

Verint Systems Inc. and Subsidiaries

Information About Non-GAAP Financial 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, those 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.

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 intangible assets, including acquired technology. When we acquire an entity, we are required under GAAP to record the fair value 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 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 plans 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 prior periods, we also incurred significant cash-settled stock compensation due to our extended filing delay and restrictions on our ability to issue new shares of common stock to our employees.

M&A and other adjustments. We exclude from our non-GAAP financial measures legal, other professional fees and certain other expenses associated with acquisitions and certain extraordinary transactions, in both cases, whether or not consummated. 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.

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.

Unrealized (gains) and losses on derivatives, net. We exclude from our non-GAAP financial measures unrealized gains and losses on interest rate swaps and foreign currency derivatives. These gains and losses are excluded from our non-GAAP financial measures because they are non-cash transactions.

Loss on extinguishment of debt. We exclude from our non-GAAP financial measures loss on extinguishment of debt attributable to refinancing of our debt because we believe 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 actually 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)

	Three Months Ended				Year Ended
	April 30, 2011	July 31, 2011	October 31, 2011	January 31, 2012	January 31, 2012
<u>Table of Reconciliation from GAAP Revenue to Non-GAAP Revenue</u>					
GAAP revenue	\$ 176,332	\$ 194,959	\$ 199,364	\$ 211,993	\$ 782,648
Revenue adjustments related to acquisitions	235	727	5,211	7,426	13,599
Non-GAAP revenue	<u>\$ 176,567</u>	<u>\$ 195,686</u>	<u>\$ 204,575</u>	<u>\$ 219,419</u>	<u>\$ 796,247</u>
<u>Table of Reconciliation from GAAP Gross Profit to Non-GAAP Gross Profit</u>					
GAAP gross profit	\$ 120,983	\$ 125,850	\$ 129,225	\$ 138,229	\$ 514,287
Revenue adjustments related to acquisitions	235	727	5,211	7,426	13,599
Amortization of acquired technology	2,650	2,685	3,425	3,640	12,400
Stock-based compensation expenses	969	627	765	946	3,307
M&A and other adjustments	-	414	(18)	8	404
Non-GAAP gross profit	<u>\$ 124,837</u>	<u>\$ 130,303</u>	<u>\$ 138,608</u>	<u>\$ 150,249</u>	<u>\$ 543,997</u>
<u>Table of Reconciliation from GAAP Operating Income to Non-GAAP Operating Income and Non-GAAP EBITDA</u>					
GAAP operating income	\$ 18,834	\$ 21,410	\$ 18,282	\$ 27,951	\$ 86,478
Revenue adjustments related to acquisitions	235	727	5,211	7,426	13,599
Amortization of acquired technology	2,650	2,685	3,425	3,640	12,400
Amortization of other acquired intangible assets	5,546	5,415	5,943	5,998	22,902
Stock-based compensation expenses	7,550	6,641	6,650	7,070	27,911
M&A and other adjustments	3,711	3,491	4,518	535	12,255
Expenses related to our filing delay	991	17	-	-	1,008
Non-GAAP operating income	<u>\$ 39,517</u>	<u>\$ 40,386</u>	<u>\$ 44,029</u>	<u>\$ 52,620</u>	<u>\$ 176,553</u>
GAAP Depreciation and Amortization (1)	12,388	12,046	13,150	13,404	50,987
Amortization of acquired technology	(2,650)	(2,685)	(3,425)	(3,640)	(12,400)
Amortization of other acquired intangible assets	(5,546)	(5,415)	(5,943)	(5,998)	(22,902)
M&A and other adjustments	(244)	-	-	-	(244)
Non-GAAP Depreciation and Amortization	<u>\$ 3,948</u>	<u>\$ 3,946</u>	<u>\$ 3,782</u>	<u>\$ 3,766</u>	<u>\$ 15,441</u>
Non-GAAP EBITDA	<u>\$ 43,465</u>	<u>\$ 44,332</u>	<u>\$ 47,811</u>	<u>\$ 56,386</u>	<u>\$ 191,994</u>
<u>Table of Reconciliation from GAAP Other Expense, Net to Non-GAAP Other Expense, Net</u>					
GAAP other expense, net	\$ (15,770)	\$ (6,973)	\$ (9,065)	\$ (8,513)	\$ (40,321)
Loss on extinguishment of debt	8,136	-	-	-	8,136
Unrealized (gains) losses on derivatives, net	1,107	(377)	(688)	(459)	(417)
M&A and other adjustments	-	-	89	4	93
Non-GAAP other expense, net	<u>\$ (6,527)</u>	<u>\$ (7,350)</u>	<u>\$ (9,664)</u>	<u>\$ (8,968)</u>	<u>\$ (32,509)</u>
<u>Table of Reconciliation from GAAP Provision for (Benefit From) Income Taxes to Non-GAAP Provision for Income Taxes</u>					
GAAP provision for (benefit from) income taxes	\$ 1,509	\$ 3,163	\$ (704)	\$ 1,564	\$ 5,532
Non-cash tax adjustments	2,120	471	4,986	3,520	11,097
Non-GAAP provision for income taxes	<u>\$ 3,629</u>	<u>\$ 3,634</u>	<u>\$ 4,282</u>	<u>\$ 5,084</u>	<u>\$ 16,629</u>

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

	Three Months Ended				Year Ended
	April 30, 2011	July 31, 2011	October 31, 2011	January 31, 2012	January 31, 2012
<u>Table of Reconciliation from GAAP Net Income (Loss) Attributable to Verint Systems Inc. to Non-GAAP Net Income Attributable to Verint Systems Inc.</u>					
GAAP net income (loss) attributable to Verint Systems Inc.	\$ (112)	\$ 10,475	\$ 9,451	\$ 17,178	\$ 36,993
GAAP net income (loss) adjustments					
Revenue adjustments related to acquisitions	235	727	5,211	7,426	13,599
Amortization of acquired technology	2,650	2,685	3,425	3,640	12,400
Amortization of other acquired intangible assets	5,546	5,415	5,943	5,998	22,902
Stock-based compensation expenses	7,550	6,641	6,650	7,070	27,911
M&A and other adjustments	3,711	3,491	4,607	539	12,348
Expenses related to our filing delay	991	17	-	-	1,008
Loss on extinguishment of debt	8,136	-	-	-	8,136
Unrealized (gains) losses on derivatives, net	1,107	(377)	(688)	(459)	(417)
Non-cash tax adjustments	(2,120)	(471)	(4,986)	(3,520)	(11,097)
Total GAAP net income (loss) adjustments	<u>27,806</u>	<u>18,128</u>	<u>20,162</u>	<u>20,694</u>	<u>86,790</u>
Non-GAAP net income attributable to Verint Systems Inc.	<u>\$ 27,694</u>	<u>\$ 28,603</u>	<u>\$ 29,613</u>	<u>\$ 37,872</u>	<u>\$ 123,783</u>

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

GAAP net income (loss) attributable to Verint Systems Inc. common shares	\$ (3,661)	\$ 6,768	\$ 5,704	\$ 13,391	\$ 22,203
Total GAAP net income (loss) adjustments	<u>27,806</u>	<u>18,128</u>	<u>20,162</u>	<u>20,694</u>	<u>86,790</u>
Non-GAAP net income attributable to Verint Systems Inc. common shares	<u>\$ 24,145</u>	<u>\$ 24,896</u>	<u>\$ 25,866</u>	<u>\$ 34,085</u>	<u>\$ 108,993</u>

Table Comparing GAAP Diluted Net Income (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 income (loss) per common share attributable to Verint Systems Inc.	<u>\$ (0.10)</u>	<u>\$ 0.17</u>	<u>\$ 0.15</u>	<u>\$ 0.34</u>	<u>\$ 0.56</u>
Non-GAAP diluted net income per common share attributable to Verint Systems Inc.	<u>\$ 0.56</u>	<u>\$ 0.57</u>	<u>\$ 0.59</u>	<u>\$ 0.75</u>	<u>\$ 2.47</u>
Shares used in computing GAAP diluted net income (loss) per common share (in thousands)	<u>37,392</u>	<u>39,377</u>	<u>39,263</u>	<u>39,674</u>	<u>39,499</u>
Shares used in computing non-GAAP diluted net income per common share (in thousands)	<u>49,553</u>	<u>49,949</u>	<u>49,937</u>	<u>50,453</u>	<u>50,123</u>

(I) Adjusted for patent and financing fee amortization.