

Verint Systems Inc. and Subsidiaries Information About Non-GAAP Measures

The following tables include a reconciliation of certain financial 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 that 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 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, these companies may calculate similar non-GAAP financial measures differently than we do, limiting their usefulness as comparative measures.

Our non-GAAP financial measures reflect adjustments to the corresponding GAAP financial measure based on the items set forth below. The purpose of these adjustments is to give an indication of our performance exclusive of certain non-cash charges and other items that are considered by our senior management to be outside of our ongoing operating results.

Acquisition Related Adjustments

Acquisition related adjustments include (i) revenue adjustments related to acquisitions, (ii) amortization of acquired intangible assets, including acquired technology and backlog, (iii) integration costs, (iv) acquisition related write-downs, (v) in-process research and development, (vi) impairment of goodwill and intangible assets (vii) other legal expenses (recoveries), and (viii) other adjustments. These adjustments are discussed below.

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 also exclude certain sales concession adjustments associated with acquisitions, relating to accounts receivable balances that existed prior to the acquisition date, in each case with respect to the acquisition of Witness Systems, Inc. (Witness) in May 2007. We exclude these adjustments from our non-GAAP financial measures because these are not reflective of our ongoing operations.

Amortization of acquired intangible assets, including acquired technology and backlog. 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 it over their useful lives. We exclude the amortization of acquired intangible assets, including acquired technology and backlog 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.

Integration costs. We exclude from our non-GAAP financial measures expenses directly related to the integration of Witness. These expenses are excluded from our non-GAAP financial measures because they are not reflective of our ongoing operations.

In-process research and development. We exclude from our non-GAAP financial measures the fair value of incomplete in-process research and development projects that had not yet reached technological feasibility and have no known alternative future use as of the date of the acquisition. These expenses are excluded from our non-GAAP financial measures because they are non-cash charges that we do not believe are reflective of our ongoing operations.

Impairments of goodwill and other acquired intangible assets. Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and identifiable intangible assets acquired. We exclude from our non-GAAP financial measures charges relating to impairment of goodwill and acquired identifiable intangible assets. These expenses are excluded from our non-GAAP financial measures because they are non-cash charges.

Other legal expenses (recoveries). We exclude from our non-GAAP financial measures other legal fees and settlements associated with certain intellectual property litigations assumed in connection with the Witness acquisition. We excluded these items from our non-GAAP financial measures because they are not reflective of our ongoing operations.

Other adjustments. We exclude from our non-GAAP financial measures legal and other professional fees associated with acquisitions. These expenses are excluded from our non-GAAP financial measures because we believe that they are not reflective of our ongoing operations.

Other Adjustments

Stock-based compensation expenses. We exclude stock-based compensation expenses related to stock options, restricted stock awards and units 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. In recent periods we also incurred significant cash-settled stock compensation due to our extended filing delay and restrictions on our ability to issue new shares to our employees.

Expenses related to our filing delay. We exclude from our non-GAAP financial measures expenses related to our restatement of previously filed financial statements and our extended filing delay. These expenses included professional fees and related expenses as well as expenses associated with a special cash retention program. These expenses are excluded from our non-GAAP financial measures because they are not reflective of our ongoing operations.

Restructuring costs. We exclude from our non-GAAP financial measures expense associated with the restructuring of our operations due to internal or external market factors. These expenses are excluded from our non-GAAP financial measures because we believe they are not reflective of our ongoing operations.

Unrealized gains and losses on investments and derivatives. We exclude from our non-GAAP financial measures investment write-down in auction rate securities and unrealized gain/(loss) on embedded derivatives, interest rate swaps, and foreign currency derivatives. These gains/(losses) are excluded from our non-GAAP financial measures because they are non-cash charges.

Settlement with OCS. In the year ended January 31, 2007, we recorded a charge related to our July 31, 2006 settlement with the Office of Chief Scientist in Israel ("OCS"), pursuant to which we exited a royalty-bearing program and the OCS accepted a settlement of our royalty obligations under this program. We exclude from our non-GAAP financial measures expenses associated with exiting this program because they are not reflective of our ongoing operations.

Gain on sale of land. We exclude from our non-GAAP financial measures the gain from the sale of a parcel of land. This gain is excluded from our non-GAAP financial measures because it is not reflective of our ongoing operations.

Non-cash tax adjustments. Non-cash tax adjustments represent the differences between the amount of taxes we paid 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.

Reconciliation of GAAP to Non-GAAP Results
(In thousands, except per share data)

	Years Ended January 31,				Three Months Ended			Year Ended
	2006	2007	2008	2009	Apr 30, 2009	Jul 31, 2009	Oct 31, 2009	
Table of Reconciliation from GAAP Revenue to Non-GAAP Revenue								
GAAP revenue	\$ 278,754	\$ 368,778	\$ 534,543	\$ 669,544	\$ 175,148	\$ 169,269	\$ 186,480	\$ 172,736
Revenue adjustments related to acquisitions	-	-	37,254	5,890	-	-	-	-
Non-GAAP revenue	\$ 278,754	\$ 368,778	\$ 571,797	\$ 675,434	\$ 175,148	\$ 169,269	\$ 186,480	\$ 172,736
Table of Reconciliation from GAAP Gross Profit to Non-GAAP Gross Profit								
GAAP gross profit	\$ 144,143	\$ 177,507	\$ 304,501	\$ 411,294	\$ 118,079	\$ 110,202	\$ 122,970	\$ 112,447
Revenue adjustments related to acquisitions	-	-	37,254	5,890	-	-	-	-
Amortization and impairment of acquired technology and backlog	5,017	7,664	8,018	9,024	2,099	1,977	1,973	1,972
Settlement with OCS	-	19,158	-	-	-	-	-	-
Stock-based compensation expenses	11	1,673	4,548	5,433	915	1,556	1,647	1,736
Expenses related to our filing delay	-	-	2,427	-	-	-	-	-
Non-GAAP gross profit	\$ 149,171	\$ 206,002	\$ 356,748	\$ 431,641	\$ 121,093	\$ 113,735	\$ 126,590	\$ 116,155
Table of Reconciliation from GAAP Operating Income (Loss) to Non-GAAP Operating Income								
GAAP operating income (loss)	\$ 4,112	\$ (47,253)	\$ (114,630)	\$ (15,026)	\$ 36,009	\$ 13,709	\$ 23,735	\$ (7,774)
Revenue adjustments related to acquisitions	-	-	37,254	5,890	-	-	-	-
Amortization and impairment of acquired technology and backlog	5,017	7,664	8,018	9,024	2,099	1,977	1,973	1,972
Amortization of other acquired intangible assets	1,337	3,164	19,668	25,249	5,930	5,586	5,376	5,376
Settlement with OCS	-	19,158	-	-	-	-	-	-
Impairments of goodwill and other acquired intangible assets	-	21,103	22,934	25,961	-	-	-	-
In-process research and development	2,852	-	6,682	-	-	-	-	-
Integration costs	-	-	10,980	3,261	-	-	-	-
Restructuring costs	-	-	3,308	5,685	13	11	-	117
Other legal expenses (recoveries)	2,554	-	8,708	(4,292)	-	-	-	-
Stock-based compensation expenses	1,187	18,791	31,061	36,011	6,556	13,138	11,682	12,869
Expenses related to our filing delay	26	3,660	41,422	28,681	6,562	10,220	12,473	25,256
Gain on sale of land	-	(765)	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-	-	762
Non-GAAP operating income	\$ 17,085	\$ 25,522	\$ 75,405	\$ 120,444	\$ 57,169	\$ 44,641	\$ 55,239	\$ 38,578
Table of Reconciliation from GAAP Other Income (Expense), Net to Non-GAAP Other Income (Expense), Net								
GAAP other income (expense), net	\$ 7,995	\$ 7,796	\$ (55,186)	\$ (43,880)	\$ (11,169)	\$ (9,377)	\$ (8,617)	\$ (12,308)
Unrealized gains and losses on investments and derivatives	-	-	26,703	(1,807)	(2,462)	(1,381)	(634)	(3,572)
Non-GAAP other income (expense), net	\$ 7,995	\$ 7,796	\$ (28,483)	\$ (45,687)	\$ (13,631)	\$ (10,758)	\$ (9,251)	\$ (15,880)
Table of Reconciliation from GAAP Provision for Income Taxes to Non-GAAP Provision for Income Taxes								
GAAP provision for income taxes	\$ 9,625	\$ 141	\$ 27,729	\$ 19,671	\$ 4,268	\$ 2,850	\$ 1,803	\$ (1,813)
Non-cash tax adjustments	(5,436)	3,182	(23,616)	(16,352)	(794)	(146)	1,867	3,626
Non-GAAP provision for income taxes	\$ 4,189	\$ 3,323	\$ 4,113	\$ 3,319	\$ 3,474	\$ 2,704	\$ 3,670	\$ 1,813

	Years Ended January 31,				Three Months Ended			Year Ended
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Revenue adjustments related to acquisitions	-	-	37,254	5,890	-	-	-	-
Amortization and impairment of acquired technology and backlog	5,017	7,664	8,018	9,024	2,099	1,977	1,973	1,972
Settlement with OCS	-	19,158	-	-	-	-	-	-
Stock-based compensation expenses	11	1,673	4,548	5,433	915	1,556	1,647	1,736
Expenses related to our filing delay	-	-	2,427	-	-	-	-	-
Non-GAAP gross profit	\$ 149,171	\$ 206,002	\$ 356,748	\$ 431,641	\$ 121,093	\$ 113,735	\$ 126,590	\$ 116,155
Table of Reconciliation from GAAP Operating Income (Loss) to Non-GAAP Operating Income								
GAAP operating income (loss)	\$ 4,112	\$ (47,253)	\$ (114,630)	\$ (15,026)	\$ 36,009	\$ 13,709	\$ 23,735	\$ (7,774)
Revenue adjustments related to acquisitions	-	-	37,254	5,890	-	-	-	-
Amortization and impairment of acquired technology and backlog	5,017	7,664	8,018	9,024	2,099	1,977	1,973	1,972
Amortization of other acquired intangible assets	1,337	3,164	19,668	25,249	5,930	5,586	5,376	5,376
Settlement with OCS	-	19,158	-	-	-	-	-	-
Impairments of goodwill and other acquired intangible assets	-	21,103	22,934	25,961	-	-	-	-
In-process research and development	2,852	-	6,682	-	-	-	-	-
Integration costs	-	-	10,980	3,261	-	-	-	-
Restructuring costs	-	-	3,308	5,685	13	11	-	117
Other legal expenses (recoveries)	2,554	-	8,708	(4,292)	-	-	-	-
Stock-based compensation expenses	1,187	18,791	31,061	36,011	6,556	13,138	11,682	12,869
Expenses related to our filing delay	26	3,660	41,422	28,681	6,562	10,220	12,473	25,256
Gain on sale of land	-	(765)	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-	-	762
Non-GAAP operating income	\$ 17,085	\$ 25,522	\$ 75,405	\$ 120,444	\$ 57,169	\$ 44,641	\$ 55,239	\$ 38,578
Table of Reconciliation from GAAP Other Income (Expense), Net to Non-GAAP Other Income (Expense), Net								
GAAP other income (expense), net	\$ 7,995	\$ 7,796	\$ (55,186)	\$ (43,880)	\$ (11,169)	\$ (9,377)	\$ (8,617)	\$ (12,308)
Unrealized gains and losses on investments and derivatives	-	-	26,703	(1,807)	(2,462)	(1,381)	(634)	(3,572)
Non-GAAP other income (expense), net	\$ 7,995	\$ 7,796	\$ (28,483)	\$ (45,687)	\$ (13,631)	\$ (10,758)	\$ (9,251)	\$ (15,880)
Table of Reconciliation from GAAP Provision for Income Taxes to Non-GAAP Provision for Income Taxes								
GAAP provision for income taxes	\$ 9,625	\$ 141	\$ 27,729	\$ 19,671	\$ 4,268	\$ 2,850	\$ 1,803	\$ (1,813)
Non-cash tax adjustments	(5,436)	3,182	(23,616)	(16,352)	(794)	(146)	1,867	3,626
Non-GAAP provision for income taxes	\$ 4,189	\$ 3,323	\$ 4,113	\$ 3,319	\$ 3,474	\$ 2,704	\$ 3,670	\$ 1,813

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	Years Ended January 31,					Three Months Ended			Year Ended	
	2006	2007	2008	2009	2009	Apr 30, 2009	Jul 31, 2009	Oct 31, 2009	Jan 31, 2010	Jan 31, 2010
Table of Reconciliation from GAAP Net Income (Loss) Attributable to Verint Systems Inc. to Non-GAAP Net Income Attributable to Verint Systems Inc.										
GAAP net income (loss) attributable to Verint Systems Inc.	\$ 1,664	\$ (40,519)	\$ (198,609)	\$ (80,388)	\$ 19,634	\$ 1,598	\$ 13,176	\$ (18,791)	\$ 15,617	
GAAP net income (loss) adjustments										
Revenue adjustments related to acquisitions	-	-	37,254	5,890	-	-	-	-	-	-
Amortization and impairment of acquired technology and backlog	5,017	7,664	8,018	9,024	2,099	1,977	1,973	1,972	8,021	
Amortization of other acquired intangible assets	1,337	3,164	19,668	25,249	5,930	5,586	5,376	5,376	22,268	
Settlement with OCS	-	19,158	-	-	-	-	-	-	-	-
Impairments of goodwill and other acquired intangible assets	-	21,103	22,934	25,961	-	-	-	-	-	-
In-process research and development	2,852	-	6,682	-	-	-	-	-	-	-
Integration costs	-	-	10,980	3,261	-	-	-	-	-	-
Restructuring costs	-	-	3,308	5,685	13	11	-	-	117	141
Other legal expenses (recoveries)	2,554	-	8,708	(4,292)	-	-	-	-	-	-
Stock-based compensation expenses	1,187	18,791	31,061	36,011	6,556	13,138	11,682	12,869	44,245	
Other adjustments	-	-	-	-	-	-	-	-	762	762
Expenses related to our filing delay	26	3,660	41,422	28,681	6,562	10,220	12,473	25,256	54,511	
Gain on sale of land	-	(765)	-	-	-	-	-	-	-	-
Unrealized gains and losses on investments and derivatives	-	-	26,703	(1,807)	(2,462)	(1,381)	(634)	(3,572)	(8,049)	
Non-cash tax adjustments	5,436	(3,182)	23,616	16,352	794	146	(1,867)	(3,626)	(4,553)	
Total GAAP net income (loss) adjustments	18,409	69,593	240,354	150,015	19,492	29,697	29,003	39,154	117,346	
Non-GAAP net income attributable to Verint Systems Inc.	\$ 20,073	\$ 29,074	\$ 41,745	\$ 69,627	\$ 39,126	\$ 31,295	\$ 42,179	\$ 20,363	\$ 132,963	

	Table of Reconciliation from GAAP Net Income (Loss) Attributable to Verint Systems Inc. to Non-GAAP Net Income Attributable to Verint Systems Inc. Common Shares		
GAAP net income (loss) attributable to Verint Systems Inc. common shares	1,664	(40,519)	(207,290)
Total GAAP net income (loss) adjustments	18,409	69,593	240,354
Non-GAAP net income (loss) attributable to Verint Systems Inc. common shares	\$ 20,073	\$ 29,074	\$ 33,064

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

GAAP diluted net income (loss) per share	\$ 0.05	\$ (1.26)	\$ (6.43)	\$ (2.88)	\$ 0.47	\$ (0.06)	\$ 0.29	\$ (0.68)	\$ 0.06
Non-GAAP diluted net income per share	\$ 0.62	\$ 0.88	\$ 1.00	\$ 1.65	\$ 0.93	\$ 0.73	\$ 0.98	\$ 0.47	\$ 3.09
Shares used in computing GAAP diluted net income (loss) per share (in thousands)	32,620	32,156	32,222	32,394	42,151	32,465	33,330	32,517	33,127
Shares used in computing non-GAAP diluted net income per share (in thousands)	32,620	32,979	33,035	42,298	42,151	42,682	43,213	43,551	42,963