

## **Verint Systems Inc. and Subsidiaries**

### **Supplemental Information About Non-GAAP Financial Measures**

The following tables include a reconciliation of certain financial measures consisting of non-GAAP revenue, non-GAAP gross profit and gross margin, non-GAAP operating income and operating margin, non-GAAP other income (expense), net, non-GAAP provision (benefit) for income taxes, non-GAAP net income attributable to Verint Systems Inc., non-GAAP net income per common share attributable to Verint Systems Inc., adjusted EBITDA, net debt, and constant currency measures prepared in accordance with Generally Accepted Accounting Principles (“GAAP”) to the most directly comparable financial measures not prepared in accordance with GAAP (“non-GAAP”). Non-GAAP financial measures should not be considered in isolation or as a substitute for comparable GAAP financial measures. The non-GAAP financial measures we present in the following tables have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP, and these non-GAAP financial measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP financial measures. These non-GAAP financial measures do not represent discretionary cash available to us to invest in the growth of our business, and we may in the future incur expenses similar to or in addition to the adjustments made in these non-GAAP financial measures.

We believe that the non-GAAP financial measures we present in the following tables provide meaningful supplemental information regarding our operating results primarily because they exclude certain non-cash charges or items that we do not believe are reflective of our ongoing operating results when budgeting, planning and forecasting, determining compensation, and when assessing the performance of our business with our individual operating segments or our senior management. We believe that these non-GAAP financial measures also facilitate the comparison by management and investors of results between periods and among our peer companies. However, those companies may calculate similar non-GAAP financial measures differently than we do, limiting their usefulness as comparative measures.

#### Adjustments to Non-GAAP Financial Measures

*Revenue adjustments related to acquisitions.* We exclude from our non-GAAP revenue the impact of fair value adjustments required under GAAP relating to acquired customer support contracts which would have otherwise been recognized on a standalone basis. We exclude these adjustments from our non-GAAP financial measures because these are not reflective of our ongoing operations.

*Amortization of acquired technology and other acquired intangible assets.* When we acquire an entity, we are required under GAAP to record the fair values of the intangible assets of the acquired entity and amortize those assets over their useful lives. We exclude the amortization of acquired intangible assets, including acquired technology, from our non-GAAP financial measures. These expenses are excluded from our non-GAAP financial measures because they are non-cash charges. In addition, these amounts are inconsistent in amount and frequency and are significantly impacted by the timing and size of acquisitions. Thus, we also exclude these amounts to provide better comparability of pre- and post-acquisition operating results.

*Stock-based compensation expenses.* We exclude stock-based compensation expenses related to stock options, restricted stock awards and units, stock bonus programs, bonus share programs and phantom stock from our non-GAAP financial measures. These expenses are excluded from our non-GAAP financial measures because they are primarily non-cash charges.

*Other adjustments.* We exclude from our non-GAAP financial measures legal fees, other professional fees, integration expenses, and certain other expenses associated with acquisitions, whether or not consummated, and certain extraordinary transactions, including reorganizations, restructurings, and asset impairment charges. Also excluded are changes in the fair value of contingent consideration liabilities associated with business combinations.

These expenses are excluded from our non-GAAP financial measures because we believe that they are not reflective of our ongoing operations.

*Unrealized gains and losses on certain derivatives, net.* We exclude from our non-GAAP financial measures unrealized gains and losses on certain foreign currency derivatives which are not designated as hedges under accounting guidance. We exclude unrealized gains and losses on foreign currency derivatives that serve as economic hedges against variability in the cash flows of recognized assets or liabilities, or of forecasted transactions. These contracts, if designated as hedges under accounting guidance, would be considered “cash flow” hedges. These unrealized gains and losses are excluded from our non-GAAP financial measures because they are non-cash transactions which are highly variable from period to period and which we believe are not reflective of our ongoing operations. Upon settlement of these foreign currency derivatives, any realized gain or loss is included in our non-GAAP financial measures.

Effective in the year ending January 31, 2016, our non-GAAP financial measures include unrealized gains and losses on foreign currency derivatives that serve as economic hedges against exposures to changes in the fair values of recognized assets or liabilities. These contracts, if designated as hedges under accounting guidance, would be considered “fair value” hedges. For periods ended prior to February 1, 2015, these unrealized gains and losses were excluded from our non-GAAP financial measures. For our non-GAAP financial measures, this change better aligns the recognition of gains and losses on the re-measurement of foreign currency-denominated assets and liabilities with the recognition of offsetting gains and losses (whether realized or unrealized) on foreign currency derivatives which are executed to help mitigate re-measurement risk. Had this change been applied to our non-GAAP financial measures for the year ended January 31, 2015, non-GAAP net income would have increased by \$0.4 million, consisting of increases (decreases) of \$(0.7) million, \$0.9 million, \$1.5 million, and \$(1.3) million for the three months ended April 30, 2014, July 31, 2014, October 31, 2014, and January 31, 2015, respectively.

*Losses on early retirements of debt.* We exclude from our non-GAAP financial measures losses on early retirements of debt attributable to refinancing or repaying our debt because we believe they are not reflective of our ongoing operations.

*Amortization of convertible note discount.* Under GAAP, certain convertible debt instruments that may be settled in cash upon conversion are required to be bifurcated into separate liability (debt) and equity (conversion option) components in a manner that reflects the issuer’s non-convertible debt borrowing rate. As a result, for GAAP purposes, we are required to recognize imputed interest expense in amounts significantly in excess of the coupon rate on our \$400.0 million of 1.50% convertible notes. The difference between the imputed interest expense and the coupon interest expense is excluded from our non-GAAP financial measures because we believe that this non-cash expense is not reflective of ongoing operations.

*Non-cash tax adjustments.* We exclude from our non-GAAP financial measures non-cash tax adjustments, which represent the difference between the amount of taxes we expect to pay related to current year income, and our GAAP tax provision on an annual basis. On a quarterly basis, this adjustment reflects our expected annual effective tax rate on a cash basis.

#### Supplemental Information About Constant Currency

Because we operate on a global basis and transact business in many currencies, fluctuations in foreign currency exchange rates can affect our consolidated U.S. dollar operating results. To facilitate the assessment of our performance excluding the effect of foreign currency exchange rate fluctuations, we calculate our non-GAAP revenue, cost of revenue, and operating expenses on both an as-reported basis and a constant currency basis, allowing for comparison of results between periods as if foreign currency exchange rates had remained constant. We perform our constant currency calculations by translating current-period foreign currency revenue and expenses into U.S. dollars using prior-period average foreign currency exchange rates or hedge rates, as applicable, rather

than current period exchange rates. We believe that constant currency change rates, which exclude the impact of foreign currency exchange rate changes, facilitate the assessment of underlying business trends.

Unless otherwise indicated, our financial outlook for revenue, operating margin, and diluted earnings per share, which is provided on a non-GAAP basis, reflects foreign currency exchange rates approximately consistent with rates in effect when the outlook is provided.

We also incur foreign exchange gains and losses resulting from the revaluation and settlement of monetary assets and liabilities that are denominated in currencies other than the entity's functional currency. We periodically report our historical non-GAAP diluted net income per share both inclusive and exclusive of these net foreign exchange gains or losses. Our financial outlook for diluted earnings per share includes net foreign exchange gains or losses incurred to date, if any, but does not include potential future gains or losses.

(in thousands, except per share data)

	Three Months Ended				Year Ended
	April 30, 2015	July 31, 2015 <sup>(1)</sup>	October 31, 2015	January 31, 2016	January 31, 2016
<b>Table of Reconciliation from GAAP Revenue to Non-GAAP Revenue</b>					
GAAP revenue	\$ 269,536	\$ 295,882	\$ 284,054	\$ 280,794	\$ 1,130,266
Revenue adjustments related to acquisitions	821	1,217	1,290	1,047	4,375
Non-GAAP revenue	<u>\$ 270,357</u>	<u>\$ 297,099</u>	<u>\$ 285,344</u>	<u>\$ 281,841</u>	<u>\$ 1,134,641</u>
<b>Table of Reconciliation from GAAP Gross Profit to Non-GAAP Gross Profit</b>					
GAAP gross profit	\$ 166,363	\$ 177,344	\$ 178,537	\$ 179,116	\$ 701,360
GAAP gross margin	61.7%	59.9%	62.9%	63.8%	62.1%
Revenue adjustments related to acquisitions	821	1,217	1,290	1,047	4,375
Amortization of acquired technology and backlog	7,980	9,856	9,060	8,878	35,774
Stock-based compensation expenses	596	2,286	2,192	2,111	7,185
Other adjustments	413	3,216	210	2,486	6,325
Non-GAAP gross profit	<u>\$ 176,173</u>	<u>\$ 193,919</u>	<u>\$ 191,289</u>	<u>\$ 193,638</u>	<u>\$ 755,019</u>
Non-GAAP gross margin	65.2%	65.3%	67.0%	68.7%	66.5%
<b>Table of Reconciliation from GAAP Operating Income to Non-GAAP Operating Income</b>					
GAAP operating income	\$ 9,610	\$ 8,710	\$ 22,328	\$ 27,204	\$ 67,852
As a percentage of GAAP revenue	3.6%	2.9%	7.9%	9.7%	6.0%
Revenue adjustments related to acquisitions	821	1,217	1,290	1,047	4,375
Amortization of acquired technology and backlog	7,980	9,856	9,060	8,878	35,774
Amortization of other acquired intangible assets	10,737	10,733	10,896	10,764	43,130
Stock-based compensation expenses	14,850	18,983	16,424	14,292	64,549
Other adjustments	7,322	9,500	3,173	8,539	28,534
Non-GAAP operating income	<u>\$ 51,320</u>	<u>\$ 58,999</u>	<u>\$ 63,171</u>	<u>\$ 70,724</u>	<u>\$ 244,214</u>
As a percentage of non-GAAP revenue	19.0%	19.9%	22.1%	25.1%	21.5%
<b>Table of Reconciliation from GAAP Other Expense, Net to Non-GAAP Other Expense, Net</b>					
GAAP other expense, net	\$ (7,932)	\$ (11,849)	\$ (12,307)	\$ (12,584)	\$ (44,672)
Unrealized losses (gains) on derivatives, net	421	(296)	(126)	(2)	(3)
Amortization of convertible note discount	2,480	2,514	2,548	2,581	10,123
Other adjustments	59	243	1,613	1,406	3,321
Non-GAAP other expense, net	<u>\$ (4,972)</u>	<u>\$ (9,388)</u>	<u>\$ (8,272)</u>	<u>\$ (8,599)</u>	<u>\$ (31,231)</u>
<b>Table of Reconciliation from GAAP Provision (Benefit) for Income Taxes to Non-GAAP Provision for Income Taxes</b>					
GAAP provision (benefit) for income taxes	\$ 947	\$ 2,621	\$ 1,551	\$ (4,167)	\$ 952
Non-cash tax adjustments	2,984	1,646	3,248	8,335	16,213
Non-GAAP provision for income taxes	<u>\$ 3,931</u>	<u>\$ 4,267</u>	<u>\$ 4,799</u>	<u>\$ 4,168</u>	<u>\$ 17,165</u>
<b>Table of Reconciliation from GAAP Net (Loss) Income Attributable to Verint Systems Inc. to Non-GAAP Net Income Attributable to Verint Systems Inc.</b>					
GAAP net (loss) income attributable to Verint Systems Inc.	\$ (416)	\$ (7,085)	\$ 7,634	\$ 17,505	\$ 17,638
Revenue adjustments related to acquisitions	821	1,217	1,290	1,047	4,375
Amortization of acquired technology and backlog	7,980	9,856	9,060	8,878	35,774
Amortization of other acquired intangible assets	10,737	10,733	10,896	10,764	43,130
Stock-based compensation expenses	14,850	18,983	16,424	14,292	64,549
Other adjustments	7,381	9,743	4,786	9,945	31,855
Unrealized losses (gains) on derivatives, net	421	(296)	(126)	(2)	(3)
Amortization of convertible note discount	2,480	2,514	2,548	2,581	10,123
Non-cash tax adjustments	(2,984)	(1,646)	(3,248)	(8,335)	(16,213)
Total GAAP net (loss) income adjustments	41,686	51,104	41,630	39,170	173,590
Non-GAAP net income attributable to Verint Systems Inc.	<u>\$ 41,270</u>	<u>\$ 44,019</u>	<u>\$ 49,264</u>	<u>\$ 56,675</u>	<u>\$ 191,228</u>

(in thousands, except per share data)

	Three Months Ended				Year Ended
	April 30, 2015	July 31, 2015 <sup>(1)</sup>	October 31, 2015	January 31, 2016	January 31, 2016
GAAP diluted net (loss) income per common share attributable to Verint Systems Inc.	\$ (0.01)	\$ (0.11)	\$ 0.12	\$ 0.28	\$ 0.28
Non-GAAP diluted net income per common share attributable to Verint Systems Inc.	\$ 0.66	\$ 0.70	\$ 0.78	\$ 0.90	\$ 3.04
Shares used in computing GAAP diluted net (loss) income per common share	61,041	61,733	62,778	62,900	62,921
Shares used in computing non-GAAP diluted net income per common share	62,389	62,773	62,778	62,900	62,921

Table of Reconciliation from GAAP Net (Loss) Income Attributable to Verint Systems Inc. to Adjusted EBITDA

GAAP net (loss) income attributable to Verint Systems Inc.	\$ (416)	\$ (7,085)	\$ 7,634	\$ 17,505	\$ 17,638
Net income attributable to noncontrolling interest	1,147	1,325	836	1,282	4,590
Provision (benefit) for income taxes	947	2,621	1,551	(4,167)	952
Other expense, net	7,932	11,849	12,307	12,584	44,672
Depreciation and amortization <sup>(2)</sup>	24,290	26,558	26,290	26,037	103,175
Revenue adjustments related to acquisitions	821	1,217	1,290	1,047	4,375
Stock-based compensation expenses	14,850	18,983	16,424	14,292	64,549
Other adjustments	7,304	9,485	3,058	8,569	28,416
Adjusted EBITDA	\$ 56,875	\$ 64,953	\$ 69,390	\$ 77,149	\$ 268,367

Table of Reconciliation from Gross Debt to Net Debt

	April 30, 2015	July 31, 2015	October 31, 2015	January 31, 2016
Current maturities of long-term debt	\$ 10	\$ —	\$ 1,052	\$ 2,104
Long-term debt	729,112	731,958	733,951	735,983
Unamortized debt discounts and issuance costs	82,030	79,184	76,139	73,055
Gross debt	811,152	811,142	811,142	811,142
Less:				
Cash and cash equivalents	321,028	306,187	272,260	352,105
Restricted cash and bank time deposits	24,166	19,686	17,910	11,820
Short-term investments	68,517	59,721	94,897	55,982
Net debt	\$ 397,441	\$ 425,548	\$ 426,075	\$ 391,235

(1) GAAP operating results for the nine months ended October 31, 2015 reflect the correction of an immaterial overstatement of stock-based compensation expense as previously reported for the three and six months ended July 31, 2015. Please refer to our October 31, 2015 Form 10-Q, when filed with the SEC, for further details.

(2) Adjusted for financing fee amortization.