

## **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 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 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 those assets 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.

*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 (and excluded from our non-GAAP financial measures) significant cash-settled stock compensation expense due to our previous 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, whether or not consummated, and certain extraordinary transactions, including reorganizations, restructurings and expenses associated with the CTI Merger. Also excluded are changes in the fair value of contingent consideration liabilities associated with business combinations, and expenses related to our restatement of previously filed financial statements and our previous extended filing delay. These expenses are excluded from our non-GAAP financial measures because we believe that they are not reflective of our ongoing operations.

*Unrealized (gains) losses on derivatives, net.* We exclude from our non-GAAP financial measures unrealized gains and losses on foreign currency derivatives. These 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.

*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 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, 2012	July 31, 2012	October 31, 2012	January 31, 2013	January 31, 2013
<u>Table of Reconciliation from GAAP Revenue to Non-GAAP Revenue</u>					
GAAP revenue	\$ 196,635	\$ 212,426	\$ 201,520	\$ 228,961	\$ 839,542
Revenue adjustments related to acquisitions	3,604	2,642	1,129	1,159	8,534
Non-GAAP revenue	<u>\$ 200,239</u>	<u>\$ 215,068</u>	<u>\$ 202,649</u>	<u>\$ 230,120</u>	<u>\$ 848,076</u>
<u>Table of Reconciliation from GAAP Gross Profit to Non-GAAP Gross Profit</u>					
GAAP gross profit	\$ 128,307	\$ 136,446	\$ 136,238	\$ 156,547	\$ 557,538
Revenue adjustments related to acquisitions	3,604	2,642	1,129	1,159	8,534
Amortization of acquired technology and backlog	3,784	3,644	3,696	3,688	14,812
Stock-based compensation expenses	724	569	821	743	2,857
M&A and other adjustments	9	(4)	407	123	535
Non-GAAP gross profit	<u>\$ 136,428</u>	<u>\$ 143,297</u>	<u>\$ 142,291</u>	<u>\$ 162,260</u>	<u>\$ 584,276</u>
<u>Table of Reconciliation from GAAP Operating Income to Non-GAAP Operating Income and Non-GAAP EBITDA</u>					
GAAP operating income	\$ 20,983	\$ 26,263	\$ 16,771	\$ 35,536	\$ 99,553
Revenue adjustments related to acquisitions	3,604	2,642	1,129	1,159	8,534
Amortization of acquired technology and backlog	3,784	3,644	3,696	3,688	14,812
Amortization of other acquired intangible assets	6,198	6,035	6,109	6,100	24,442
Stock-based compensation expenses	5,711	5,922	6,685	6,890	25,208
M&A and other adjustments	(842)	(1,476)	11,344	7,597	16,623
Non-GAAP operating income	<u>39,438</u>	<u>43,030</u>	<u>45,734</u>	<u>60,970</u>	<u>189,172</u>
GAAP Depreciation and Amortization (1)	13,630	13,657	13,713	13,936	54,936
Amortization of acquired technology and backlog	(3,784)	(3,644)	(3,696)	(3,688)	(14,812)
Amortization of other acquired intangible assets	(6,198)	(6,035)	(6,109)	(6,100)	(24,442)
M&A and other adjustments	-	(84)	-	-	(84)
Non-GAAP Depreciation and Amortization	<u>3,648</u>	<u>3,894</u>	<u>3,908</u>	<u>4,148</u>	<u>15,598</u>
Non-GAAP EBITDA	<u>\$ 43,086</u>	<u>\$ 46,924</u>	<u>\$ 49,642</u>	<u>\$ 65,118</u>	<u>\$ 204,770</u>
<u>Table of Reconciliation from GAAP Other Expense, Net to Non-GAAP Other Expense, Net</u>					
GAAP other expense, net	\$ (6,954)	\$ (8,226)	\$ (7,913)	\$ (8,696)	\$ (31,789)
Unrealized (gains) losses on derivatives, net	(336)	(61)	254	276	133
M&A and other adjustments	4	(93)	1,006	222	1,139
Non-GAAP other expense, net	<u>\$ (7,286)</u>	<u>\$ (8,380)</u>	<u>\$ (6,653)</u>	<u>\$ (8,198)</u>	<u>\$ (30,517)</u>
<u>Table of Reconciliation from GAAP Provision for Income Taxes to Non-GAAP Provision for Income Taxes</u>					
GAAP provision for (benefit from) income taxes	\$ 2,399	\$ 4,772	\$ 2,243	\$ (454)	\$ 8,960
Non-cash tax adjustments	1,459	(447)	3,375	4,814	9,201
Non-GAAP provision for income taxes	<u>\$ 3,858</u>	<u>\$ 4,325</u>	<u>\$ 5,618</u>	<u>\$ 4,360</u>	<u>\$ 18,161</u>

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

	Three Months Ended				Year Ended
	April 30, 2012	July 31, 2012	October 31, 2012	January 31, 2013	January 31, 2013
<u>Table of Reconciliation from GAAP Net Income Attributable to Verint Systems Inc. to Non-GAAP Net Income Attributable to Verint Systems Inc.</u>					
GAAP net income attributable to Verint Systems Inc.	\$ 10,035	\$ 12,607	\$ 5,471	\$ 25,889	\$ 54,002
GAAP net income adjustments					
Revenue adjustments related to acquisitions	3,604	2,642	1,129	1,159	8,534
Amortization of acquired technology and backlog	3,784	3,644	3,696	3,688	14,812
Amortization of other acquired intangible assets	6,198	6,035	6,109	6,100	24,442
Stock-based compensation expenses	5,711	5,922	6,685	6,890	25,208
M&A and other adjustments	(838)	(1,569)	12,350	7,819	17,762
Unrealized (gains) losses on derivatives, net	(336)	(61)	254	276	133
Non-cash tax adjustments	(1,459)	447	(3,375)	(4,814)	(9,201)
Total GAAP net income adjustments	16,664	17,060	26,848	21,118	81,690
Non-GAAP net income attributable to Verint Systems Inc.	<u>\$ 26,699</u>	<u>\$ 29,667</u>	<u>\$ 32,319</u>	<u>\$ 47,007</u>	<u>\$ 135,692</u>

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

GAAP net income attributable to Verint Systems Inc. common shares	\$ 6,291	\$ 8,739	\$ 1,562	\$ 21,938	\$ 38,530
Total GAAP net income adjustments	16,664	17,060	26,848	21,118	81,690
Non-GAAP net income attributable to Verint Systems Inc. common shares	<u>\$ 22,955</u>	<u>\$ 25,799</u>	<u>\$ 28,410</u>	<u>\$ 43,056</u>	<u>\$ 120,220</u>

Table Comparing GAAP Diluted Net Income 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 per common share attributable to Verint Systems Inc.	\$ 0.16	\$ 0.22	\$ 0.04	\$ 0.50	\$ 0.96
Non-GAAP diluted net income per common share attributable to Verint Systems Inc.	<u>\$ 0.53</u>	<u>\$ 0.58</u>	<u>\$ 0.63</u>	<u>\$ 0.91</u>	<u>\$ 2.64</u>
Shares used in computing GAAP diluted net income per common share	39,889	40,072	39,922	51,797	40,312
Shares used in computing non-GAAP diluted net income per common share	<u>50,771</u>	<u>51,060</u>	<u>51,018</u>	<u>51,797</u>	<u>51,355</u>

(1) Adjusted for patent and financing fee amortization.