

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. Our non-GAAP revenue also reflects certain adjustments from aligning an acquired company’s revenue recognition policies to our policies. We believe that our non-GAAP revenue helps management and investors better understand our revenue trends and serves as a useful measure of ongoing business performance.

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 restricted stock awards, stock bonus programs, bonus share programs, and other stock-based awards from our non-GAAP financial measures. We evaluate our performance both with and without these measures because stock-based compensation is typically a non-cash expense and can vary significantly over time based on the timing, size and nature of awards granted, and is influenced in part by certain factors which are generally beyond our control, such as the volatility of the price of our common stock. In addition, measurement of stock-based compensation is subject to varying valuation methodologies and subjective assumptions, and therefore we believe that excluding stock-

based compensation from our non-GAAP financial measures allows for meaningful comparisons of our current operating results to our historical operating results and to other companies in our industry.

Other adjustments. We exclude from our non-GAAP financial measures legal fees, other professional fees, integration expenses, changes in the fair value of contingent consideration obligations, and certain other expenses associated with acquisitions, whether or not consummated. We also exclude costs associated with restructurings, reorganizations, asset impairments, and redundant facilities, and gains or losses on sales of property.

We consider acquisition-related costs to be unpredictable and dependent on factors that may be beyond our control, and unrelated to our continuing operations or to the continuing operations of the acquired business. Additionally, acquisition-related costs can be subject to the size and complexity of an acquisition, and may not be indicative of such future costs.

Restructuring and reorganization costs include employee termination costs, facility exit costs, and other costs directly associated with resource realignments incurred in reaction to changing strategies or business conditions, and can vary in amount and frequency. Asset impairment charges, redundant facility costs, and gains or losses on sales of property are unusual in nature and can also vary in amount and frequency.

We believe it is useful for investors to understand the effects of these items on our operating results, and that excluding these items from our non-GAAP measures facilitates the comparison of our current operating results to our historical operating results and to other companies in our industry.

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.

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

April 30, 2016

Table of Reconciliation from GAAP Revenue to Non-GAAP Revenue

GAAP revenue	\$	245,424
Revenue adjustments related to acquisitions		3,554
Non-GAAP revenue	\$	<u>248,978</u>

Table of Reconciliation from GAAP Gross Profit to Non-GAAP Gross Profit

GAAP gross profit	\$	144,730
GAAP gross margin		59.0%
Revenue adjustments related to acquisitions		3,554
Amortization of acquired technology and backlog		9,180
Stock-based compensation expenses		1,504
Other adjustments		729
Non-GAAP gross profit	\$	<u>159,697</u>
Non-GAAP gross margin		<u>64.1%</u>

Table of Reconciliation from GAAP Operating Loss to Non-GAAP Operating Income

GAAP operating loss	\$	(11,291)
As a percentage of GAAP revenue		(4.6%)
Revenue adjustments related to acquisitions		3,554
Amortization of acquired technology and backlog		9,180
Amortization of other acquired intangible assets		11,266
Stock-based compensation expenses		15,340
Other adjustments		6,746
Non-GAAP operating income	\$	<u>34,795</u>
As a percentage of non-GAAP revenue		<u>14.0%</u>

Table of Reconciliation from GAAP Other Expense, Net to Non-GAAP Other Expense, Net

GAAP other expense, net	\$	(4,572)
Unrealized losses on derivatives, net		258
Amortization of convertible note discount		2,614
Other adjustments		346
Non-GAAP other expense, net	\$	<u>(1,354)</u>

Table of Reconciliation from GAAP Provision for Income Taxes to Non-GAAP Provision for Income Taxes

GAAP provision for income taxes	\$	330
Non-cash tax adjustments		2,644
Non-GAAP provision for income taxes	\$	<u>2,974</u>

Table of Reconciliation from GAAP Net Loss Attributable to Verint Systems Inc. to Non-GAAP Net Income Attributable to Verint Systems Inc.

GAAP net loss attributable to Verint Systems Inc.	\$	(17,456)
Revenue adjustments related to acquisitions		3,554
Amortization of acquired technology and backlog		9,180
Amortization of other acquired intangible assets		11,266
Stock-based compensation expenses		15,340
Other adjustments		7,092
Unrealized losses on derivatives, net		258
Amortization of convertible note discount		2,614
Non-cash tax adjustments		(2,644)
Total GAAP net loss adjustments		<u>46,660</u>
Non-GAAP net income attributable to Verint Systems Inc.	\$	<u>29,204</u>

(in thousands, except per share data)

Three Months Ended
April 30, 2016

Table Comparing GAAP Diluted Net Loss Per Common Share Attributable to Verint Systems Inc. to Non-GAAP Diluted Net Income Per Common Share Attributable to Verint Systems Inc.

GAAP diluted net loss per common share attributable to Verint Systems Inc.	<u>\$ (0.28)</u>
Non-GAAP diluted net income per common share attributable to Verint Systems Inc.	<u>\$ 0.46</u>
Shares used in computing GAAP diluted net loss per common share	<u>62,258</u>
Shares used in computing non-GAAP diluted net income per common share	<u>62,934</u>

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

GAAP net loss attributable to Verint Systems Inc.	\$ (17,456)
Net income attributable to noncontrolling interest	1,263
Provision for income taxes	330
Other expense, net	4,572
Depreciation and amortization ⁽¹⁾	27,547
Revenue adjustments related to acquisitions	3,554
Stock-based compensation expenses	15,340
Other adjustments	6,745
Adjusted EBITDA	<u>\$ 41,895</u>

April 30, 2016

Table of Reconciliation from Gross Debt to Net Debt

Current maturities of long-term debt	\$ 4,171
Long-term debt	737,878
Unamortized debt discounts and issuance costs	70,108
Gross debt	<u>812,157</u>
Less:	
Cash and cash equivalents	323,905
Restricted cash and bank time deposits	11,089
Short-term investments	48,087
Net debt	<u>\$ 429,076</u>

(1) Adjusted for financing fee amortization.