

NICE SYSTEMS LTD  
Form 6-K  
August 03, 2005

NICE Reports Record 2005 Second Quarter Earnings

Highlights:

Q2 record revenue at excess of \$72.2 million

Q2 pro-forma gross margin improved to 56.7%

Pro forma EPS was \$0.36, up 38% from Q2 2004

Integration of Dictaphones CRS business on track

**Ra'anana, Israel, August 3, 2005 - NICE Systems (NASDAQ: NICE)**, the global provider of advanced solutions that enable organizations to extract insight from interactions to drive performance, today announced record results for the second quarter ending June 30, 2005.

Second quarter 2005 revenue was at a company record high of \$72.2 million. Second quarter revenue represents an 18% increase over \$61.3 million in the same quarter of 2004.

Second quarter pro-forma gross margin, which excludes amortization of intangible assets, was 56.7%, an improvement from the 54.5% reported in the second quarter of 2004.

The company reported a second quarter pro forma operating profit of \$7.1 million and operating margins of 9.8%, compared with \$4.1 million and 6.8% in the second quarter of 2004.

Pro-forma net income, was \$7.3 million or \$0.36 per fully diluted share in the second quarter of 2005, up from \$4.7 million or \$0.26 per fully diluted share in the same quarter of 2004. On GAAP basis Second quarter net income was \$6.8 million, or \$0.33 per fully diluted share, compared with net income of \$4.5 million, or \$0.24 per share, on a fully diluted basis, in the second quarter of 2004.

Total cash and equivalents at June 30, 2005 were at \$169.3 million, even after the \$38.5 million cash acquisition of Dictaphone CRS assets. DSO's for the second quarter stood at 73 days.

Commenting on the quarter, Haim Shani, Chief Executive Officer of NICE, said, "This was another outstanding quarter for NICE, with record results. We are extremely pleased by the strong momentum we are seeing in both the enterprise and public and security sectors, each driven by increasing demand for our products across the board. The increase in demand is particularly gratifying as it reflects successful execution of our near and long-term strategy for strengthening our position as the global leader in providing Insight from Interactions solutions."

"On June 1<sup>st</sup> we announced the completion of the Dictaphone CRS acquisition. We are on track with the integration and are pleased by the pace at which we are progressing."

"We are encouraged by the strong momentum of both the enterprise and public and security sectors, and further to this success and the fast and smooth integration of Dictaphone CRS, we are raising our annual guidance to revenues at \$304 - \$309 million from the previous guidance of \$295-\$300 million and pro-forma EPS to \$1.55 - 1.63 from \$1.50-1.60. We are also introducing first-time guidance for Q3 with a 28% - 32% growth in revenues to \$81 - \$84 million from the \$63.5 million reported in the third quarter of last year. In terms of earnings, we expect pro-forma EPS to be between \$0.38 and \$0.42 per share, a 36% - 50% increase over the third quarter 2004 EPS of \$0.28."

#### **Conference Call**

NICE will host a conference call to discuss the results and its business outlook today at 8:30 a.m. EST (15:30 Israel). The call will be broadcast live on the internet via NICE's website at [www.nice.com](http://www.nice.com). A telephone replay will be available for up to 72 hours after the call. The replay information: US Toll-free: 1-866-276-1485; International: +972-3-925-5930; Israel: 03-925-5930.

Pro forma basis results exclude the amortization of acquired intangible assets of \$0.49 million in Q2 2005 and \$0.23 million in Q2 2004. A reconciliation between results on a GAAP and pro forma basis is provided in a table immediately following the Consolidated Statement of Operations (Pro Forma Basis).

#### **About NICE**

NICE Systems (NASDAQ: NICE) is the leading provider of Insight from Interactions, based on advanced content analytics of telephony, web, radio and video communications. NICE's solutions improve business and operational performance, as well as security. NICE has over 23,000 customers in 100 countries, including the world's top 10 banks and over 75% of the Fortune 100 companies. More information is available at [www.nice.com](http://www.nice.com).

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

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

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

|  | Three months ended |           | Six months ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | June 30,           | 2005      | June 30,         | 2005      |
|  | 2004               | 2005      | 2004             | 2005      |
|  | Unaudited          | Unaudited | Unaudited        | Unaudited |
| Revenue  |                    |           |                  |           |
| Product  | \$44,157           | \$47,673  | \$85,554         | \$94,950  |
| Services   | 17,112             | 24,557    | 34,058           | 43,402    |
| Total revenue  | 61,269             | 72,230    | 119,612          | 138,352   |
| Cost of revenue                                      |                    |           |                  |           |
| Product  | 15,761             | 15,346    | 30,616           | 30,903    |
| Services   | 12,241             | 16,243    | 24,364           | 30,234    |
| Total cost of revenue                                | 28,002             | 31,589    | 54,980           | 61,137    |
| Gross Profit   | 33,267             | 40,641    | 64,632           | 77,215    |
| Operating Expenses:                                  |                    |           |                  |           |
| Research and development, net                        | 6,218              | 6,999     | 12,433           | 13,756    |
| Selling and marketing                                | 15,231             | 17,949    | 30,404           | 33,979    |
| General and administrative                           | 7,819              | 8,901     | 15,684           | 17,241    |
| Amortization of acquired intangible assets           | 87                 | 206       | 175              | 244       |
| Total operating expenses                             | 29,355             | 34,055    | 58,696           | 65,220    |
| Operating income                                     | 3,912              | 6,586     | 5,936            | 11,995    |
| Financial income, net                                | 1,177              | 1,245     | 2,078            | 2,297     |
| Income before taxes on income                        | 5,089              | 7,831     | 8,014            | 14,292    |
| Taxes on income                                      | 585                | 1,030     | 895              | 1,715     |
| Net income from continuing operations                | 4,504              | 6,801     | 7,119            | 12,577    |
| Net income from discontinued operation               | -                  | -         | 3,236            | -         |
| Net income   | \$4,504            | \$6,801   | \$10,355         | \$12,577  |
| Basic income per share from continuing operations    | \$0.26             | \$0.36    | \$0.41           | \$0.68    |
| Basic income per share from discontinued operation   | -                  | -         | \$0.19           | -         |
| Basic income per share                               | \$0.26             | \$0.36    | \$0.60           | \$0.68    |
| Diluted income per share from continuing operations  | \$0.24             | \$0.33    | \$0.38           | \$0.63    |
| Diluted income per share from discontinued operation | -                  | -         | \$0.17           | -         |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Diluted income per share                                       | \$0.24 | \$0.33 | \$0.56 | \$0.63 |
| Weighted average number of shares outstanding used to compute: |        |        |        |        |
| Basic income per share   | 17,395 | 18,768 | 17,251 | 18,590 |
| Diluted income per share                                       | 18,553 | 20,305 | 18,561 | 20,083 |

NICE provides pro-forma net income and pro forma earnings per share data as additional information to its operating results. These measures are not in accordance with or an alternative for, GAAP and may be different from pro-forma measures used by other companies. The company believes that this presentation of pro-forma data provides useful information to management and investors regarding certain additional financial and business trends relating to its financial condition and result of operations. In addition, the Company's management uses these measures for reviewing the financial results of the Company and for budget purposes:

**NICE SYSTEMS LTD. AND SUBSIDIARIES  
FOR COMPARATIVE PURPOSES  
NET INCOME AND INCOME PER SHARE EXCLUDING DISCONTINUED  
OPERATION AND AMORTIZATION OF ACQUIRED INTANGIBLE ASSETS**  
U.S. dollars in thousands (except per share amounts)

|   | <b>Three months ended<br/>June 30,</b> |           | <b>Six months ended<br/>June 30,</b> |           |
|---|--|-----------|--------------------------------------|-----------|
|   | 2004                                   | 2005      | 2004                                 | 2005      |
|   | Unaudited                              | Unaudited | Unaudited                            | Unaudited |
| GAAP net income                                   | \$4,504                                | \$6,801   | \$10,355                             | \$12,577  |
| Adjustments:                                      |  |           |                                      |           |
| GAAP net income from discontinued operation       | -                                      | -         | (3,236)                              | -         |
| Amortization of acquired intangible assets        |  |           |                                      |           |
| Included in gross profit                          | 149                                    | 289       | 299                                  | 440       |
| Included in operating expenses                    | 87                                     | 206       | 175                                  | 244       |
| Non-GAAP net income from continuing operations    | \$4,740                                | \$7,296   | \$7,593                              | \$13,261  |
| Non-GAAP basic income per share from continuing   |  |           |                                      |           |
| operations  | \$0.27                                 | \$0.39    | \$0.44                               | \$0.71    |
| Non-GAAP diluted income per share from continuing | \$0.26                                 | \$0.36    | \$0.41                               | \$0.66    |

operations

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

U.S. dollars in thousands

|   | <b>December 31,</b><br><b>2004</b><br>Audited | <b>June 30,</b><br><b>2005</b><br>Unaudited |
|---|---|---|
| <b>ASSETS</b>                               |   |   |
| <b>CURRENT ASSETS:</b>                      |   |   |
| Cash and cash equivalents                   | \$ 26,579                                     | \$34,953                                    |
| Short-term bank deposits                    | 175   | 126   |
| Marketable securities                       | 24,348  | 22,620                                      |
| Trade receivables                           | 46,407  | 54,951                                      |
| Other receivables and prepaid expenses      | 7,937   | 8,064                                       |
| Inventories                                 | 12,615  | 20,296                                      |
| Assets of discontinued operation            | 652   | 653   |
| Total current assets                        | 118,713                                       | 141,663                                     |
| <b>LONG-TERM INVESTMENTS:</b>               |   |   |
| Long-term marketable securities             | 114,805                                       | 111,621                                     |
| Other long-term investments                 | 9,410   | 9,207                                       |
| Total long-term investments                 | 124,215                                       | 120,828                                     |
| <b>PROPERTY AND EQUIPMENT, NET</b>          | 16,981  | 15,683                                      |
| <b>OTHER ASSETS, NET</b>                    | 12,665  | 26,087                                      |
| <b>GOODWILL</b>                             | 25,745  | 49,432                                      |
| <b>TOTAL ASSETS</b>                         | <b>\$298,319</b>                              | <b>\$353,693</b>                            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |   |   |
| <b>CURRENT LIABILITIES:</b>                 |   |   |
| Trade payables                              | \$11,975                                      | \$17,121                                    |
| Accrued expenses and other liabilities      | 55,302  | 83,560                                      |
| Liabilities of discontinued operation       | 8   | 6   |
| Total current liabilities                   | 67,285  | 100,687                                     |
| <b>LONG-TERM LIABILITIES</b>                | 8,163   | 8,237                                       |

|   |           |           |
|---|-----------|-----------|
| <b>SHAREHOLDERS' EQUITY</b>                       | 222,871   | 244,769   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | \$298,319 | \$353,693 |



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

U.S. dollars in thousands

|  | <b>Three months ended</b> |                  | <b>Six</b>       |
|--|---------------------------|------------------|------------------|
|  | <b>June 30,</b>           |                  | <b>months</b>    |
|  | <b>2004</b>               | <b>2005</b>      | <b>ended</b>     |
|  | <b>Unaudited</b>          | <b>Unaudited</b> | <b>June 30,</b>  |
|  |                           |                  | <b>2005</b>      |
|  |                           |                  | <b>Unaudited</b> |
| <u>Cash flows from operating activities:</u>   |                           |                  |                  |
| Net income   | \$4,504                   | \$6,801          | \$12,357         |
| Less income for the period from discontinued operation                                     | -                         | -                | (3,236)          |
| Adjustments required to reconcile net income to net cash provided by operating activities: |                           |                  |                  |
| Depreciation and amortization  | 3,396                     | 2,951            | 6,347            |
| Accrued severance pay, net   | 97                        | 248              | 889              |
| Amortization of discount (premium) and accrued interest on marketable securities           | 445                       | 164              | 609              |
| Decrease (increase) in trade receivables   | (1,449)                   | 3,133            | 1,684            |
| Decrease (increase) in other receivables and prepaid expenses                              | (1,290)                   | 712              | (578)            |
| Decrease (increase) in inventories   | 988                       | (1,499)          | (511)            |
| Increase (decrease) in trade payables  | 533                       | 1,609            | (2,008)          |
| Increase in accrued expenses and other liabilities   | 937                       | 5,068            | 7,856            |
| Other  | (36)                      | 35               | (1)              |
| Net cash provided by operating activities from continuing operations                       | 8,125                     | 19,222           | 31,908           |
| Net cash provided by operating activities from discontinued operation                      | 646                       | -                | 850              |
| Net cash provided by operating activities  | 8,771                     | 19,222           | 36,608           |
| <u>Cash flows from investing activities:</u>   |                           |                  |                  |
| Purchase of property and equipment   | (1,355)                   | (1,351)          | (2,706)          |
| Proceeds from sale of property and equipment   | 60                        | 44               | 104              |
| Investment in short-term bank deposits   | (32)                      | (3)              | (35)             |
| Proceeds from short-term bank deposits   | 24                        | 33               | 57               |
| Proceeds from maturity of short-term marketable securities                                 | 7,685                     | 95,625           | 103,310          |
| Investment in short-term marketable securities   | (2,000)                   | (67,425)         | (69,425)         |
| Proceeds of call of long-term held-to-maturity marketable securities                       | 4,002                     | 6,130            | 10,132           |
| Investment in long-term held-to-maturity marketable securities                             | (32,507)                  | (9,225)          | (41,732)         |
| Capitalization of software development costs   | (231)                     | (210)            | (441)            |
| Payment for acquisition of certain assets and liabilities of Dictaphone CRS Division       | -                         | (38,939)         | (38,939)         |
| Decrease in accrued acquisition costs  | -                         | -                | (75)             |
| Payment in respect of terminated contract from TCS acquisition                             | -                         | -                | (1,483)          |
| Proceeds from related party in respect of TCS acquisition                                  | -                         | -                | 4,031            |

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|   |          |          |                     |
|---|----------|----------|---------------------|
| Net cash used by investing activities from continuing operations      | (24,354) | (15,321) | <del>(39,675)</del> |
| Net cash provided by investing activities from discontinued operation | -        | -        | 4,136               |
| Net cash used by investing activities                                 | (24,354) | (15,321) | <del>(35,539)</del> |
| <u>Cash flows from financing activities:</u>                          |          |          |                     |
| Proceeds from issuance of shares and exercise of share options, net   | 1,896    | 5,766    | <del>9,146</del>    |
| Net cash provided by financing activities                             | 1,896    | 5,766    | <del>9,146</del>    |
| Effect of exchange rate changes on cash                               | (61)     | (134)    | <del>(79)</del>     |
| Increase (decrease) in cash and cash equivalents                      | (13,748) | 9,533    | <del>(8,329)</del>  |
| Cash and cash equivalents at beginning of period                      | 37,878   | 25,420   | <del>26,859</del>   |
| Cash and cash equivalents at end of period                            | \$24,130 | \$34,953 | <del>\$24,130</del> |