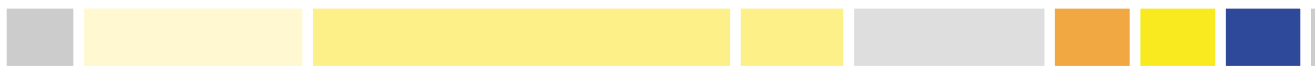




You can count on  
the benefits



NICE Systems Annual Report 2001



NICE Systems is a global leader of business interaction management with market-leading multimedia digital recording solutions, applications and related professional services. NICE's synergistic technology platforms enable customers to capture, evaluate, analyze and improve business interactions to enhance business processes and gain competitive advantages. NICE products and solutions are used in contact centers, trading floors, air traffic control (ATC) sites, closed circuit television (CCTV) security installations and government agencies.

NICE is a public company traded on NASDAQ (NICE) and on the Tel Aviv Stock Exchange (Nice).

# To Our Shareholders,

We began 2001 with some very aggressive short-term objectives, and I am pleased to report that we achieved all of them. This is particularly gratifying in view of the challenging market environment, which was characterized by reductions in IT budgets, lengthening sales cycles, and intense competition.

## **Building on Fundamental Strengths**

We ended the year with the same basic strengths with which we began: excellent technology and products, a strong blue-chip customer base, an outstanding team of people, and prestigious strategic partners. In addition, our competitive position was improved by strengthening our management team, creating a more appropriate organizational structure, leveraging our professional services capability, lowering our expense profile and improving our working capital management.

In retrospect, perhaps the most important decision was moving aggressively on all fronts to make necessary changes as quickly as possible, even though the disruption could hurt our short term results. After reporting a substantial loss in Q1, we snapped back quickly and made a significant


improvement in each subsequent quarter, ending the year with higher gross margins, positive net operating cash flow and a strong balance sheet.

## **Validating Our Strategy**

During 2001, while improving our operational efficiency, we made a comprehensive review of our business at the strategic level and concluded several things:

**Our core technology and products – multimedia recording platforms– represent extremely valuable assets.** The ability to capture interactions efficiently and cost-effectively is the foundation upon which many other performance-enhancing solutions must be built. What hasn't been captured can't be analyzed, evaluated, understood, or acted upon. Our strategy was validated when Frost & Sullivan, prominent industry experts, published a report in the third quarter of 2001, predicting that total recording capabilities will account for an increasing proportion of the market over the next several years.

**Our vertical market expertise and ability to anticipate customers' needs is an important competitive strength.** Throughout 2001, we received accolades from all the major industry analysts for our leadership and vision. Various industry groups bestowed more than a dozen product awards on us during the year, many of them "Product of the Year" designations. For example, we used our industry leadership to popularize the concept of Customer Experience Management (CEM) in the contact center market and, by yearend, over 20 competing companies and most industry commentators had adopted our terminology and market



viewpoint. As a result, NICE received Frost & Sullivan's Competitive Strategy Award. They were joined by Datamonitor in declaring NICE the industry leader. In addition, Gartner positioned Nice's CEM in the leader quadrant of Gartner's Contact Center Quality Assurance 1H02 magic quadrant report.

**We have strong positions in several large, emerging market segments.** We are number one or have the prospect of attaining that position in several market segments with very strong growth prospects including contact center performance and digital video security. Some of these segments are not only experiencing strong growth but are under-penetrated, particularly outside the United States. We also see excellent prospects for other, more mature segments that are growing more slowly but where competition is fragmented. We believe that introducing upgraded solutions and new applications into these markets create attractive growth opportunities. Examples of these segments include financial trading floors and public safety.

### Expanding Market Boundaries

We are in the early phase of market development for value-added applications that will extend the boundaries of our current markets. There is enormous long-term potential to leverage our core recording capabilities, by introducing innovative new valued-added applications tailored to specific markets and vertical segments. Our quality monitoring and e-learning solutions for agent performance optimization have already experienced initial success. In addition, our audio and video content analysis applications will also increase the size of the overall market and afford strong growth opportunities in 2003 and beyond.

### Emphasizing Product Development

One of our key goals this year was to position us for future growth by expanding the breadth of each of our major product lines. During 2001, we introduced both total recording and quality monitoring solutions tailored to the

specific needs of smaller contact centers to give customers the best possible solution for each of their locations regardless of size. Our market-leading high-end suite of multimedia contact center solutions were enhanced with new features and capabilities such as capture capabilities for web chat, email and agent screen activity as well as VoIP (Voice over Internet Protocol).

Similarly, we introduced a mid-range solution in our digital video recording product line, while also improving our premium solution for applications such as real-time casino requirements and transportation security needs. In addition to superior quality images from state-of-the-art compression technology, the new solution provides seamless integration with existing security systems and enhanced storage capabilities.

Responding to worldwide emphasis on improving security, a new aviation security initiative was launched that leveraged our experience as the leading provider of solutions for air traffic control. We also introduced two new solutions for the public safety market as well as an enhanced system for monitoring and recording a wide variety of telecom media including fixed and mobile networks and voice and data communications for law enforcement purposes.

### Partnering for Success

By carefully listening to our customers, we know that it is vital for our solutions to be seamlessly integrated with other systems such as CRM solutions, business intelligence systems and other enterprise applications. Therefore, we have taken a leadership role in developing important partnerships with other solution providers. During 2001, we announced specific integration projects with a roster of prominent companies including Siebel Systems, Cisco Systems, Computer Associates and Boeing Autometric. A joint development agreement with Knowlagent aimed at offering innovative e-learning solutions to the contact center market was also announced.



**Haim Shani**  
President & CEO

During 2001, we expanded our geographic reach by augmenting our long-standing distribution partnerships with premier firms such as Avaya. For example, in May, we formed a relationship to pursue the high-growth market in India with Tata Telecom a provider of world-class contact center solutions with more than 50 service centers across India. In August, we formed a distribution partnership with ITApps, a full-service Customer Loyalty Solutions provider headquartered in Hong Kong in order to further penetrate the Asia Pacific market.

### Positioning for Growth

In 2002, we combined the digital video recording and threat analysis capabilities of the VIM Division with the government, military and law enforcement communications intelligence experience of the ISS Division to create a new Security Group. The newly-formed group constitutes a second “core” business that will address a market that currently exceeds \$1 billion. The Security Group will pursue a dual business strategy. In addition to selling discrete solutions through existing channels and partnerships, we will pursue much larger, more comprehensive security projects that integrate all our products and expertise. On these larger projects, we expect to work with large, diversified companies and systems integrators that specialize in security solutions.

Going forward, our goals include attaining a leading market share position in each major market and expanding our global presence. In addition, our ongoing programs to outsource most of our manufacturing and further leverage our professional services organization are aimed at improving profitability.

I want to take this opportunity to recognize our outstanding employees for the tremendous effort they put forth during 2001, a period of major change for our company, as well as the patience and support from our board of directors and shareholders. The entire organization is now united in the goal of creating sustainable competitive advantage and, in turn shareholder value. We look to the future with confidence and anticipation.

A handwritten signature in black ink that reads "H. Shani". The signature is fluid and cursive.

**Haim Shani**  
President and CEO

# You can count on the experience

Customer Experience Management (CEM)

It's not often that a company sees its own terminology become mainstream. In NICE's case, the term "CEM-Customer Experience Management" now defines a whole market segment, and is used freely by NICE's competitors, not only its allies. That is because in today's tough markets, the quality of personal interaction can be key to the customer's perception.

The facts speak for themselves: Gartner Group positioned NICE's CEM in the leader quadrant of Gartner's Contact Center Quality Assurance 1H02 magic quadrant report, Datamonitor reported that NICE is the worldwide recording and quality management leader, and NICE received Frost and Sullivan's Competitive Strategy Award for pioneering CEM. Since CEM was launched in June 2000, twenty competing companies have adopted the terminology and NICE's CEM solutions have won thirteen product awards.

CEM from NICE is well established in the Americas and is now vigorously establishing a strong presence in new territories. The Asia-Pacific market has been identified as one of the strongest in the world for contact centers. In 2001, NICE opened a regional office in Hong Kong. Furthermore, the largest telecommunications provider in Hong Kong successfully implemented our CEM solution in its network of six contact centers.

The Indian market is also expanding, with the relocation of several large US and UK Contact Centers. To strengthen our market position in 2001, we entered into a partnership with Tata Telecom, the leader in India's call center market.

“ Everyone wants to improve customer satisfaction. NICE CEM helped us identify how to do it by identifying new business processes that reduced the time it takes to resolve each customer request. The results have been remarkable. Just nine months after we started with NICE, we reduced complaints by 90% and increased customer satisfaction to 80%.

**Rutger Pekelharing,**  
*Managing Director, Intertwine*

”

- 1 TO BENEFIT FROM AWARD-WINNING SOLUTIONS
- 2 TO INSTILL MEASURABLE VALUE THROUGHOUT YOUR CONTACT CENTER
- 3 TO CREATE THE MOST LOYAL CUSTOMERS ON EARTH



NICE, as the pioneer of CEM, is proud of the confidence customers have placed in our concept and products. Despite the difficult market, sales to over 100 new CEM customers, and repeat sales to veteran customers, demonstrated market awareness of our unique advantages.

NICE's latest product offerings, including emotion detection, word spotting and customer idea management, demonstrate NICE's ability to introduce market and product innovations. In fact, our new introductions quickly jumped on the awards bandwagon with our idea management solution awarded Best Knowledge Management Product at the Call Center and CRM Solutions show in Las Vegas. At the same show, our content analysis solution was awarded Best Voice Processing Product.

We continue to broaden our offerings with solutions for smaller businesses. NiceAdvantage™, first launched in 2000, is a quality management solution for contact centers that have up to 100 seats. NiceCall® focus is for even smaller financial institutions and Call Centers with up to 32 channels.

NICE solutions interface with an even wider range of applications. We introduced new integrations in 2001 with Siebel eBusiness software, Cisco's Customer Contact Software and Computer Associate's Unicenter TNG.

# You can count on the innovation

- 1 TO DELIVER COMPLETE SOLUTIONS
- 2 TO BE AN OPEN PLATFORM FOR CHANGE AND DEVELOPMENT
- 3 TO SET NEW STANDARDS OF INDUSTRY PERFORMANCE



“

We took an extensive look at who could provide the equipment and the know-how to help us realize our vision for future web-enabled contact centers - NICE proved itself up the challenge.

**Veronica Murdock,**  
*Executive Vice President, Earthlink*

”

# You can count on the security by

Security Group

Security awareness has heightened, and NICE is a natural key player. NICE delivers a wide range of products that manage multiple communication channels and integrate with security systems including access control and intrusion detection to provide the highest level of security management.

Worldwide, sales to corporations, retail outlets, and correctional facilities grew. Major US airports selected NiceVision® in 2001, for its real time alert and proactive security management capabilities, including unattended baggage. In Europe, we established a presence in the casino and gaming market.

Our global presence is empowered by a continuous stream of enhanced and new products. NiceVision® Pro, rolled out in 2001, offers the highest frame rate for the most detailed security information for more thorough investigation debriefing. Providing real-time video content analysis, this new market entry also leads the open architecture trend for easy system integration.

NiceVision® Harmony, also introduced in 2001, is a solution for mid-range video recording applications, that can function as a standalone unit, or can work as part of a unified system with NiceVision Pro.

NICE's strategy of partnering with industry leaders and third parties continues. Our integration with Visionic's Facelt® technology enables subjects to be repeatedly identified as they move about the secured environment.

With increasing security awareness leading to stricter demands, NICE's proven technology and open architecture have the answers here and now.

“ We've been very satisfied with the features and functionality of the NiceVision system, particularly the pre- and post-alarm recording, system modularity and scalability, and NICE's customer service. The NiceVision system was an enormous improvement over the analog system we had previously. ”

**Adam Matheson,**  
*Project Manager, Security Access Control System/CCTV.  
Sydney Airport*

- 1 MANAGING MULTI-CHANNEL COMMUNICATIONS SIMULTANEOUSLY
- 2 INTEGRATING WITH A WIDE RANGE OF SYSTEMS IN YOUR SECURITY ENVIRONMENT
- 3 VISUALLY DETECTING AND ALARMING SUSPICIOUS EVENTS



- 1 ACHIEVE NEW HEIGHTS OF RELIABILITY
- 2 INCREASE SAFETY AND SECURITY OF AIR AND SEA PORTS
- 3 COMMAND AND CONTROL CRITICAL SITES

# You can count on high performance

Secutity Group

In 2001, we launched innovative solutions to meet the demand for advanced security powered by the latest technology. NiceTrack™, a comprehensive monitoring system designed by intelligence experts, was introduced to meet the special operational needs of law enforcement agencies. CDFS-5000, a surveillance and monitoring solution that operates on both fixed and mobile platforms, was also made available to the military intelligence market .

By far the leader in the Air Traffic Control (ATC) market, with 60% market share, NICE received several repeat orders in 2001. In addition we successfully expanded into a new market segment, by making NiceFix's Radio Direction Finding (DF) and navigation capabilities available for sea vessels. Already ordered by major port authorities, this solution was welcomed for its reliability and rapid integration.

Our NiceSoft™ digital radio recorder continues to be a preferred solution for providing synchronized access to radar screens and recorded voice conversations. NiceLog® and NiceCLS™ have been adapted to serve an effective command and control center for recording trunk radio.

## ATC Installations

Angola	China	Finland	Hungary	Kazakhstan	Portugal	Sri Lanka
Austria	Croatia	Germany	ICAO	Luxemburg	Romania	Sweden
Azerbaijan	Cyprus	Greece	Iceland	Maldiv Islands	Slovakia	Switzerland
Canada	Denmark	Greenland	Ireland	Moldova	Slovenia	Turkey
Cape Verde	Estonia	Holland	Israel	Norway	Somalia	U.K.
Chile	Fiji Islands	Hong Kong	Japan	Poland	Spain	U.S.



“

We are pleased to upgrade our system to take advantage of new product features and expand our system to meet our new requirements.

”

**Heinz Schmid, Project Manager**  
*Skyguide, Swiss Air Navigation Services*

# Corporate Directory

## Directors and Officers

**Ron Gutler**, Chairman of the Board of Directors  
**Joseph Atsmon**, Vice-Chairman of the Board of Directors  
**Leora Meridor**, Director  
**Dan Falk**, Director  
**Rimon Ben-Shaoul**, Director  
**Joseph Dauber**, Director  
**David Kostman**, Director  
**Dan Goldstein**, Director  
**Haim Shani**, President and Chief Executive Officer  
**Lauri Hanover**, Corporate Vice President and Chief Financial Officer  
**Ya'a kov Huberman**, Corporate Vice President, Business Development  
**Dr. Rivi Sherman**, Corporate Vice President, Chief Technology Officer  
**Daphna Kedmi**, Corporate Vice President, General Counsel and Corporate Secretary  
**Meni Gal**, Vice President, General Manager Global Operations and Human Resources  
**Yoav Zaltzman**, Corporate Vice President, Global Business Operations  
**Doron Eidelman**, Executive Vice President, President of Security Division  
**Mordekhay Dor-On**, Vice President, General Manager ISS Division  
**Eytan Bar**, Vice President, Co-General Manager CEM Product Division  
**Lior Arussy**, Corporate Vice President - Global Marketing and Co-General Manager CEM Product Division  
**Dr. Shlomo Shamir**, President and Chief Executive Officer of NICE Systems Inc.  
**Eran Porat**, Corporate Controller

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## Form F-20

Copies of the Company's Annual Report on Form F-20, as filed with the Securities and Exchange Commission, may be obtained by shareholders without charge by written request.

## American Depositary Shares (ADSs)

The Company's ADSs are traded over the counter (National Market System) with the NASDAQ symbol NICE. The Company's Ordinary Shares are traded on the Tel Aviv Stock Exchange.

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Design & Production: Portnov-Mishan

Text: Rena Kronenthal

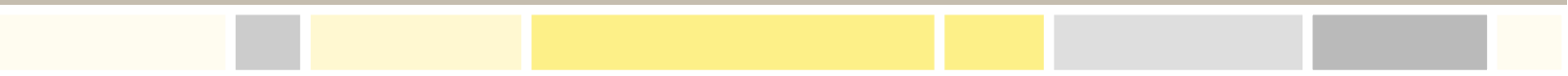
Printed in Israel

Part no. 406F0023-06

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