11,241,136
Series A-1, 10,024,996 shares designated, issued and outstanding (liquidation preference of $5,371,282 as of December 31, 2005 and 2004)	6,385,922	6,385,922
Total redeemable convertible preferred stock	32,088,392	27,559,160
Stockholders' deficit:		
Common stock, $.001 par value; 333,474,732 and 165,175,273 shares authorized, 33,726,045 and 29,368,273 shares issued and outstanding as of December 31, 2005 and 2004, respectively	33,727	29,369
Additional paid-in capital	9,852,341	8,825,421
Accumulated other comprehensive income	718,153	828,844
Accumulated deficit	(43,829,229)	(35,447,322)
Total stockholders' deficit	(33,225,008)	(25,763,688)
	$ 3,557,690	$ 7,332,320

See accompanying notes to consolidated financial statements.

PERFORMIX HOLDINGS, INC.

Consolidated Statements of Operations

For the years ended December 31, 2005 and 2004

	2005	2004
Revenue	$ 5,420,184	$ 7,126,589
Cost of revenue	3,570,484	4,270,148
Selling and marketing	4,098,838	5,405,381
Research and development	3,632,311	4,555,900
General and administrative	1,821,432	2,769,115
	13,123,065	17,000,544
Loss from operations	(7,702,881)	(9,873,955)
Other (expense) income:		
Impairment loss on goodwill	(653,377)	—
Impairment loss on intangible assets	(45,926)	—
Interest income	15,755	60,066
Interest expense	(7,373)	—
Foreign exchange gain	11,895	25,717
	(679,026)	85,783
Net loss	$ (8,381,907)	$ (9,788,172)

See accompanying notes to consolidated financial statements.

PERFORMIX HOLDINGS, INC.
Consolidated Statements of Changes in Redeemable Convertible Preferred Stock, Stockholders' Deficit and Comprehensive Loss
For the years ended December 31, 2005 and 2004

	Redeemable Convertible Preferred Stock									Stockholders' Deficit						
	Series A-4		Series A-3		Series A-2		Series A-1			Common Stock						
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Total Amount	Number of Shares	Amount at Par	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Deficit	Statement of Comprehensive Loss
Balance at December 31, 2003	—	$ —	—	$ —	37,775,529	$ 12,995,146	10,024,996	$ 2,004,999	$ 15,000,145	27,913,943	$ 27,914	$ 11,414,588	$ 910,378	$ (25,659,150)	$ (13,306,270)	
Issuance of Series A-3 redeemable convertible preferred stock, net of issuance costs of $80,718			51,617,272	9,919,282					9,919,282						—	
Exercise of stock options									—	126,719	127	25,341			25,468	
Shares issued in accordance with terms of prior year acquisition									—	1,327,611	1,328	25,225			26,553	
Accretion of preferred stock to redemption value				12,820		(1,754,010)		4,380,923	2,639,733			(2,639,733)			(2,639,733)	
Net loss									—					(9,788,172)	(9,788,172)	$ (9,788,172)
Other comprehensive income – foreign currency translation adjustments									—				(81,534)		(81,534)	(81,534)
Comprehensive loss																$ (9,869,706)
Balance at December 31, 2004	—	—	51,617,272	9,932,102	37,775,529	11,241,136	10,024,996	6,385,922	27,559,160	29,368,273	29,369	8,825,421	828,844	(35,447,322)	(25,763,688)	
Conversion of redeemable convertible preferred stock			(739,776)	(143,319)	(3,146,601)	(947,567)			(1,090,886)	4,357,772	4,358	1,086,528			1,090,886	
Issuance of Series A-4 redeemable convertible preferred stock, net of issuance costs of $140,018	79,702,908	5,560,510							5,560,510						—	
Accretion of preferred stock to redemption value		11,491		16,135		31,982			59,608			(59,608)			(59,608)	
Net loss									—					(8,381,907)	(8,381,907)	$ (8,381,907)
Other comprehensive income – foreign																

currency translation adjustments									—				(110,691)		(110,691)	(110,691)
Comprehensive loss																$ (8,492,598)
Balance at December 31, 2005	79,702,908	$ 5,572,001	50,877,496	$ 9,804,918	34,628,928	$ 10,325,551	10,024,996	$ 6,385,922	$ 32,088,392	33,726,045	$ 33,727	$ 9,852,341	$ 718,153	$ (43,829,229)	$ (33,225,008)	

See accompanying notes to consolidated financial statements.

PERFORMIX HOLDINGS, INC.

Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Net loss	$ (8,381,907)	$ (9,788,172)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	401,867	434,402
Amortization of intangible assets	115,833	115,833
Impairment loss on intangible assets	45,926	—
Impairment loss on goodwill	653,377	—
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	922,110	(383,314)
Decrease in prepaid expenses and other current assets	126,808	36,258
Decrease in accounts payable	(63,816)	(185,022)
(Decrease) increase in accrued expenses	(495,310)	261,038
(Decrease) increase in deferred revenue	(236,033)	54,154
Net cash used in operating activities	(6,911,145)	(9,454,823)
Cash flows from investing activities –		
Purchases of property and equipment	(299,859)	(290,771)
Net cash used in investing activities	(299,859)	(290,771)
Cash flows from financing activities:		
Proceeds from note payable, line of credit	250,000	—
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	5,560,510	9,919,282
Proceeds from exercise of stock options	—	25,468
Release of restricted cash	120,000	—
Net cash provided by financing activities	5,930,510	9,944,750
Exchange rate effect on cash and cash equivalents	(191,622)	(15,592)
Net (decrease) increase in cash and cash equivalents	(1,472,116)	183,564
Cash and cash equivalents at beginning of year	1,701,230	1,517,666
Cash and cash equivalents at end of year	$ 229,114	$ 1,701,230
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 7,373	$ —

See accompanying notes to consolidated financial statements.

Note 1 - Business Operations

Performix Holdings, Inc. and its Subsidiaries (the Company) are employee performance management companies that focus on providing enterprise management and business improvement systems and related services to the global call/contact center market.

The Company has businesses located in the United States, the United Kingdom and Ireland. Operations outside the United States are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, government price or foreign exchange controls and restrictions on currency exchange. The Company does not engage in hedging activities to mitigate its exposure to fluctuations in foreign currency exchange rates.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The Company's consolidated financial statements include the accounts of its wholly owned subsidiaries. All material inter-company balances and transactions have been eliminated.

Use of Estimates - The preparation of consolidated 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, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three (3) months or less at the date of purchase to be cash equivalents.

Restricted Cash - Restricted cash consists of amounts deposited at a financial institution to act as collateral against a line of credit (Note 4).

Allowance for Doubtful Accounts - The Company provides an allowance for doubtful accounts equal to estimated bad debt losses. The estimated losses are based on historical collection experience together with a review of the current status of existing receivables.

Fair Value of Financial Instruments - The carrying amounts of the Company's financial instruments, which include cash, cash equivalents, accounts receivable, line of credit, accounts payable and other accrued expenses approximate their fair values due to their short maturities.

Property and Equipment - Property and equipment are stated at cost. Major renewals, additions and betterments are charged to the property accounts, while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed in the year incurred.

Depreciation and Amortization - Depreciation and amortization are computed using straight-line and accelerated methods over the estimated useful lives of the related assets as follows:

Note 2 - Summary of Significant Accounting Policies - Continued

Assets	Life in Years
Computer equipment	5
Leasehold improvements	Lesser of estimated useful life or life of lease
Computer software	3
Furniture and fixtures	7

Long-lived Assets and Goodwill - The Company accounts for Goodwill and Other Intangibles in accordance with Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets.* Goodwill was derived from the excess acquisition costs over the fair value of the net liabilities acquired in the purchase of Cliffstone Corporation (Cliffstone), which was completed on May 9, 2003. The Company evaluates the recoverability of goodwill annually, or more frequently if events or changes in circumstances, such as material adverse changes in the business climate, indicate that the carrying value of the asset might be impaired.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets,* the Company periodically evaluates its long-lived assets for events and circumstances that indicate a potential impairment. If events and circumstances suggest that an impairment of long-lived assets may have occurred, the unamortized balances of these assets are reviewed.

Research and Development and Software Development Costs - Costs incurred in the research and development of the Company’s products are expensed as incurred, except for certain software development costs. Costs associated with the development of computer software to be sold or licensed to customers are expensed as incurred prior to the establishment of technological feasibility (as defined by SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed).* Costs incurred subsequent to the establishment of technological feasibility, and prior to the general release of the products, are capitalized. To date, no development costs have been capitalized.

Revenue Recognition - The Company recognizes revenue based on the provisions of Statement of Position (‘‘SOP’’) No. 97-2, *Software Revenue Recognition,* and related interpretations.

The Company generates revenue from the sale of software licenses, implementation services, maintenance and support services and other professional consulting services. The Company has concluded that where the Company enters into a fixed-fee contract for software and related implementation services, the implementation services are generally essential to the customer’s use of the software. Therefore, in arrangements where the Company is responsible for implementation services, revenue is recognized for these arrangements following the percentage-of-completion basis of accounting as defined by SOP No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.* Under the percentage-of completion basis of accounting, software and implementation revenue is bundled and recognized as the work progresses in amounts estimated to equal the actual progress on the contract. In applying this method, the Company measures each project’s percentage-of-completion by the percentage of implementation hours incurred to date compared to estimated total implementation hours. This method is used as management has determined that past experience has shown expensed hours to be the best measure of progress on these contracts. Changes in estimated costs and anticipated losses, if any, are recognized immediately in the period in which they are determined.

Note 2 - Summary of Significant Accounting Policies - Continued

Maintenance and support revenue is recognized ratably over the term of the related arrangement, which is typically one (1) year. Revenue related to other professional consulting services is recognized as the services are performed.

Where the Company sells software licenses, implementation services and maintenance and support services, the total contract value is attributed first to the maintenance and support based on its fair values. The remainder of the total contract value is then attributed to the software license and related implementation services and accounted for as described above.

In some instances, the Company acts as a distributor of third party software. The Company has determined that these transactions are not an element of a multiple element arrangement, but rather are separate transactions. Revenue is recognized on such transactions when persuasive evidence of an agreement exists, the price is fixed or determinable, delivery has occurred and there is reasonable assurance of collection of the sales proceeds.

Accounting for Stock-based Compensation - The Company currently accounts for its stock-based compensation plan using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). Since the Company is not required to adopt the fair value based recognition provisions prescribed under Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock-Based Compensation,* it has elected only to comply with the disclosure requirement of SFAS 123 and Statement of Financial Accounting Standards No. 148 (SFAS 148), *Accounting for Stock-Based Compensation - Transition and Disclosure for Fixed Stock-Based Awards.* No stock-based employee compensation cost is reflected in net income for the years ended December 31, 2005 and 2004, as all options granted under the Company's plan had an exercise price equal to the market value of the common stock on the date of grant.

The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for the years ended December 31:

	2005	2004
Net loss, as reported	$ (8,381,907)	$ (9,788,172)
Deduct total stock-based employee compensation determined under fair-value-based method	(89,934)	(62,996)
Proforma net loss	$ (8,471,841)	$ (9,851,168)

The weighted average fair value of options at the date of grant was $0.0037 and $0.0040 per share during the years ended December 31, 2005 and 2004, respectively. The fair value of these stock options was estimated using the minimum value method with the following assumptions: no dividend yield; weighted average risk-free interest rates of 4.46% and 3.60% during the years ended December 31, 2005 and 2004, respectively; and a weighted average expected life of five (5) years.

Advertising Costs - Advertising Costs are charged to operations as incurred, and were approximately $50,902 and $285,095 for the years ended December 31, 2005 and 2004, respectively.

Redeemable Convertible Preferred Stock - The carrying value of redeemable convertible preferred stock is increased or decreased by periodic accretion so that the carrying amount will equal the redemption amount at the redemption date(s). These increases or decreases are affected through charges against additional paid-in capital.

Foreign Currency Translation - Assets and liabilities of the Company's subsidiaries, whose functional currencies are the U.K. pound and Euro, are translated into dollars at the rates of exchange in effect at

Note 2 - Summary of Significant Accounting Policies - Continued

the balance sheet date. Revenues and expenses are translated using rates that approximate those in effect during the year. Translation adjustments are included as a separate component of stockholders' deficit in the balance sheets within accumulated other comprehensive income. Currency transaction gains or losses are recognized in current operations.

Income Taxes - Income tax expense is the tax currently payable for the period plus or minus the change in deferred tax assets and liabilities. Deferred tax assets and liabilities result from using different accounting methods for financial and tax reporting purposes. Deferred income taxes are adjusted to reflect changes in tax laws or rates in the year of enactment. Valuation allowances are estimated, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Note 3 - Goodwill and Other Intangibles

In connection with the acquisition of Cliffstone (completed May 9, 2003), the Company acquired goodwill and other intangible assets. Goodwill associated with the acquisition was $73,780 and $727,157 at December 31, 2005 and 2004, respectively. Intangible assets acquired consisted of the following at December 31, 2005:

	Weighted Average Amortization Period	Gross Carrying Value	Impairment Loss and Accumulated Amortization	Net Book Value
Acquired completed technology	3 years	$ 210,000	$ 207,633	$ 2,367
Contractual customer relationships	4 years	170,000	137,294	32,706
Trade name	3 years	10,000	9,887	113
		$ 390,000	$ 354,814	$ 35,186

Amortization expense for the years ended December 31, 2005 and 2004 was $115,833. During 2005, the Company determined that the estimated fair value of the intangible assets were less than the carrying amounts and, accordingly, recognized an impairment loss of $45,926. The fair value of the intangible assets was estimated based on the present value of expected future cash flows from the customers associated with the Cliffstone software. The Company's focus has moved away from the sale of such software, and it is anticipated that the remaining cash flows will not meet original expectations. The fair value of these assets at December 31, 2005 will be amortized over the remaining useful lives. Estimated future amortization at December 31, 2005 is as follows for the years ending December 31:

2006	$ 27,010
2007	8,176
	$ 35,186

During 2005, the Company determined that the carry amount of the goodwill exceeded its implied fair value. The fair value of the associated business unit was determined based on the present value of expected future cash flows. Total impairment loss for the year ending December 31, 2005 was $653,377.

Note 3 - Goodwill and Other Intangibles - Continued

The changes in the carrying amounts of goodwill are as follows for the years ended December 31:

	2005	2004
Balance at beginning of year	$ 727,157	$ 700,604
Issuance of contingent consideration	—	26,553
Impairment loss	(653,377)	—
Balance at end of year	$ 73,780	$ 727,157

In connection with the Cliffstone acquisition, a maximum of 2,015,453 shares of common stock were to be issued to the prior shareholders of Cliffstone pursuant to certain earn out criteria, which expired approximately one (1) year from the date of acquisition. The earn out criteria was based on revenue targets of Cliffstone's products and was not related to any individual's continued service with the Company. During the year ended December 31, 2004, an additional 1,327,611 shares of common stock, valued at $26,553, were issued to the prior shareholders of Cliffstone under the earn out criteria. The increase in goodwill during the year ended December 31, 2004 was due to the resolution and issuance of this contingent consideration.

Note 4 - Line of Credit

The Company has a $380,000 revolving line of credit with a bank that accrues interest at a rate of 6.10% and 5.00% as of December 31, 2005 and 2004, respectively. The outstanding balance on the line of credit was $250,000 and $-0-, and was collateralized by a certificate of deposit of $380,000 as of December 31, 2005 and 2004. At December 31, 2004, an additional amount of collateral of $120,000 was held as restricted cash to collateralize amounts borrowed on the Company's credit cards. This amount was unrestricted by the bank in 2005. The line of credit renews automatically on a yearly basis.

Note 5 - Redeemable Convertible Preferred Stock

At December 31, 2005, the Company has authorized 508,709,060 shares of stock, of which 333,474,732 are designated as common stock and 175,234,328 are designated as redeemable convertible preferred stock. Of the authorized shares of redeemable convertible preferred stock, 10,024,996 are designated as Series A-1 redeemable convertible preferred stock, 34,628,928 are designated as Series A-2 redeemable convertible preferred stock, 50,877,496 are designated as Series A-3 redeemable convertible preferred stock and 79,702,908 are designated as Series A-4 redeemable convertible preferred stock.

The Series A-1, Series A-2, Series A-3 and Series A-4 redeemable convertible preferred stock (''preferred stock'') have the following characteristics:

Voting

The holders of the preferred stock are entitled to vote together with all other classes and series of stock of the Company as a single class on all actions to be taken by the stockholders of the Company. Each holder of the preferred stock is entitled to the number of votes equal to the number of shares of common stock into which each share of preferred stock is convertible at the time of such vote. The holders of the Series A-1, A-2, and A-3 preferred stock, each voting separately as one class, shall be entitled to elect one (1), two (2), and two (2) directors of the Company, respectively. The holders of the Series A-1 preferred stock, Series A-2 preferred stock, Series A-3 preferred stock, Series A-4 preferred stock and common stock, voting together as one class on an as-if converted basis, shall be

Note 5 - Redeemable Convertible Preferred Stock - Continued

Voting - Continued

entitled to elect the remaining directors of the Company. The maximum number of directors constituting the Board of Directors is nine (9).

Dividends

Upon the declaration by the Company of dividends payable to the holders of the Company's common stock, the holders of the preferred stock are entitled to dividends equal to the amount of dividends payable to the holders of the common stock on an as-if converted basis. Through December 31, 2005, no dividends have been declared or paid by the Company.

Liquidation Preference

In the event of any liquidation, dissolution or winding-up of the affairs of the Company (including a sale or merger), the holders of the then outstanding Series A-4 preferred stock will be entitled to receive for each share an amount equal to the sum of the original purchase price per share of Series A-4 preferred stock plus all declared but unpaid dividends. These liquidation payments are payable in preference and priority to any payments made to the holders of the then outstanding Series A-3 preferred stock, Series A-2 preferred stock, Series A-1 preferred stock and common stock. If the assets of the Company are insufficient to permit payment in full of the liquidation payment, then the holders of the Series A-4 preferred stock will receive the liquidation payment on a pro rata basis.

Immediately after the payment in full of the liquidation payment to the holders of the Series A-4 preferred stock, the holders of the then outstanding Series A-3 preferred stock will be entitled to receive for each share an amount equal to the sum of the original purchase price per share of Series A-3 preferred stock plus all declared but unpaid dividends. These liquidation payments are payable in preference and priority to any payments made to the holders of the then outstanding Series A-2 preferred stock, Series A-1 preferred stock and common stock. If the assets of the Company are insufficient to permit payment in full of the liquidation payment, then the holders of the Series A-3 preferred stock will receive the liquidation payment on a pro rata basis.

Immediately after payment in full of the liquidation payment to the holders of the Series A-4 preferred stock and the Series A-3 preferred stock, the holders of the Series A-2 preferred stock will be entitled to receive for each share an amount equal to $0.35381, in the case of Series A-2 preferred stock originally issued on January 10, 2002, or $0.34624, in the case of Series A-2 preferred stock originally issued on May 3, 2002, plus all declared but unpaid dividends. These liquidation payments are payable in preference and priority to any payments made to the holders of the then outstanding Series A-1 preferred stock and common stock. If the assets of the Company are insufficient to permit payment in full of the liquidation payment to the holders of the Series A-2 preferred stock, then these holders will receive the liquidation payment on a pro rata basis.

Immediately after the liquidation payment is made to the holders of the Series A-4 preferred stock, Series A-3 preferred stock and the liquidation payment, outlined in the above paragraph, is made to the holders of the Series A-2 preferred stock, any remaining net assets of the Company, up to an aggregate amount $8,639,668, will be distributed to the holders of the Series A-2 preferred stock and the holders of the Series A-1 preferred stock as follows:

- The holders of the Series A-2 preferred stock will be entitled to receive 37.83% of the remaining net assets.
- The holders of the Series A-1 preferred stock will be entitled to receive 62.17% of the remaining net assets.

Note 5 - Redeemable Convertible Preferred Stock - Continued

Liquidation Preference - Continued

These liquidation payments are payable in preference and priority to any payments made to the holders of the then outstanding common stock. If the assets of the Company are insufficient to permit payment in full of the liquidation payment to the holders of the Series A-2 preferred stock and Series A-1 preferred stock, then these holders will receive the liquidation payment on a pro rata basis.

After payment of the above mentioned amounts to the holders of the Series A-4 preferred stock, Series A-3 preferred stock, Series A-2 preferred stock and Series A-1 preferred stock, the remaining net assets of the Company shall be distributed to the holders of the Series A-4 preferred stock, Series A-3 preferred stock, Series A-2 preferred stock and the holders of the common stock on a pro rata basis.

Conversion

The holders of the Series A-4 preferred stock shall have the right, at its option at any time, to convert any such shares of Series A-4 preferred stock into fully paid and non-assessable shares of common stock on a one for one basis.

The holders of the Series A-3 preferred stock shall have the right, at its option at any time, to convert any such shares of Series A-3 preferred stock into fully paid and non-assessable shares of common stock as is obtained by multiplying the number of shares of Series A-3 preferred stock so to be converted by the Series A-3 original purchase price and dividing the result by $0.127952.

The holders of the Series A-2 preferred stock shall have the right, at its option at any time, to convert any such shares of Series A-2 preferred stock into such number of fully paid and non-assessable shares of common stock as is obtained by multiplying the number of shares of Series A-2 preferred stock so to be converted by the Series A-2 original purchase price and dividing the result by $0.168052.

The holders of the Series A-1 preferred stock shall have the right, at its option at any time, to convert any such shares of Series A-1 preferred stock into such number of fully paid and non-assessable shares of common stock as is obtained by multiplying the number of shares of Series A-1 preferred stock so to be converted by the Series A-1 original purchase price and dividing the result by $0.293434.

The conversion price of the preferred stock is subject to adjustments in accordance with anti-dilution provisions contained in the Company's Articles of Incorporation.

Conversion of preferred stock is automatic immediately upon the closing of a firm commitment underwritten public offering in which the public offering price per share equals or exceeds five times the original purchase price of the Series A-3 preferred stock (adjusted to reflect subsequent stock dividends, stock splits or other recapitalizations) and the aggregate proceeds raised exceed $30,000,000.

The number of authorized common shares reserved for conversion of the preferred stock at December 31, 2005 is 240,552,981.

Redemption

The holders of at least a majority of the outstanding Series A-4 preferred stock may, by written request and delivered after March 18, 2009, require the Company to redeem all of the outstanding Series A-4 preferred stock in three (3) equal annual installments by paying in cash a sum equal to the

Note 5 - Redeemable Convertible Preferred Stock - Continued

Redemption - Continued

Series A-4 preferred stock original purchase price per share plus an amount equal to all declared and unpaid dividends on each share of Series A-4 preferred stock through the date such shares are redeemed.

The holders of at least a majority of the outstanding Series A-3 preferred stock may, by written request and delivered after March 18, 2009, require the Company to redeem all of the outstanding Series A-3 preferred stock in three (3) equal annual installments by paying in cash a sum equal to the Series A-3 preferred stock original purchase price per share plus an amount equal to all declared and unpaid dividends on each share of Series A-3 preferred stock through the date such shares are redeemed.

The holders of at least a majority of the outstanding Series A-2 preferred stock may, by written request and delivered after March 18, 2009, require the Company to redeem all of the outstanding Series A-2 and A-1 preferred stock in three (3) equal annual installments by paying in cash a sum equal to the Series A-2 and Series A-1 preferred stock original purchase price per share plus an amount equal to all declared and unpaid dividends on each share of Series A-2 and A-1 preferred stock through the date such shares are redeemed.

If, at the redemption date, the Company does not have sufficient funds legally available to redeem all shares of preferred stock in full, then the Company will first pay the holders of the Series A-4 preferred stock and Series A-3 preferred stock the applicable redemption amounts ratably. After the shares of the Series A-4 preferred stock and Series A-3 preferred stock are redeemed in full, the Company will then pay the holders of the Series A-2 preferred stock the applicable redemption amounts, and then subsequently pay the holders of the Series A-1 preferred stock to the extent that funds are legally available.

During the year ended December 31, 2005, the shareholders of preferred stock that did not participate in the Series A-4 financing were subject to a ‘‘Pay to Play Mandatory Conversion’’, in which all of the shareholders’ preferred shares were automatically converted into shares of common stock at the applicable conversion rates. Upon such conversion, each share of preferred stock was cancelled and not subject to reissuance.

Note 6 - Common Stock

Each share of common stock is entitled to one (1) vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available, and when declared by the Board of Directors, subject to the prior rights of holders of all classes of stock outstanding. Upon the dissolution or liquidation of the Company, holders of the common stock will be entitled to receive all assets of the Company available for distribution to its stockholders, subject to any preferential rights of any then outstanding preferred stock, as discussed in Note 5.

Note 7 - Stock Option Plan

In 2001, the Company adopted the 2001 Employee, Director and Consultant Stock Plan (the ‘‘Plan’’) under which 40,653,434 shares of the Company’s common stock are reserved for issuance to employees, directors and consultants. Options granted under the Plan may be incentive stock options or non-qualified stock options. Stock purchase rights may also be granted under the Plan. Incentive stock options may only be granted to employees. The Board of Directors determines the period over which options become

Note 7 - Stock Option Plan - Continued

exercisable; however, except in the case of options granted to officers, directors and consultants, options shall become exercisable between one (1) and four (4) years from the grant date. If an employee owns stock representing more than ten percent (10%) of the voting power of all classes of stock, the exercise price of each option shall be at least one hundred and ten percent (110%) of fair market value per share of the Company's common stock on the grant date, as determined by the Board of Directors. The term of the options is generally ten (10) years.

The following table summarizes the activity of the Company's Plan for the years ended December 31, 2005 and 2004:

	Number of Shares	Range of Exercise Prices Per Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at December 31, 2003	7,624,000	$ 0.11-1.06	$ 0.18	7.5 years
Granted	18,257,264	0.02-0.20	0.02	
Exercised	(126,719)	0.20	0.20	
Cancelled	(4,104,657)	0.02-1.06	0.16	
Outstanding at December 31, 2004	21,649,888	0.02-0.20	0.05	8.5 years
Granted	20,341,733	0.02-0.20	0.02	
Exercised	—	—	—	
Cancelled	(11,242,317)	0.02-0.20	0.04	
Outstanding at December 31, 2005	30,749,304	$ 0.02-0.20	$ 0.03	8.7 years
Exercisable at December 31, 2005	10,317,498	$ 0.02-0.20	$ 0.06	

The following table summarizes information about stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$0.02 to 0.125	27,746,306	9.10	$0.02	7,498,442	$0.02
$0.125 to 0.20	3,002,998	4.60	0.16	2,819,056	0.16
	30,749,304	8.66	$0.03	10,317,498	$0.06

Note 8 - Income Taxes

The Company did not record a benefit for income taxes related to its operating losses for the periods ended December 31, 2005 and 2004, due to a full valuation allowance that offset this benefit. Management has determined that it is more likely than not that the Company will not realize the benefits of its deferred tax assets and, as a result, a valuation allowance equal to the full amount of the deferred tax assets was established at December 31, 2005 and 2004.

Note 8 - Income Taxes - Continued

The net deferred tax asset of approximately $9,306,000 and $6,424,000 at December 31, 2005 and 2004, respectively, primarily relates to federal and state net operating loss carryforwards. The net operating loss carryforwards will expire through 2025. Realization of the future tax benefits is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carryforward period. Under the provisions of the Internal Revenue Code, certain substantial changes in the Company's ownership, including a sale of the Company or significant changes in ownership due to the sale of capital stock, may have limited, or may limit in the future, the amount of net operating loss carryforwards which could be used annually to offset future taxable income.

Note 9 - Pension Plans

The Company administers multiple defined contribution plans for both foreign and domestic employees. The plans cover substantially all employees who meet minimum age and service requirements, and allow participants to defer a portion of their annual compensation on a pre-tax basis. Company contributions to the plan may be made at the discretion of the Board of Directors. The Company contributed approximately $90,896 and $135,000 to the foreign defined contribution plans for the years ended December 31, 2005 and 2004, respectively.

Note 10 - Lease Commitments

The Company leases its office space and certain office equipment under non-cancelable operating leases. Total rent expense under these operating leases was approximately $605,000 and $1,530,000 for the years ended December 31, 2005 and 2004, respectively.

Future minimum lease payments under non-cancelable operating leases are as follows for the years ending December 31:

2006	$ 242,682
2007	279,252
2008	192,153
2009	177,849
2010	179,147
Thereafter	59,716
	$ 1,130,799

Note 11 - Concentrations

Transactions with three (3) customers and one (1) customer accounted for approximately forty-four percent (44%) and twenty percent (20%) of the Company's revenue for the years ended December 31, 2005 and 2004, respectively.

Receivables from two (2) customers accounted for approximately sixty-one percent (61%) and forty-five percent (45%) of the Company's accounts receivable balance at December 31, 2005 and 2004, respectively.

The Company has a potential concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The Company had $402,446 and $1,735,224 in excess of the FDIC insurance limitations at December 31, 2005 and 2004, respectively.

Note 12 - Guarantees and Indemnification Obligations

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies and agrees to reimburse the indemnified party for losses incurred by the indemnified party, generally the Company's customers and vendors in connection with (i) any patent, copyright, trade secret or other proprietary right infringement claim by any third party with respect to the Company's software, and (ii) with respect to the use and protection of proprietary information. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited.

The Company warrants that its software products will perform in all material respects in accordance with its standard published specifications in effect at the time of installation of the licensed products for a period of ninety (90) days.

Based on historical experience and information known as of December 31, 2005 and 2004, the Company has not recorded any liabilities for the above guarantees, indemnities and warranty obligations.

Note 13 - Going Concern

The Company's consolidated financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, as shown in the accompanying consolidated financial statements, the Company has a history of sustaining substantial losses from operations and has used, rather than provided, cash in its operations. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern through December 31, 2006. It is management's plan in this regard to obtain additional working capital through equity financing. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classifications of liabilities that might be necessary should the Company be unable to continue in existence.

Note 14 - Subsequent Event

On January 26, 2006, management, with stockholders' consent, signed a letter of intent to sell the Company to one of its minority shareholders. It is anticipated that this transaction will involve the sale of certain assets and liabilities of the Company, including the stock of a certain subsidiary held by the holding company.

On March 27, 2006, the Company closed in the aggregate $1,000,000 of new financing through the issuance of shares of Series A-5 redeemable convertible preferred stock. All other classes of stock shall rank on liquidation junior to the Series A-5 redeemable convertible preferred stock.

Document — EX-99.5
Description — Audited Financial Statements of Actimize Ltd.

ACTIMIZE LTD. AND SUBSIDIARIES
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Report of Independent Auditors

To the Board of Directors and Shareholders of
Actimize Ltd.

We have audited the accompanying consolidated balance sheet of Actimize Ltd. (the "Company") and its subsidiaries as of December 31, 2006 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. 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 in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2006, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, effective January 1, 2006.

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

Tel Aviv, Israel
April 12, 2007

Actimize Ltd. and Subsidiaries

Consolidated Balance Sheet
U.S. dollars in thousands

	December 31, 2006	June 30, 2007
Assets		(unaudited)
Current assets:		
Cash and cash equivalents	$ 6,084	$ 5,393
Marketable securities	9,858	6,833
Accounts receivable, net	4,567	6,346
Prepaid expenses	967	982
Other current assets	339	847
Total current assets	21,815	20,401
Property and equipment, net	509	565
Restricted cash	296	268
Other assets	349	381
Total assets	$ 22,969	$ 21,615
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 738	$ 830
Payroll and benefit related liabilities	3,355	2,797
Deferred revenue	10,055	6,286
Other payables and accrued expenses	1,366	1,954
Total current liabilities	15,514	11,867
Restricted shares	557	605
Accrued severance liability	357	400
Total liabilities	16,428	12,872
Commitments and contingencies (Note 10)		
Shareholders' Equity:		
Convertible preferred shares, NIS 0.01 par value; 33,787,129 shares authorized as of December 31, 2006 and June 30, 2007 (Unaudited); 30,602,550 shares issued and outstanding as of December 31, 2006 and June 30, 2007 (Liquidation preference of $34,147 and $34,839 as of December 31, 2006 and June 30, 2007(Unaudited), respectively)	68	68
Ordinary shares, NIS 0.01 par value; 60,000,000 shares authorized as of December 31, 2006 and June 30, 2007 (Unaudited); 3,076,000 Ordinary A shares issued and outstanding as of December 31, 2006 and June 30, 2007 (Liquidation preference of $350 as of December 31, 2006 and June 30, 2007 (Unaudited)); 2,729,677, and 4,021,427 ordinary shares issued and outstanding as of December 31, 2006 and June 30, 2007 (Unaudited), respectively	13	17
Additional paid-in capital	25,677	26,682
Unrealized loss on marketable securities	(9)	(4)
Accumulated deficit	(19,208)	(18,020)
Total shareholders' equity	6,541	8,743
Total liabilities and shareholders' equity	$ 22,969	$ 21,615

Actimize Ltd. and Subsidiaries

Consolidated Statements of Operations
U.S. dollars in thousands

	Year Ended December 31,	Six Months Ended June 30,	
	2006	2006	2007
		(unaudited)	
Revenues:			
License fees	$ 13,463	$ 6,128	$ 8,771
Professional services	8,628	3,934	6,695
Maintenance	4,382	1,774	3,382
Total revenues	26,473	11,836	18,848
Cost of revenues:			
License fees	1,252	419	1,067
Professional services (including share-based compensation of $60 in 2006 and $25 and $80 for the six months ended June 30, 2006 and 2007, respectively)	6,951	3,039	5,399
Maintenance (including share-based compensation of $4 in 2006 and $2 and $3 for the six months ended June 30, 2006 and 2007, respectively)	658	326	495
Total cost of revenues	8,861	3,784	6,961
Gross profit	17,612	8,052	11,887
Operating expenses:			
Research and development, net (including share-based compensation of $145 in 2006 and $71 and $75 for the six months ended June 30, 2006 and 2007, respectively)	4,024	1,812	2,865
Sales and marketing (including share-based compensation of $259 in 2006 and $110 and $199 for the six months ended June 30, 2006 and 2007, respectively)	9,258	4,396	6,367
General and administrative (including share-based compensation of $351 in 2006 and $138 and $136 for the six months ended June 30, 2006 and 2007, respectively)	3,091	1,474	1,705
Total operating expenses	16,373	7,682	10,937
Income from operations	1,239	370	950
Interest and other income, net	558	208	238
Net income	$ 1,797	$ 578	$ 1,188

Actimize Ltd. and Subsidiaries

Statements of Changes in Shareholders' Equity
U.S. dollars in thousands (except share data)

	Convertible Preferred Shares		Ordinary Shares			Additional Paid-in Capital	Unrealized gain (loss) on marketable securities	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Trust Shares	Amount				
Balance at January 1, 2006	30,602,549	$ 68	5,051,033	—	$ 12	$ 24,850	$ (25)	$ (21,005)	$ 3,900
Net income	—	—	—	—	—	—	—	1,797	1,797
Unrealized gain on marketable securities	—	—	—	—	—	—	16	—	16
Compensation related to options granted to employees	—	—	—	—	—	819	—	—	819
Repurchase of shares	—	—	(31,500)	31,500	—	(19)	—	—	(19)
Issuance of restricted shares	—	—	696,298	(31,500)	—	—	—	—	—
Exercise of stock options	—	—	89,846	—	1	27	—	—	28
Balance at December 31, 2006	30,602,549	68	5,805,677	—	13	25,677	(9)	(19,208)	6,541
Net income	—	—	—	—	—	—	—	1,188	1,188
Unrealized gain on marketable securities	—	—	—	—	—	—	5	—	5
Compensation related to options granted to employees	—	—	—	—	—	493	—	—	493
Issuance of restricted shares	—	—	240,000	—	—	—	—	—	—
Vesting of restricted shares	—	—	—	—	8	143	—	—	151
Exercise of stock options	—	—	1,051,750	—	4	361	—	—	365
Balance at June 30, 2007 (unaudited)	30,602,549	$ 68	7,097,427	—	$ 17	$ 26,682	$ (4)	$ (18,020)	$ 8,743

Actimize Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
U.S. dollars in thousands

	Year Ended December 31,	Six Months Ended June 30,	
	2006	2006	2007
		(unaudited)	
Cash flows from operating activities:			
Net income	$ 1,797	$ 578	$ 1,188
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	170	63	125
Compensation related to options granted to employees	819	346	493
Increase in accounts receivable, net	(2,925)	(1,894)	(1,779)
Increase in prepaid expenses and other assets	(334)	(861)	(523)
Increase (decrease) in accounts payable	146	(229)	92
Increase (decrease) in payroll and benefit related liabilities	1,103	450	(558)
Increase (decrease) in deferred revenue	1,107	(91)	(3,769)
Increase (decrease) in other liabilities and accrued expenses	347	(182)	588
Increase in accrued severance liability, net	38	27	11
Net cash provided by (used in) operating activities	2,268	(1,793)	(4,132)
Cash flows from investing activities:			
Purchases of property and equipment	(349)	(56)	(181)
Decrease in restricted cash	189	200	28
Proceeds from sale and redemption of available for sale securities	12,927	—	3,030
Purchase of available for sale securities	(16,138)	(1,363)	—
Net cash (used in) provided by investing activities	(3,371)	(1,219)	2,877
Cash flows from financing activities:			
Proceeds from issuance of restricted shares	557	557	199
Proceeds from exercise of stock options	28	11	365
Repurchase of shares	(19)	—	—
Net cash provided by financing activities	566	568	564
Net decrease in cash and cash equivalents	(537)	(2,444)	(691)
Cash and cash equivalents, beginning of period	6,621	6,621	6,084
Cash and cash equivalents, end of period	$ 6,084	$ 4,177	$ 5,393

1. Organization and Operations

Actimize Ltd. (together with its subsidiaries, the "Company") was incorporated in December 1999 under the laws of the State of Israel and commenced operations in January 2000. The Company develops, markets and sells enterprise software solutions for Operational Risk Management including Anti-Money Laundering, Fraud Prevention, and Regulatory Compliance solutions. The Company's solutions are currently implemented by financial services institutions including banks, brokerages, and insurance firms as well as regulatory bodies and government agencies.

Actimize Inc. was incorporated in September 2001 under the laws of the State of Delaware for the purpose of marketing and selling the Company's products and services in the United States. Actimize UK Limited was established in May 2004 under the laws of the United Kingdom for the purpose of marketing and selling the Company's products and services in Europe. Actimize Japan KK was established in May 2007 under the laws of Japan for the purpose of marketing and selling the Company's products and services in Japan.

2. Summary of Significant Accounting Policies

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("US GAAP").

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions made by management involve the assessment of percentage of completion for revenue recognition of license agreements accounted for using contract accounting, collectibility of accounts receivable, the determination of the allowance for doubtful accounts, the computation of the Company's effective tax rate and deferred tax assets and liabilities, and the determination of the fair market value of its ordinary shares and stock options granted to its employees and directors. Actual results can differ from those estimates.

Interim Financial Information

The consolidated balance sheet as of June 30, 2007 and the related consolidated statements of operations and cash flows for the six months ended June 30, 2006 and 2007 and the statement of changes in shareholders' equity for the six months ended June 30, 2007 are unaudited. This unaudited information has been prepared by the Company on the same basis as the audited annual consolidated financial statements and, in management's opinion, reflects all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial information, in accordance with generally accepted accounting principles, for interim financial reporting for the periods presented. Results for interim periods are not necessarily indicative of the results to be expected for the entire year. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements.

Principles of Consolidation

The consolidated financial statements include the financial statements of Actimize Ltd. and its subsidiaries. As of December 31, 2006 and June 30, 2007, all of the Company's subsidiaries were wholly owned. All significant intercompany transactions and balances have been eliminated in consolidation.

Financial Statements in U.S. Dollars

Substantially all of the Company's revenues are generated outside of Israel. Most of the Company's revenues are denominated in U.S. Dollars and most marketing costs are incurred outside of Israel, primarily in transactions denominated in U.S. Dollars. The Company's management believes that the U.S. Dollar is the primary currency of the primary economic environment in which the Company and each of its subsidiaries operate. Accordingly, the U.S. Dollar is used as the Company's and each of its subsidiaries' functional and reporting currency.

Transactions and balances originally denominated in foreign currencies are remeasured into U.S. Dollars at the spot rate in accordance with Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation*. All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the consolidated statement of operations as interest and other income, net, as appropriate.

Cash Equivalents

Cash equivalents consist of investments in highly liquid short-term instruments with maturities of three months or less when purchased and are stated at cost. Interest is accrued as earned.

Marketable Securities

The Company accounts for its investments in marketable securities in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115"). Management determines the appropriate classification of its investments at the time of purchase and reevaluates such classification at each balance sheet date. The Company classifies all of its marketable securities as "available-for-sale." The Company carries these investments at fair value, based on quoted market prices. Unrealized gains and losses, are reported in a separate component of stockholders' equity in accumulated other comprehensive income or loss. Gains and losses are recognized when realized, on a specific identification basis, in the Company's consolidated statements of operations. Impairment losses are recognized when the Company has determined that an other-than-temporary decline in fair value has occurred.

Marketable securities consist of corporate, government, municipal and money market securities.

It is the Company's policy to review its marketable equity securities classified as investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. The Company's policy includes, but is not limited to, reviewing the cash position, earnings/revenue outlook and stock price performance over the past six months. If the Company believes that an other-than-temporary decline exists in one of its marketable equity securities, it is the Company's policy to write down these equity investments to the market value and record the related write-down as an investment loss on its consolidated statements of operations.

Auction rate securities have been classified as available-for-sale short-term marketable securities. Auction rate securities are variable rate bonds tied to short-term interest rates with maturities on the face of the securities in excess of 90 days. Auction rate securities have interest rate resets through a modified Dutch auction, at predetermined short-term intervals, usually every 7, 28, or 35 days. They trade at par and are callable at par on any interest payment date at the option of the issuer. Interest paid during a given period is based upon the interest rate determined during the prior auction. Auction rate securities are reported at cost, which approximates fair market value, due to the interest rate reset feature of these securities. As such, no unrealized gains or losses related to these securities were recognized during the year ended December 31, 2006 and the six months ended June 30, 2006 and 2007.

Restricted Cash

Restricted cash is primarily invested in certificates of deposit, which mature within one year and is used as security for the Company's office leases.

Property and Equipment, net

Property and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets at the following annual rates:

Computers, software and peripheral equipment	33%
Office furniture and equipment	7-15%
Leasehold improvements	Shorter of the lease term or the life of the asset

Maintenance, repairs and minor replacements are charged to expense as incurred.

Valuation of Long-Lived Assets

The Company reviews the recoverability of the carrying amounts of its long-lived assets, consisting of property and equipment, by assessing the estimated future undiscounted cash flows attributable to such assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of a long-lived asset is considered impaired, the Company recognizes a loss based on the difference between the carrying amount and the fair value of that asset in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). No such impairment loss was recorded during the year ended December 31, 2006 and the six months ended June 30, 2006 and 2007.

Comprehensive Income

Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income* ("SFAS 130"), establishes standards for reporting and displaying comprehensive net income (loss) and its components in shareholders' equity. SFAS 130 requires the components of other comprehensive income (loss), such as changes in the fair value of available-for-sale securities, to be added the Company's net income (loss) to arrive at comprehensive net income (loss). Other comprehensive income (loss) items have no impact on net income (loss) as presented on the Company's consolidated statement of operations. Comprehensive income was as follows for the periods indicated:

	Year Ended December 31,	Six Months Ended June 30,	
	2006	2006	2007
		(unaudited)	
Net income	$ 1,797	$ 578	$ 1,188
Other comprehensive income:			
Unrealized gain on marketable securities	16	—	5
Comprehensive income	$ 1,813	$ 578	$ 1,193

Revenue Recognition

The Company generates revenues primarily from licensing the rights to use its software products. The Company also generates revenues from the provision of implementation services, maintenance and support. The Company sells its products through its direct sales force and strategic partners.

Revenues from software arrangements that do not require significant customization, integration and installation, are recognized in accordance with AICPA Statement of Position 97-2, *Software Revenue Recognition*, as amended ("SOP 97-2"), when persuasive evidence of an agreement exists, delivery of the software has occurred, the fee is fixed or determinable and collection of the receivable is probable. In transactions, where a customer's contractual terms include a provision for customer acceptance of the software license, revenue is deferred and recognized either when such customer acceptance has been obtained or when the acceptance period has expired.

The Company accounts for software arrangements containing multiple elements wherein vendor-specific objective evidence of fair value (“VSOE”) exists for all of the undelivered elements and VSOE does not exist for the delivered elements in accordance with the residual method prescribed by AICPA Statement of Position 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions* (“SOP 98-9”). Under the residual method, the Company defers revenue for the VSOE of its undelivered elements (maintenance, support and other services) and recognizes revenue for the remainder of the arrangement fee attributable to the elements initially delivered in the arrangement (software license) when the basic criteria in SOP No. 97-2 have been met. Any discount in the arrangement is allocated to the delivered element. The VSOE of the undelivered elements is determined based on the price charged for each undelivered element when sold separately.

Revenues from professional services are recognized when the services are delivered, provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable, no significant Company obligations remain and collection of the receivable is probable.

Revenues from maintenance and support agreements are recognized on a straight-line basis over the term of the maintenance and support agreements, provided that persuasive evidence of an agreement exists, services are provided, the fee is fixed or determinable and collection of the receivable is probable.

Arrangements for the licensing of software products that include services are evaluated to determine whether those services are essential to the functionality of other elements included in each arrangement. When services are not considered essential to the functionality, the revenues allocable to the services are recognized as the services are performed. When services are considered essential to the functionality, contract accounting is applied, as described below.

Revenue from software arrangements that require significant customization, integration and installation, are recognized in accordance with AICPA Statement of Position No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (“SOP 81-1”), using the percentage of completion method, in accordance with the input method based on the relationship of actual labor hours incurred to total labor hours estimated to be incurred over the duration of the contract. The amount of revenue recognized is based on the total license fees under the license agreement and the percentage of completion achieved. The revenues from such arrangements are allocated between license revenues and professional services revenues to reflect the portion of each revenue source separately. For that purpose VSOE for the services elements is applied to the revenue classification for that element and the residual portion of the total fees is allocated to the license classification. Total license revenues and professional services revenues recognized in accordance with SOP 81-1 were for the year ended December 31, 2006 $6,303 and $4,361, respectively, for the six months period ended June 30, 2006 (unaudited) $2,727 and $1,893, respectively, and for the six months period ended June 30, 2007 (unaudited) $4,101 and $3,221, respectively. Estimates of total project requirements are based on prior experience of customization, delivery and acceptance of similar contracts and are reviewed and updated regularly by management. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined, in the amount of the estimated loss on the entire contact. As of December 31, 2006 and June 30, 2007 (unaudited), no such estimated losses were identified. Estimated gross profit or loss from long-term contracts may change due to changes in estimates resulting from differences between actual performance and original forecasts. Such changes in estimated gross profit are recorded in results of operations when they are reasonably determinable by management, on a cumulative catch-up basis.

The Company considers all arrangements with payment terms extending beyond its customary payment terms not to be fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer, provided that all other revenue recognition criteria have been met.

Payments from customers that are received in advance of revenue recognition are recorded as deferred revenue.

Research and Development, Net

Costs incurred in connection with the research and development of the Company's products are expensed as incurred and are presented net of grants received from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade (the "OCS"). These grants are recognized at the time the Company is entitled to such grants on the basis of the costs incurred, since it is not probable that they will be repaid. During the year ended December 31, 2006, the Company recognized OCS grants of $1,426. During the six months ended June 30, 2006 and 2007, the Company recognized OCS grants of $645 and $666, respectively (unaudited).

Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed* ("SFAS 86"), requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working models and the point at which the products are ready for general release have been insignificant.

Stock-based Compensation

In December 2004, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), which addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R eliminates the ability to account for share-based compensation transactions using the intrinsic value method under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and generally requires instead that such transactions be accounted for using a fair-value-based method. The Company adopted SFAS 123R beginning January 1, 2006.

SFAS 123R requires the use of a valuation model to calculate the fair value of stock-based awards. The Company has elected to use the Black-Scholes option-pricing model to determine the fair value of stock-based awards on the dates of grant. The assumptions about stock-price volatility have been based exclusively on the volatilities of publicly traded companies that, in management's opinion, are comparable to the Company. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The following weighted average assumptions were used to estimate the fair values of the stock options granted during the year ended December 31, 2006: (1) risk-free interest rate 4.60%; (2) dividend yield of 0.00%; (3) expected life of five years; and (4) volatility of 65%. During the six months ended June 30, 2006 and 2007, the following weighted average assumptions were used (unaudited): (1) risk-free interest rate of 4.52% and 4.66%, respectively; (2) dividend yield of 0.00%; (3) expected life of five years; and (4) volatility of 67% and 75%, respectively.

The Company has elected the modified prospective transition method as permitted by SFAS 123R and accordingly prior periods have not been restated to reflect the impact of SFAS 123R. Under this method, beginning January 1, 2006, the Company will recognize stock-based compensation over the requisite service period using the straight-line method for all new and unvested stock-based awards that are ultimately expected to vest based on (a) the grant date fair value estimated in accordance with the original provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123") for all share-based awards granted prior to, but not yet vested as of January 1, 2006 and (b) the grant date fair value estimated in accordance with the provisions of SFAS 123R for all share-based awards granted subsequent to January 1, 2006.

As a result of adopting Statement 123R on January 1, 2006, the Company's net income was reduced for the year ended December 31, 2006, by $819, than if it had continued to account for share-based compensation under APB 25.

In March 2005, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 107 ("SAB No. 107"). In accordance with SAB 107, stock-based compensation is recorded in the same lines as cash compensation paid to the same individuals.

Prior to the adoption of SFAS 123R, the Company accounted for its employee stock-based compensation using the intrinsic value method prescribed by APB 25.

The Company applies SFAS 123 and Emerging Issues Task Force No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services* ("EITF 96-18"), with respect to warrants issued to non-employees. SFAS 123 requires the use of option valuation models to measure the fair value of the options and warrants at the measurement date as defined in EITF 96-18.

Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS 109"), which requires the use of the liability method. Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect for the years in which the temporary differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax asset will not be realized.

Financial Instruments

The estimated fair value of financial instruments has been determined by the Company using available market information and valuation methodologies. Considerable judgment is required in estimating fair values. Accordingly, the estimates may not be indicative of the amounts the Company could realize in a current market exchange. At December 31, 2006 and June 30, 2007, the carrying amounts of cash and cash equivalents, restricted cash, marketable securities, accounts receivable and accounts payable approximate their fair values, due to the short-term maturities of these instruments.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents, restricted cash, marketable securities and accounts receivables. Cash and cash equivalents are maintained by major financial institutions in the United States and Israel. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The Company's accounts receivables are principally derived from sales to large financial institutions. The Company performs ongoing credit evaluations of its customers' financial condition. The Company does not generally require collateral from its customers and substantially all of its accounts receivables are unsecured. The Company maintains an allowance for doubtful accounts receivable based upon management's experience and estimate of collectibility of each account. As of December 31, 2006 and June 30, 2007 (unaudited), the allowance for doubtful accounts amounted to $113. To date, the Company has not experienced any material losses on its accounts receivables. The risk of collection associated with accounts receivables is mitigated by the diversity and number of customers.

No single customer accounted for more than 10% of total revenues for the year ended December 31, 2006. The following table summarizes revenues from customers who constituted in excess of 10% of total revenues for the six months ended June 30, 2006 and 2007:

	Six Months Ended June 30,	
	2006	2007
	(unaudited)	
Customer A	(A)	13.1 %
Customer B	11.1 %	(A)
Customer C	12.5 %	(A)

(A) - revenues from this customer amounted to less than 10% of total revenues for the period.

Recently Issued Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 creates a single model to address uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 clearly scopes out income taxes from Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. FIN 48 utilizes a two-step approach for evaluating tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more-likely-than-not to be sustained). FIN 48 applies to all tax positions related to income taxes subject to SFAS 109, including tax positions considered to be "routine" as well as those with a high degree of uncertainty. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted this new interpretation effective January 1, 2007, which did not have a significant impact on its consolidated financial position, results of operations or liquidity.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Financial Statements – Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 requires companies to quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have an impact on the consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 does not require new fair value measurements but rather defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect the adoption of SFAS 157 to have a significant impact on its consolidated financial position, results of operations or liquidity.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Liabilities – Including an Amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 159 to have a significant impact on its consolidated results of operations, financial position or liquidity.

3. **Marketable Securities**

Available-for-sale investments as of December 31, 2006 were as follows:

	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificates of deposits	$ 5,367	$ —	$ (9)	$ 5,358
Auction rate securities	4,500	—	—	4,500
Total investments in available-for-sale securities	$ 9,867	$ —	$ (9)	$ 9,858

The following table summarizes the fair value and gross unrealized losses related to the available-for-sale debt securities, aggregated by type of investment and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2006:

	Less Than 12 Months	
	Fair Value	Gross Unrealized Losses
Certificates of deposit	$ 5,358	$ 9
Auction rate securities	4,500	—

All of the Company's available-for-sale securities as of December 31, 2006 had contractual maturities of less than one year. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties, and the Company may need to sell the investment to meet its cash needs.

4. **Property and Equipment, Net**

Property and equipment consists of the following:

	December 31, 2006
Computers, software and peripheral equipment	$ 1,016
Office furniture and equipment	135
Leasehold improvements	8
	1,159
Less: accumulated depreciation and amortization	(650)
Property and equipment, net	$ 509

Depreciation and amortization expense was $170 for the year ended December 31, 2006.

5. **Other Payables and Accrued Expenses**

Other payables and accrued expenses consist of the following:

	December 31, 2006
Government authorities	$ 375
Accrued royalties payable to OCS	355
Accrued rent	93
Accrued professional fees	134
Other	409
Total	$ 1,366

6. **Accrued Severance Liability**

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

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of these severance pay funds and insurance policies was $284 and is included in other assets as of December 31, 2006. Severance pay expenses for the year ended December 31, 2006 were approximately $337.

7. **Shareholders’ Equity**

The Company’s capital consisted of the following as of December 31, 2006:

	Number of Shares Authorized	Number of Shares Issued and Outstanding	Aggregate Liquidation Preference	Carrying Value
Preferred Shares				
Series C Convertible Preferred Shares	16,000,000	12,815,421	$ 12,597	$ 29
Series B Convertible Preferred Shares	15,001,229	15,001,229	13,991	33
Series A-1 Convertible Preferred Shares	2,157,500	2,157,500	6,379	5
Series A Convertible Preferred Shares	628,400	628,400	1,180	1
Total Preferred Shares	33,787,129	30,602,550	$ 34,147	$ 68
Ordinary Shares				
Ordinary A Shares	3,076,000	3,076,000	$ 350	$ 7
Ordinary Shares	56,924,000	2,729,677	—	6
Total Ordinary Shares	60,000,000	5,805,677	$ 350	$ 13

The preferred shares listed above carried certain preferential rights to conversion, dividends rights, liquidation preferences and voting rights over certain corporate actions.

Conversion Rights

Each Preferred Share is convertible, at the option of the holder, at any time after the date of issuance, into such number of Ordinary Shares as is determined by dividing the original issue price paid for such shares by the conversion price in effect at that time for such share. The following table shows the number of shares to be issued upon conversion of the outstanding Preferred Shares and Ordinary A Shares:

	Number of Shares Issued and Outstanding	Number of Ordinary Shares to be Issued Upon Conversion
Preferred Shares		
Series C Convertible Preferred Shares	12,815,421	12,815,421
Series B Convertible Preferred Shares	15,001,229	15,001,229
Series A-1 Convertible Preferred Shares	2,157,500	6,035,800
Series A Convertible Preferred Shares	628,400	1,061,900
Total Preferred Shares	30,602,550	34,914,350
Ordinary Shares		
Ordinary A Shares	3,076,000	3,076,000

The Preferred Shares and Ordinary A Shares are automatically converted into Ordinary Shares upon consummation of a Qualified IPO, as defined in the Company's Articles of Association. In addition, the Preferred A-1 Shares, the Preferred B Shares and the Preferred C Shares will be automatically converted into Ordinary Shares upon the affirmative vote of at least 75% of the preferred shareholders of each such series. The Preferred A Shares will be automatically converted into Ordinary Shares immediately prior to the closing of an M&A Transaction, as defined in the Company's Articles of Association.

Each Ordinary A Share is convertible, at the option of the holder, at any time after the date of issuance, into Ordinary Shares on a one-to-one basis. The Ordinary A Shares are automatically converted into Ordinary Shares upon the closing of an initial public offering of the Company's shares or an M&A transaction, as defined in the Company's Articles of Association. In addition, the Ordinary A Shares will be automatically converted into Ordinary Shares upon the transfer of such shares from the original owner to any other holder, other than a Permitted Transferee as provided in the Company's Articles of Association. The Company may at any time, at its sole discretion, convert all issued and outstanding Ordinary A Shares into Ordinary Shares on a one-to-one basis by notifying the holders in writing to that effect and after paying the holders thereof an aggregate sum equal to the number of Ordinary A Shares held by such holder, multiplied by $0.114 per share plus accumulated interest at the rate of 4% compounded annually from the date of original issuance.

Voting Rights

The Preferred Shares carry voting rights equal to one vote per share, on an as-converted basis. The Ordinary Shares carry voting rights equal to one vote per share.

Dividends

Prior to the consummation of a Qualified IPO or M&A Transaction, as defined in the Company's Articles of Association, the holders of Preferred C Shares are entitled to a preference over all other shareholders of the Company in the event that the Company declares or distributes dividends to receive, prior to distribution of any dividends to holders of any other shares of the Company, an amount equal to 8% of the Original Issue Price per share for each Preferred C Share per annum which shall accrue annually on a cumulative basis for the period from the issuance of such Preferred C Share until the payment of any dividend hereunder and thereafter until from such dividend payment date until the next dividend payment date (the "Preferred C Dividend Preference"). If the amount declared or distributed is less than the amount needed to pay the full Preferred C Dividend Preference, such holders are entitled to receive a pro rata portion of the amount distributed, based on the amount of Preferred C Dividend Preference to which each holder is entitled.

After payment in full of the Preferred C Dividend Preference, and prior to the consummation of a Qualified IPO or an M&A Transaction, the holders of Preferred A-1 Shares and Preferred B Shares (together, the "Preferred A/B Shares") are entitled to a preference over all other shareholders of the Company in the event

that the Company declares or distributes dividends, to receive an amount per share equal to 8% of the Original Issue Price for each Preferred A/B Share per annum which shall accrue annually on a cumulative basis for the period from the issuance of such Preferred A/B Share until the payment of any dividend hereunder and thereafter until from such dividend payment date until the next dividend payment date (the "Preferred A/B Dividend Preference"). If the amount declared or distributed to the holders of Preferred A/B Shares is less than the amount needed to pay the full Preferred A/B Dividend Preference, such holders are entitled to receive a pro rata portion of the amount distributed to the holders of Preferred A/B Shares, based on the amount of Preferred A/B Dividend Preference to which each holder is entitled.

After payment of the Preferred C Dividend Preference and payment of the Preferred A/B Dividend Preference, any remaining distributions shall be distributed ratably to the holders of all the Ordinary Shares and Preferred Shares treating the Preferred Shares and the Ordinary A Shares on an as converted basis in proportion to the number of shares then held by them.

Under Israeli law, a company may declare dividends only out of retained earnings, or earnings over the two most recent fiscal years, whichever is higher, provided that the company reasonably believes that the dividend will not render it unable to meet its current or foreseeable obligations when due.

Liquidation Rights

In the event of a liquidation, dissolution, winding up of the Company, or an M&A Transaction (a "Liquidation Event"), the holders of the Preferred C Shares are entitled to receive on a pro rata basis amongst themselves, prior and in preference to any distribution to other shareholders of the Company, an amount equal to $0.78031 per Preferred C Share plus interest at the rate of 8% per annum, compounded annually, from the original issue date of such Preferred C Shares to the date of such liquidation event, less the Preferred C Dividend Preference or any other dividends actually received on account thereof, plus an amount equal to declared but unpaid dividends on each Preferred C Share (the "C Preference"). Thereafter, holders of the Preferred B Shares are entitled to receive on a pro rata basis amongst themselves, prior and in preference to any distribution to other shareholders of the Company, an amount equal to $0.67844 per Preferred B Share plus interest at the rate of 8% per annum, compounded annually, from the original issue date of such Preferred B Shares to the date of such liquidation event, less the Preferred A/B Dividend Preference or any other dividends actually received on account thereof, plus an amount equal to declared but unpaid dividends on each Preferred B Share (the "B Preference"). Thereafter, holders of the Preferred A-1 Shares are entitled to receive on a pro rata basis amongst themselves, prior and in preference to any distribution to other shareholders of the Company, an amount per Preferred A-1 Share equal to the original issue price plus interest at the rate of 8% per annum, compounded annually, from the original issue date of such Preferred A-1 Shares to the date of such liquidation event, less the Preferred A/B Dividend Preference or any other dividends actually received on account thereof, plus an amount equal to declared but unpaid dividends on each Preferred A-1 Share (the "Full A-1 Preference").

If, following payment of two-thirds of the Full A-1 Preference there remain assets available for distribution, such assets shall be distributed pro-rata to the holders of Preferred A-1 Shares and Preferred A Shares in accordance with and only up to the Full A-1 Preference and the A Preference. The "A Preference" means that each Preferred A Share shall entitle the holder to receive, prior to and in preference to any distribution to the holders of Ordinary Shares, the original issue price paid in respect of such Preferred A Share plus interest at the rate of 8% per annum, compounded annually, from the original issue date of such Preferred A Share to the date of such liquidation event, less the amount of dividends from the Company actually received on account thereof, plus an amount equal to declared but unpaid dividends on each Preferred A Share. However, in the event that the total value of the assets and funds remaining to be distributed per Ordinary Share (assuming for purposes of such calculation (i) the conversion of all Preferred Shares and Ordinary A Shares into Ordinary Shares (ii) the distribution of the C Preference, the B Preference and Full A-1 Preference and (iii) no distribution of any A Preference) is equal to or greater than four times the original issue price of the Preferred A Shares, then the entire assets and funds of the Company legally available for distribution, following the distribution of the C Preference, the B Preference and Full A-1

Preference, shall be distributed ratably to the holders of all the Ordinary Shares and the Preferred Shares in proportion to their relative holdings in the Company on an as-converted basis.

Following the payment in full of all liquidation preferences of all the different classes of Preferred Shares outlined above and the Employees Bonus, as defined in the Company's Articles of Association, the Ordinary A Shares will entitle their holders to receive from assets and funds legally available for distribution per each Ordinary A Share, an amount equal to $0.114 per share (the "Ordinary A Liquidation Preference"). Thereafter, the remaining assets and funds of the Company legally available for distribution shall be distributed ratably to the holders of all Ordinary Shares and Preferred Shares in proportion to their relative holdings in the Company on an as-converted basis.

Trust Shares

In May 2006, the Company reacquired 31,500 Ordinary Shares from a shareholder for $19. These Ordinary Shares were held in trust for the benefit of grantees under the Company's 2003 Omnibus Stock Option and Restricted Stock Incentive Plan. During 2006, these Ordinary Shares were used to satisfy ordinary share issuances. As of December 31, 2006, there were no remaining shares held in trust.

Warrants

The following table summarizes information regarding outstanding warrants to purchase Ordinary Shares of the Company issued to service providers as of December 31, 2006 and June 30, 2007 (unaudited):

Underlying security	Number of Warrants	Strike Price	Issuance Date	Exercisable Through
Warrants to purchase ordinary shares	93,600	$0.34	June 2003	The earlier of June 2013, the closing of an IPO or an M&A transaction
Warrants to purchase ordinary shares	182,200	par value	February 2001	February 2011
Warrants to purchase ordinary shares	43,000	par value	July 2000	Unlimited
Total warrants to purchase ordinary shares	318,800			

8. **Stock Options**

The Company maintains the 2003 Omnibus Stock Option and Restricted Stock Incentive Plan (the "Option Plan") pursuant to which incentive and nonqualified stock options and stock purchase rights to purchase the Company's ordinary shares may be granted to officers, employees, directors and consultants. As of June 30, 3007, the Company has reserved 18,712,125 shares for issuance under the Option Plan. The Option Plan is administered by the compensation committee of the board of directors (the "Plan Administrator").

The Plan Administrator determines the exercise price and vesting schedules for stock options granted under the Option Plan on the date of grant. Stock option grants generally vest over a four-year period and generally have contractual terms of ten years.

Restricted share awards issued under the Option Plan provide that shares awarded may not be sold or otherwise transferred until restrictions established by the underlying agreements have elapsed. Upon termination of employment, shares upon which restrictions have not lapsed are deemed forfeited by the grantee and transferred to and reacquired by the Company at their original purchase price.

In the event of a liquidation, dissolution or change in control transaction, the options may be assumed or substituted by the successor company. If Options are not assumed or substituted by the successor company, the Plan Administrator may (but shall not be obligated to) either accelerate the vesting of the unvested stock options or provide for the cancellation of the stock options in exchange for a cash payment.

The following table summarizes stock option activity for the year ended December 31, 2006 and the six months ended June 30, 2007 (unaudited):

	Shares Available for Grant	Number of Options	Weighted-Average Exercise Price
Options outstanding at January 1, 2006	2,933,693	10,343,574	$ 0.356
Additional shares reserved	541,025	—	—
Granted	(2,469,767)	2,469,767	0.886
Issuance of restricted shares	(696,298)	—	0.800
Exercised	—	(89,846)	0.307
Forfeited	448,904	(448,904)	0.496
Options outstanding at December 31, 2006	757,557	12,274,591	0.458
Additional shares reserved	4,500,000	—	—
Granted	(1,764,050)	1,764,050	2.158
Issuance of restricted shares	(240,000)	—	0.830
Exercised	—	(1,051,750)	0.347
Forfeited	740,725	(740,725)	0.595
Options outstanding at June 30, 2007 (unaudited)	3,994,232	12,246,166	$ 0.704

The following table summarizes information about stock options outstanding under the Option Plan as of December 31, 2006:

	Options Outstanding			Options Exercisable		
Exercise Price	Number Outstanding at December 31, 2006	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable at December 31, 2006	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
$0.01-$0.34	582,000	6.43	$ 0.257	582,000	6.43	$ 0.257
$0.34	6,134,535	6.86	0.340	5,700,051	6.85	0.340
$0.40	3,183,289	8.19	0.400	1,820,172	8.15	0.400
$0.83	1,240,239	9.17	0.830	333,740	9.24	0.830
$0.95	1,134,528	9.79	0.950	52,275	9.98	0.950
	12,274,591	7.69	$ 0.458	8,488,238	7.21	$ 0.370

The following table summarizes information about stock options outstanding under the Option Plan as of June 30, 2007 (unaudited):

	Options Outstanding			Options Exercisable		
Exercise Price	Number Outstanding at June 30, 2007	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable at June 30, 2007	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
$0.01-$0.34	69,000	2.93	$ 0.002	69,000	2.93	$ 0.002
$0.34 - $0.40	8,385,049	6.69	0.356	7,477,068	6.61	0.353
$0.83 - $0.95	2,045,567	9.02	0.894	577,080	8.84	0.850
$1.75 - $2.02	1,616,550	9.78	1.947	—	—	—
$5.02	130,000	10.00	5.020	—	—	—
	12,246,166	7.50	$ 0.704	8,123,148	6.74	$ 0.385

The total intrinsic value of options outstanding and exercisable as of December 31, 2006 was $15,865 and $11,712, respectively. The total intrinsic value of options exercised during the year ended December 31, 2006 was approximately $130. The total intrinsic value of options outstanding and exercisable as of June 30, 2007 was $52,860 and $37,652, respectively (unaudited). The total intrinsic value of options exercised during the six months ended June 30, 2006 and 2007 was approximately $13 and $4,914, respectively (unaudited).

Management and the Company's board of directors determined the fair value assigned to the Ordinary Shares in order to calculate compensation resulting from the grants of employee options. In determining fair value, management and the board of directors considered a number of factors, including independent valuations and appraisals by BDO Ziv Haft Consulting & Management Ltd, an independent valuation specialist.

The weighted average fair value of options granted during the year ended December 31, 2006 was $0.52 per share. The weighted average fair values of options granted during the six months ended June 30, 2006 and 2007 were $0.492 and $1.38 per share, respectively (unaudited). All stock options were granted with an exercise price equal to the fair value of the underlying Ordinary Shares as of the date of grant.

As of December 31, 2006 and June 30, 2007 (unaudited), there was approximately $1,556 and $3,758, respectively, of unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted average period of 2.90 years.

Restricted Shares

In June 2006, the Company issued 696,298 restricted ordinary shares (the "Restricted Shares") to an executive in exchange for $557. The Restricted Shares have graded vesting over a period of four years and are subject to repurchase at cost in the event of the early termination of the executive's employment with the Company. In accordance with SFAS 123R, the Company has classified the full value of the amount subject to repurchase as a liability in the accompanying consolidated balance sheet. The Company recognized during 2006 share-based compensation expenses of $38 out of a total $261 in connection with the issuance of the Restricted Shares, using the straight-line method over the vesting period. As of December 31, 2006 all of the Restricted Shares were unvested. As of June 30, 2007, 507,718 of the Restricted Shares were unvested (Unaudited).

In January 2007, the Company issued 240,000 restricted ordinary shares (the "Additional Restricted Shares") to a newly hired executive in exchange for $199. The Additional Restricted Shares have graded vesting over a period of four years and are subject to repurchase at cost in the event of the early termination

of the executive's employment with the Company. In accordance with SFAS 123R, the Company has classified the full value of the amount subject to repurchase as a liability in the accompanying consolidated balance sheet. The Company recognized share-based compensation expenses of $34 out of a total $273 during the six months ended June 30, 2007 (unaudited) in connection with the issuance of the Additional Restricted Shares, using the straight-line method over the vesting period. As of June 30, 2007, all of the Additional Restricted Shares were unvested (Unaudited).

9. **Income Taxes**

The Company's consolidated provision for income taxes and deferred tax assets and liabilities are computed based on a combination of the Israeli tax rates on its Israeli income, the United States tax rates on its United States income as well as the tax rates of other jurisdictions where it conducts business.

Taxation of Israeli Income

The Company has received approval as an Approved Enterprise in Israel under the Law for the Encouragement of Capital Investments, 1959 (the "Investment Law"), for one of the Company's investment programs and is therefore eligible for Israeli tax benefits. Pursuant to these benefits, the Company may enjoy a tax exemption from Israeli taxes on income derived during the first two years in which each investment program produces taxable income, subject to certain timing restrictions, provided that it does not distribute such income as a dividend. In addition, the Company will enjoy a reduced tax rate of 10% to 25%, depending upon the level of foreign ownership of the Company, for an additional period of up to a total of 8 years from when the tax exemption ends. The benefit period has not yet commenced.

The period of tax benefits detailed above is subject to limits of the earlier of 12 years from the commencement of production, or 14 years from receiving the approval. The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the law and the regulations published thereunder, and the instruments of approval for the specific investments in the Approved Enterprise. If the Company fails to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2006 and June 30, 2007, management believes that the Company's Israeli subsidiary is meeting the aforementioned conditions.

The tax-exempt income attributable to the Approved Enterprise can be distributed to stockholders, without subjecting the Company to taxes, only upon the complete liquidation of the Company. If this retained tax-exempt income is distributed in a manner other than on the complete liquidation of the Company, it would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative tax benefits track (currently between 10% to 25% for an Approved Enterprise). The Company currently has no plans to distribute dividends and intends to retain future earnings to finance the development of its business.

Should the Company derive income in Israel from sources other than the Approved Enterprise during the period of benefits, such income will be taxable at regular Israeli corporate tax rate.

On April 1, 2005, an amendment to the Investment Law came into effect ("the Amendment") and has significantly changed the provisions of the Investment Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise's income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Investment Law so that companies no longer require Investment Center approval in order to qualify for tax benefits. However, the Investment Law provides that terms and benefits included in any certificate of approval already granted will remain subject to the provisions of the law as they were on the date of such approval. Therefore the Company's existing Approved Enterprise will generally not be subject to the provisions of the Amendment.

In September 2004 and in July 2005, the Israeli parliament passed amendments to the Income Tax Ordinance (No. 140 and Temporary Provision), 2004 and (No. 147), 2005 respectively, which determine, among other things, that the corporate tax rate is to be gradually reduced to the following tax rates: 2004 – 35%, 2005 – 34%, 2006 – 31%, 2007 – 29%, 2008 – 27%, 2009 – 26% and 2010 and thereafter – 25%.

Net Operating Loss Carryforwards

As of December 31, 2006, the Company had generated net operating loss carryforwards of approximately $4,200in Israel and $1,900 in the U.K., both of which may be carried forward and offset against taxable income in the future for an indefinite period.

As of December 31, 2006, the Company had combined net operating loss carryforwards of $8,200 for United States federal tax purposes. If not utilized, these carryforwards will begin to expire in 2021.

The Tax Reform Act of 1986 limits the use of net operating loss and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. In the event the Company has had a change of ownership, utilization of the carryforwards is restricted.

Deferred Taxes

Deferred tax assets are comprised of the following:

	December 31, 2006
Net operating loss carryforwards	$ 1,278
Accrued vacation	93
Gross deferred tax assets	1,371
Less: valuation allowance	(1,371)
Net deferred tax asset	$ —

FAS 109 requires that a valuation allowance be recorded when it is more likely than not that deferred tax assets will not be realized. SFAS 109 also provides that deferred tax assets arising from net operating loss carryforwards must be valued based on the statutory tax rate that is in effect in the period that the tax losses reverse or will be utilized. Since, as noted above, the Company has qualified as an Approved Enterprise in Israel, the statutory tax rate at which its Israeli tax losses reverse is 0%, while the tax rates at which the tax losses in the United States and U.K. reverse are 35% and 30%, respectively. Since the Company has incurred net losses in the United States and in the U.K. and future income is uncertain, the Company recorded a full valuation allowance against its deferred tax assets as of December 31, 2006.

Reconciliation of Effective Tax Rate

The following table provides a reconciliation of the theoretical tax expense, assuming all income is taxes at the applicable statutory tax rate, and the actual provision for income taxes:

	Year Ended December 31, 2006
Income before provision for income taxes	$ 1,797
Theoretical tax at statutory rates	557
Deferred taxes on losses, reserves and allowances for which a valuation allowance was provided	105
Tax adjustment with respect to the "Approved Enterprise" status	(927)
Non-deductible expenses	265
Provision for income taxes	$ —

10. **Commitments and Contingencies**

Leases

The Company leases offices and certain motor vehicles under noncancelable operating leases with various expiration dates through 2010. Lease expenses for the year ended December 31, 2006 amounted to approximately $1,547. Future minimum lease payments under noncancelable leases at December 31, 2006 are as follows:

Years ending December 31,	
2007	$ 1,203
2008	798
2009	370
2010	254
Total minimum lease payments	$ 2,625

Royalties

The Company participates in programs financed by the Israeli Government for the support of research and development activities. As of December 31, 2006, the Company had obtained grants for certain of its research and development projects from the OCS in the aggregate amount of $5,280 and accrued interest thereon of $303. The Company is obligated to pay royalties to the OCS at the rate of 3% to 5% based on the sales of the products and other related revenues generated by such projects, up to 100% of the grants received and the related accrued interest. The contingent liability to the OCS is linked to the U.S. dollar and bears interest on an annual basis at the applicable rate of LIBOR as of the dates that the grants were received. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales no payment is required.

As of December 31, 2006, the Company paid or accrued royalties to OCS in the amount of $1,803. As such, the Company's remaining contingent liability to OCS was $3,780 as of December 31, 2006.

As of June 30, 2007 (unaudited), the Company had obtained grants for certain of its research and development projects from the OCS in the aggregate amount of $5,273 and accrued interest thereon of $363. As of June 30, 2007 (unaudited), the Company paid or accrued royalties to OCS in the amount of $2,600. As such, the Company's remaining contingent liability to OCS was $3,036 as of June 30, 2007 (unaudited).

Royalties accrued or paid are included as a component of cost of revenues in the accompanying consolidated financial statements.

Indemnifications

The Company enters into various indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company typically indemnifies, holds harmless and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally its business partners or customers, in connection with (among other things) any patent, copyright or other intellectual property infringement claim by any third party with respect to the Company's service offering. The term of these indemnification agreements is generally perpetual any time after execution of the agreement, subject to applicable statutes of limitations. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unspecified. To date, the Company has not incurred costs to defend lawsuits or settle claims related to these indemnification agreements.

The Company also, in accordance with its by laws, indemnifies certain officers and employees for certain events or occurrences, subject to certain limits, while the officer or employee is or was serving at its request in such capacity. The term of the indemnification period is indefinite. The maximum amount of potential future indemnification is unspecified. The Company has no reason to believe that there is any material liability for actions, events or occurrences that have occurred to date.

11. Geographic Segment Information

The Company has adopted Statement of Financial Accounting Standards No. 131, *Disclosure About Segments of an Enterprise and Related Information* ("SFAS 131"). The Company has determined that it operates through one reportable segment. The Company's chief operating decision maker, its chief executive officer, reviews financial information and makes resource allocation decision on a combined basis. The Company's operating segment is designing, developing, selling and marketing enterprise software solutions for operational risk management. The Company's principal sales and marketing operations are maintained in the United States and Europe. The Company maintains development operations in Israel. The Company attributes geographic revenues based on the location of the customer.

Geographic information as of and for the year ended December 31, 2006 are as follows:

Revenues		
United States	$	22,424
Israel		1,158
Europe		2,585
Other		306
	$	26,473
Long-lived assets		
United States	$	182
Israel		270
Europe		57
	$	509

12. Employee Benefit Plans

The Company's United States subsidiary maintains a defined contribution plan (the "401k Plan"), which qualifies as a tax deferred savings plan under Section 401(k) of the IRC. Eligible U.S. employees are able to contribute a percentage of their pretax salaries, subject to certain IRC limitations. The plan provides for employer matching contributions to be made at the discretion of the board of directors. During the year ended December 31, 2004, 2005 and 2006, no such matching contributions were made. The Company amended the 401k Plan effective January 1, 2007, to provide for employer matching contributions equal to 50% of the first 6% of participating employee contributions. The employer contributions will vest on a

straight-line basis over a period of four years measured from each employee's date of hire. Accordingly, the Company recorded $166 during the six months ended June 30, 2007 (unaudited).

13. **Interest and Other Income, Net**

Interest and other income, net consists of the following:

	Year Ended December 31, 2006
Interest and other income:	
Interest income	$ 582
Foreign currency gains	377
	959
Financial expenses:	
Bank charges	64
Foreign currency losses	324
Other	13
	401
Interest and other income, net	$ 558

14. **Subsequent Events (unaudited)**

On July 2, 2007, the Company entered into a merger agreement with Nice Systems Ltd., an Israeli company ("Buyer"), and Nemo Acquisitions Ltd., an Israeli company controlled and owned by Buyer ("Sub"), which provides, among other things, for the merger of Sub with and into the Company, as a result of which, the separate corporate existence of Sub shall cease and the Company shall continue as the surviving entity. The aggregate consideration to be received in the merger is $282,000 (the "Merger Consideration"), which is comprised of approximately 80% cash consideration (approximately $227,100) and approximately 20% in shares of the Buyer (approximately $54,900). The Merger Consideration will be distributed to all the shareholders of the Company, after giving effect to any liquidation preferences of the Preferred Shares, to the extent applicable, and to the holders of vested options, warrants and restricted shares. $2,500 will be deducted from the Merger Consideration for payment of a portion of the investment banking fees incurred by the Company in connection with the merger. All other fees and expenses are borne by the Buyer. All unvested options and unvested restricted shares will be rolled over into unvested options and unvested restricted shares of the Buyer, in accordance with the mechanism set forth in the merger agreement.

Document — EX-99.6
Description — Unaudited Pro Forma Condensed Combined Statements

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET AND STATEMENTS OF INCOME

The following unaudited pro forma condensed balance sheet and statement of income has been prepared to give effect to the acquisition by NICE of the following:

1. Performix Holdings Inc. and subsidiaries and Performix Software Limited, ("Performix")

2. IEX Corporation ("IEX")

3. Actimize Ltd. ("Actimize")

All of the above acquisitions (collectively: "the Acquired Companies") were accounted for under the purchase method of accounting after giving effect to the pro forma adjustments described in the accompanying notes.

The following unaudited pro forma condensed balance sheet combines the historical balance sheet of NICE and the Acquired Companies. The unaudited pro forma condensed balance sheet as of June 30, 2007, gives effect to the acquisition of Actimize as if it had occurred on June 30, 2007 and combines the historical unaudited balance sheet of NICE as of that date and the unaudited balance sheet of Actimize as of that date. The balance sheets of the Performix and IEX have been included in the consolidated balance sheet of NICE as of June 30, 2007 since their acquisitions occurred prior to June 30, 2007.

The following unaudited pro forma condensed statements of income combine the historical statements of income of NICE and the Acquired Companies. The unaudited pro forma condensed statements of income for the year ended December 31, 2006, give effect to the acquisitions as if they had occurred on January 1, 2006 and combine the historical audited statements of income of NICE for such year, the unaudited statements of income of IEX for the six-month period ended June 30, 2006, the unaudited results of operations of Performix for four month and twenty-one days ended May 21, 2006 and the audited consolidated statements of operations of Actimize for the year ended December 31, 2006. The unaudited pro forma condensed statements of income for the six-month period ended June 30, 2007, give effect to the acquisitions as if they had occurred on January 1, 2006 and combine the historical unaudited statements of income of NICE for such period and the unaudited statements of income of Actimize for the six-month period ended June 30, 2007 (the results of the other Performix and IEX operations have been included in the consolidated financial statements of NICE since their respective acquisition dates).

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, 2006, as presented in NICE's Annual Report on Form 20-F, which is incorporated by reference herein and the historical financial statements of the Acquired Companies included elsewhere herein.

Unaudited pro forma condensed financial information is presented for illustrative purposes only and is not necessarily indicative of the balance sheets and the results of operations that would have actually been reported had the acquisitions occurred at the beginning of the periods presented, nor is it indicative of future balance sheet and results of operations. These unaudited pro forma condensed balance sheet and statements of income are based upon the respective historical financial statements of NICE and the Acquired Companies and do not incorporate, nor do they assume, any benefits from cost savings or synergies of the 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 balance sheet and statements of income.

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

U.S. dollars in thousands

	As of June 30, 2007 NICE	As of June 30, 2007 Actimize	Pro forma adjustments	Note	As of June 30, 2007 Pro forma combined
CURRENT ASSETS:					
Cash and cash equivalents	$ 76,971	$ 5,393	$ (62,364)	**(2a)**	$ 20,000
Short-term investments	100,117	6,833	(41,936)	**(2a)**	65,014
Trade receivables	87,922	6,346	—		94,268
Other receivables and prepaid expenses	16,569	1,829	—		18,398
Inventories	13,580	—	—		13,580
Deferred tax assets	12,963	—	—		12,963
Total current assets	308,122	20,401	(104,300)		224,223
LONG-TERM ASSETS:					
Marketable securities	179,268	—	—		179,268
Other long-term assets	12,960	649	—		13,609
Deferred Tax Assets	4,276	—	—		4,276
Property and equipment, net	15,750	565	—		16,315
Other intangible assets, net	102,450	—	61,230	**(2b)**	163,680
Goodwill	221,590	—	221,466	**(2b)**	443,056
Total long-term assets	536,294	1,214	282,696		820,204
Total assets	$ 844,416	$ 21,615	$ 178,396		$ 1,044,427

UNAUDITED PRO FORMA CONDENSED STATEMENTS OF INCOME

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

	As of June 30, 2007 NICE	As of June 30, 2007 Actimize	Pro forma adjustments	Note	As of June 30, 2007 Pro forma combined
CURRENT LIABILITIES:					
Short-term bank loan	$ —	$ —	$ 120,000	**(2a)**	$ 120,000
Trade payables	19,907	830	—		20,737
Accrued expenses and other liabilities	164,753	11,037	(2,329)	**(2c)**	173,461
Total current liabilities	184,660	11,867	117,671		314,198
LONG-TERM LIABILITIES:					
Deferred tax liabilities	30,497	—	11,953	**(2d)**	42,450
Other long-term liabilities	13,571	400	—		13,971
Restricted shares	—	605	—		605
Total long-term liabilities	44,068	1,005	11,953		57,026
SHAREHOLDERS' EQUITY:	615,688	8,743	48,772	**(2e)**	673,203
Total liabilities and shareholders' equity	$ 844,416	$ 21,615	$ 178,396		$ 1,044,427

UNAUDITED PRO FORMA CONDENSED STATEMENTS OF INCOME

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

	Six months ended June 30, 2007	Six months ended June 30, 2007			Six months ended June 30, 2007
	NICE	Actimize	Pro forma adjustments	Note	Pro forma combined
Revenues	$ 242,133	$ 18,848	$ —		$ 260,981
Cost of revenues	97,470	6,961	2,556	(3a)	106,987
Gross profit	144,663	11,887	(2,556)		153,994
Operating expenses:					
Research and development, net	26,699	2,865	—		29,564
Selling, general and administrative	95,881	8,072	—		103,953
Amortization of acquired intangible assets	3,692	—	1,050	(3b)	4,742
Total operating expenses	126,272	10,937	1,050		138,259
Operating income	18,391	950	(3,606)		15,735
Financial income, net	6,686	238	(6,050)	(3c)	874
Other income, net	56	—	—		56
Income before taxes on income	25,133	1,188	(9,656)		16,665
Taxes on income	5,236	—	(2,421)	(3d)	2,815
Net income	$ 19,897	$ 1,188	$ (7,235)		$ 13,850
Net earnings per share:					
Basic	$ 0.39			(3e)	$ 0.26
Diluted	$ 0.37			(3f)	$ 0.25
Denominator for basic earnings per share (in thousands)	51,668		1,502	(3e)	53,170
Denominator for diluted earnings per share (in thousands)	53,802		1,859	(3f)	55,661

UNAUDITED PRO FORMA CONDENSED STATEMENTS OF INCOME

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

	Year ended December 31, 2006	Four months and twenty-one days ended May 21, 2006	Six months ended June 30, 2006	Year ended December 31, 2006			Year ended December 31, 2006
	NICE	Performix	IEX	Actimize	Pro forma adjustments	Note	Pro forma combined
Revenues	$ 409,644	$ 2,158	$ 36,113	$ 26,473	$ —		$ 474,388
Cost of revenues	174,214	1,640	6,867	8,861	8,024	(3a)	199,606
Gross profit	235,430	518	29,246	17,612	(8,024)		274,782
Operating expenses:							
Research and development, net	44,880	825	3,407	4,024	—		53,136
Selling, general and administrative	155,653	2,484	6,177	12,349	—		176,663
In-Process Research and Development	12,882	—	—	—	—		12,882
Amortization of acquired intangible assets	4,918	—	—	—	4,544	(3b)	9,462
Total operating expenses	218,333	3,309	9,584	16,373	4,544		252,143
Operating income (loss)	17,097	(2,791)	19,662	1,239	(12,568)		22,639
Financial income (expenses), net	13,272	—	(13)	558	(16,199)	(3c)	(2,382)
Other income, net	623	—	—	—	—		623
Income (loss) before taxes on income	30,992	(2,791)	19,649	1,797	(28,767)		20,880
Taxes on income	8,591	—	7,074	—	(8,240)	(3d)	7,425
Net income (loss)	$ 22,401	$ (2,791)	$ 12,575	$ 1,797	$ (20,527)		$ 13,455
Net earnings per share:							
Basic	$ 0.45					(3e)	$ 0.26
Diluted	$ 0.42					(3f)	$ 0.25
Denominator for basic earnings per share (in thousands)	49,572				1,502	(3e)	51,074
Denominator for diluted earnings per share (in thousands)	53,002				1,714	(3f)	54,716

NOTE 1— GENERAL — ACQUISITIONS:—

a. Acquisition of Performix:

On May 22, 2006, the Company consummated an agreement to acquire all of the outstanding shares of Performix Software Limited and to acquire the assets and assume certain liabilities of Performix Holdings Inc. and its subsidiaries (collectively "Performix"). Under the agreement, the Company acquired Performix for a total purchase price of $ 13,910 in cash (including acquisition costs). The purchase price may increase by up to an additional $ 3,150 based on certain performance criteria for the twelve month period ending July 1, 2007.

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

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

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

Should any contingent payment be made under the agreement in the future, the additional consideration, when determinable, will increase the purchase price and accordingly additional goodwill will be recorded.

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

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

NOTE 1— GENERAL — ACQUISITIONS: (Cont.)

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

b. Acquisition of IEX:

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

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

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

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

NOTE 1— GENERAL — ACQUISITIONS: (Cont.)

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

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

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

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

c. Acquisition of Actimize:

On August 30, 2007, the Company consummated an agreement to acquire all of the outstanding shares of Actimize Ltd ("Actimize") for an aggregate consideration of $ 284,755 (including acquisition costs), including $ 224,300 in cash and 1,501,933 American Depositary Shares ("ADSs") of NICE valued at $ 52,867. The shares were valued in accordance with Emerging Issue Task Force No. 99-12, using the average market price of NICE's shares over the 2-day period before and after the announcement date. In addition, NICE issued 987,104 options and restricted shares to the holders of partially vested options and restricted shares of Actimize upon closing of the acquisition. The fair value of the vested portion of these options in the amount of $ 7,588 was added to the purchase price. Fair value of the unvested portion in the amount of $ 16,262 which is attributable to future services, will be recognized as compensation expense over the remaining requisite service period.

NOTE 1— GENERAL — ACQUISITIONS: (Cont.)

Actimize is a leading provider of transactional risk management software for financial services industry. Actimize's software solutions enable financial services institutions to manage the challenges of regulatory compliance, internal policy enforcement and preventing fraud and money laundering. With the acquisition of Actimize the Company strengthens position in the operational risk management software for financial services institutions.

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

On August 29, 2007 the Company obtained a short-term bank loan in the amount of $ 120,000 to finance some of the cash consideration in the acquisition. The loan is repayable in one installment on February 29, 2008. The loan bears interest payable monthly, at an annual rate of LIBOR plus a margin of 0.45%. The Company may voluntarily prepay all or part of the loan, with no penalty, in amounts of no less than $ 5,000, on any interest repayment date.

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

Cash and cash equivalents	$ 5,393
Short-term investments	6,833
Trade receivables	6,346
Other receivables and prepaid expenses	1,829
Other long-term assets	649
Property and equipment	565
Other intangible assets	61,230
In-Process research and development	2,940
Goodwill	221,466
Total assets acquired	307,251
Trade payables	830
Accrued expenses and other liabilities	8,708
Long-term deferred tax liabilities	11,953
Other long-term liabilities	400
Restricted shares	605
Total liabilities assumed	22,496
Net assets acquired	$ 284,755

The $ 2,940 assigned to in-process research and development was written off at the acquisition date in accordance with FASB Interpretation ("FIN") No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method". The in-process research and development write off was not included in the proforma statements of income for the six-month period ended June 30, 2007 and for the year ended December 31, 2006, since it is non-recurring charge.

Trade name, core technology and customer relationships in the amount of $ 61,230 are amortized using the straight-line method at an annual weighted average rate of 12%.

NOTE 2 — PRO FORMA ADJUSTMENTS TO BALANCE SHEET:—

The pro forma condensed balance sheet as of June 30, 2007 includes the adjustments necessary to give effect to the acquisition of Actimize as if it had occurred on June 30, 2007. Adjustments included in the pro forma condensed balance sheet are summarized as follows:

a. To reduce cash and cash equivalents and short-term investments in the amounts of $ 62,364 and $ 41,936, respectively, and to record short-term bank loan of $ 120,000, totaling altogether to the cash consideration in the acquisition (including acquisition costs) in the amount of $ 224,300.

b. To record other intangible assets and goodwill acquired in the acquisition of Actimize.

c. To record US GAAP fair value adjustments to deferred revenues and to record a tax provision.

d. To record deferred tax liabilities in respect of differences between assigned values in the purchase price allocation and tax bases of assets acquired and liabilities assumed in the acquisition of Actimize, net of deferred tax assets in respect of carryforward losses prior to the acquisition.

e. To record the issuance of 1,501,933 ordinary shares of NICE upon the acquisition, valued at $ 52,867 in accordance with EITF 99-12; to record the value of the vested portion of partially vested options and restricted shares issued by NICE to replace the partially vested options and restricted shares of Actimize in the amount of $ 7,588; to eliminate the equity of Actimize as of June 30, 2007 in the amount of $ 8,743; to reduce shareholders’ equity by $ 2,940 in respect of In Process research and development write-off.

NOTE 3 — PRO FORMA ADJUSTMENTS TO STATEMENTS OF INCOME:—

The pro forma condensed statements of income for and the six-month period ended June 30, 2007 and for the year ended December 31, 2006 includes the adjustments necessary to give effect to the acquisitions as if it had occurred on January 1, 2007 and 2006, respectively. Adjustments included in the pro forma condensed statements of income are summarized as follows:

a. To record amortization of core technology and backlog acquired in the acquisitions for the six-month period ended June 30, 2007 and for the year ended December 31, 2006.

b. To record amortization of customer relationship, trademarks and distribution network acquired in the six-month period ended June 30, 2007 and for the year ended December 31, 2006.

c. To reduce interest income as if the cash paid for the acquisitions and acquisition costs was paid on January 1, 2007 or 2006 for the six-month period ended June 30, 2007 and for the year ended December 31, 2006, respectively, using interest rates of 3.37%-4.64% for cash paid from the Company's resources, and approximately 6% for the cash paid from short-term bank loan in the amount of $ 120,000 obtained upon the acquisition of Actimize.

d. Tax effect of a, b, and c.

e. Denominator for basic earnings per share was calculated as if the 1,501,933 shares issued in the acquisition of Actimize were issued on January 1, 2007 or 2006 for the six-month period ended June 30, 2007 and for the year ended December 31, 2006, respectively.

f. Denominator for diluted earnings per share was calculated as if the vested portion of partially vested options and restricted shares issued by NICE to replace the partially vested options and restricted shares of Actimize were issued on January 1, 2007 or 2006 for the six-month period ended June 30, 2007 and for the year ended December 31, 2006, respectively.

Document — EX-99.7
Description — Consent of PricewaterhouseCoopers LLP

EXHIBIT 99.7

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-06784, 333-08146, 333-11842, 333-09350, 333-11154, 333-13686, 333-111112, 333-111113, 333-134355, 333-144589 and 333-145981) and on Form F-3 (Registration Nos. 333-07130, 333-07266, 333-07740, 333-12996, 333-12350, 333-109766 and 333-127883) of our report dated June 8, 2006, relating to the financial statements of IEX Corporation, which appears in the Current Report on Form 6-K of NICE-Systems Ltd. dated September 12, 2007.

/s/ PricewaterhouseCoopers LLP

Raleigh, North Carolina
September 12, 2007

Document — EX-99.8
Description — Consent of Feeley & Driscoll, P.C.

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-06784, 333-08146, 333-11842, 333-09350, 333-11154, 333-13686, 333-111112, 333-111113, 333-134355, 333-144589 and 333-145981) and on Form F-3 (Registration Nos. 333-07130, 333-07266, 333-07740, 333-12996, 333-12350, 333-109766 and 333-127883) of our report dated February 24, 2006, with respect to the consolidated financial statements of Performix Holdings, Inc. for the year ended December 31, 2005 and the notes thereto, which is included in this Report on Form 6-K of NICE-Systems Ltd. for the month of September 2007.

/s/ Feeley & Driscoll, P.C.

Boston, MA
September 11, 2007

Document — EX-99.9
Description — Consent of Kost, Forer, Gabby & Kasierer

EXHIBIT 99.9

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 333-06784, 333-08146, 333-11842, 333-09350, 333-11154, 333-13686, 333-111112, 333-111113, 333-134355, 333-144589 and 333-145981) pertaining to the Stock Option Plans of NICE-Systems Ltd. and on Form F-3 (Registration Nos. 333-07130, 333-07266, 333-07740, 333-12996, 333-12350, 333-109766 and 333-127883) of NICE-Systems Ltd., of our report dated April 12, 2007, with respect to the consolidated financial statements of Actimize Ltd. for the year ended December 31, 2006, included in this Report on Form 6-K of NICE-Systems Ltd. dated September 12, 2007.

/s/ Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global

Tel Aviv, Israel
September 12, 2007

Document — EX-99.10
Description — English Summary of loan Agreement

NICE-Systems Ltd.

English Summary of Loan Agreement and Letter of Undertaking, dated August 29, 2007,
between NICE-Systems Ltd. and Bank Hapoalim B.M.

1. Loan

On August 29, 2007, NICE-Systems Ltd. (the "Company") entered into an unsecured loan agreement with Bank Hapoalim Ltd. (the "Bank"), which provides for a term loan of $120 million.

2. Repayment of Principal

The principal is repayable in one installment on February 29, 2008. The Company is entitled to voluntarily prepay, with no penalty, all or part of the loan, in amounts of no less than $5 million, on any interest repayment date.

3. Interest

The loan bears interest at an annual rate of LIBOR plus a margin of 0.45%. The interest rate on the date of the loan agreement was 6.015% per year. The LIBOR rate will be updated monthly. Interest is repayable at the end of each month, based on the interest rate of the applicable month and the amount of the then outstanding principal.

4. Security

The loan is unsecured.

5. Acceleration and Set Off

The loan is subject to acceleration upon the occurrence of certain customary events of default. The Bank may set off any amount due from the Company against amounts due from the Bank to the Company.

6. Financial Covenants

The Company is required to maintain the following financial ratios, as reported in its consolidated quarterly and annual financial statements:

- Debt to Cash - a ratio of total debt and financial obligations to cash and cash equivalents of not more than 2.0 (excluding a credit facility in the amount of $150 million);
- Minimum Equity – shareholders' equity at a rate of at least 45% of the total liabilities and shareholders' equity, provided that shareholders' equity shall in any event total at least $500 million.

7. Restrictive Covenants

The Company is restricted from creating additional liens on its assets, other than purchase money security interests and other than liens on its cash and cash equivalents and marketable securities in the aggregate amount of $150 million. The Company is also prohibited from granting guarantees by it for the benefit of any third party.