

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.

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 and restructurings. 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 losses (gains) on derivatives, net. We exclude from our non-GAAP financial measures unrealized gains and losses on foreign currency derivatives not designated as hedges. 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.

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 it is 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.

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

	Three Months Ended				Year Ended
	April 30, 2014	July 31, 2014	October 31, 2014	January 31, 2015	January 31, 2015
<u>Table of Reconciliation from GAAP Revenue to Non-GAAP Revenue</u>					
GAAP revenue	\$ 257,393	\$ 276,816	\$ 282,574	\$ 311,653	\$ 1,128,436
Revenue adjustments related to acquisitions	11,929	7,912	5,945	3,941	29,727
Non-GAAP revenue	<u>\$ 269,322</u>	<u>\$ 284,728</u>	<u>\$ 288,519</u>	<u>\$ 315,594</u>	<u>\$ 1,158,163</u>

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

GAAP gross profit	\$ 154,570	\$ 174,261	\$ 181,471	\$ 202,986	\$ 713,288
Revenue adjustments related to acquisitions	11,929	7,912	5,945	3,941	29,727
Amortization of acquired technology and backlog	6,358	8,564	8,096	7,986	31,004
Stock-based compensation expenses	1,085	1,241	1,165	2,765	6,256
M&A and other adjustments	4,525	140	(1,078)	486	4,073
Non-GAAP gross profit	<u>\$ 178,467</u>	<u>\$ 192,118</u>	<u>\$ 195,599</u>	<u>\$ 218,164</u>	<u>\$ 784,348</u>

Table of Reconciliation from GAAP Operating Income to Non-GAAP Operating Income and Non-GAAP EBITDA

GAAP operating income	\$ 996	\$ 11,470	\$ 24,358	\$ 42,287	\$ 79,111
Revenue adjustments related to acquisitions	11,929	7,912	5,945	3,941	29,727
Amortization of acquired technology and backlog	6,358	8,564	8,096	7,986	31,004
Amortization of other acquired intangible assets	11,203	11,554	11,367	11,039	45,163
Stock-based compensation expenses	11,489	14,438	12,626	15,905	54,458
M&A and other adjustments	9,049	4,616	2,295	7,480	23,440
Non-GAAP operating income	<u>51,024</u>	<u>58,554</u>	<u>64,687</u>	<u>88,638</u>	<u>262,903</u>
GAAP depreciation and amortization (1)	22,578	25,162	24,323	24,394	96,457
Amortization of acquired technology and backlog	(6,358)	(8,564)	(8,096)	(7,986)	(31,004)
Amortization of other acquired intangible assets	(11,203)	(11,554)	(11,367)	(11,039)	(45,163)
Non-GAAP depreciation and amortization	<u>5,017</u>	<u>5,044</u>	<u>4,860</u>	<u>5,369</u>	<u>20,290</u>
Non-GAAP EBITDA	<u>\$ 56,041</u>	<u>\$ 63,598</u>	<u>\$ 69,547</u>	<u>\$ 94,007</u>	<u>\$ 283,193</u>

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

GAAP other expense, net	\$ (14,265)	\$ (16,316)	\$ (8,119)	\$ (19,008)	\$ (57,708)
Losses on early retirements of debt	7,092	5,454	-	-	12,546
Unrealized losses (gains) on derivatives, net	739	(919)	(1,562)	1,613	(129)
Amortization of convertible note discount	-	1,148	2,417	2,449	6,014
M&A and other adjustments	25	50	(154)	573	494
Non-GAAP other expense, net	<u>\$ (6,409)</u>	<u>\$ (10,583)</u>	<u>\$ (7,418)</u>	<u>\$ (14,373)</u>	<u>\$ (38,783)</u>

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

GAAP (benefit) provision for income taxes	\$ (42,088)	\$ 5,534	\$ 4,766	\$ 16,789	\$ (14,999)
Non-cash tax adjustments	46,386	(1,249)	(24)	(10,492)	34,621
Non-GAAP provision for income taxes	<u>\$ 4,298</u>	<u>\$ 4,285</u>	<u>\$ 4,742</u>	<u>\$ 6,297</u>	<u>\$ 19,622</u>

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.	\$ 27,956	\$ (12,278)	\$ 10,670	\$ 4,583	\$ 30,931
GAAP net income (loss) adjustments					
Revenue adjustments related to acquisitions	11,929	7,912	5,945	3,941	29,727
Amortization of acquired technology and backlog	6,358	8,564	8,096	7,986	31,004
Amortization of other acquired intangible assets	11,203	11,554	11,367	11,039	45,163
Stock-based compensation expenses	11,489	14,438	12,626	15,905	54,458

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

	Three Months Ended				Year Ended
	April 30, 2014	July 31, 2014	October 31, 2014	January 31, 2015	January 31, 2015
M&A and other adjustments	9,074	4,666	2,141	8,053	23,934
Losses on early retirements of debt	7,092	5,454	-	-	12,546
Unrealized losses (gains) on derivatives, net	739	(919)	(1,562)	1,613	(129)
Amortization of convertible note discount	-	1,148	2,417	2,449	6,014
Non-cash tax adjustments	(46,386)	1,249	24	10,492	(34,621)
Total GAAP net income (loss) adjustments	11,498	54,066	41,054	61,478	168,096
Non-GAAP net income attributable to Verint Systems Inc.	<u>\$ 39,454</u>	<u>\$ 41,788</u>	<u>\$ 51,724</u>	<u>\$ 66,061</u>	<u>\$ 199,027</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	\$ 27,956	\$ (12,278)	\$ 10,670	\$ 4,583	\$ 30,931
Total GAAP net income (loss) adjustments	11,498	54,066	41,054	61,478	168,096
Non-GAAP net income attributable to Verint Systems Inc. common shares	<u>\$ 39,454</u>	<u>\$ 41,788</u>	<u>\$ 51,724</u>	<u>\$ 66,061</u>	<u>\$ 199,027</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>\$ 0.51</u>	<u>\$ (0.21)</u>	<u>\$ 0.17</u>	<u>\$ 0.07</u>	<u>\$ 0.52</u>
Non-GAAP diluted net income per common share attributable to Verint Systems Inc.	<u>\$ 0.72</u>	<u>\$ 0.72</u>	<u>\$ 0.84</u>	<u>\$ 1.06</u>	<u>\$ 3.35</u>
Shares used in computing GAAP diluted net income (loss) per common share	<u>55,018</u>	<u>57,158</u>	<u>61,492</u>	<u>62,081</u>	<u>59,374</u>
Shares used in computing non-GAAP diluted net income per common share	<u>55,018</u>	<u>58,179</u>	<u>61,492</u>	<u>62,081</u>	<u>59,374</u>

Table of Reconciliation from Gross Debt to Net Debt

	April 30, 2014	July 31, 2014	October 31, 2014	January 31, 2015
Current maturities of long-term debt	\$ 9,496	\$ 61	\$ 36	\$ 23
Long-term debt	1,020,365	731,891	734,316	736,779
Unamortized debt discounts	720	79,255	76,824	74,363
Gross debt	<u>1,030,581</u>	<u>811,207</u>	<u>811,176</u>	<u>811,165</u>
Less:				
Cash and cash equivalents	187,316	186,669	192,335	285,072
Restricted cash and bank time deposits	19,949	41,366	39,930	36,920
Short-term investments	35,875	39,361	40,136	35,751
Net debt	<u>\$ 787,441</u>	<u>\$ 543,811</u>	<u>\$ 538,775</u>	<u>\$ 453,422</u>

(1) Adjusted for financing fee amortization.