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 and non-GAAP effective income tax rate, non-GAAP net income attributable to Verint Systems Inc., non-GAAP net income per common share attributable to Verint Systems Inc., adjusted EBITDA, and net debt prepared in accordance with Generally Accepted Accounting Principles ("GAAP") to the most directly comparable financial measures not prepared in accordance with GAAP ("non-GAAP").

We believe these non-GAAP financial measures, used in conjunction with the corresponding GAAP measures, provide investors with useful supplemental information about the financial performance of our business by:

- facilitating the comparison of our financial results and business trends between periods, including by excluding certain items that either can vary significantly in amount and frequency, are based upon subjective assumptions, or in certain cases are unplanned for or difficult to forecast,
- facilitating the comparison of our financial results and business trends with other technology companies who publish similar non-GAAP measures, and
- allowing investors to see and understand key supplementary metrics used by our management to run our business, including for budgeting and forecasting, resource allocation, and compensation matters.

We also make these non-GAAP financial measures available because a number of our investors have informed us that they find this supplemental information useful.

Non-GAAP financial measures should not be considered in isolation as substitutes for, or superior to, comparable GAAP financial measures. The non-GAAP financial measures we present 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. Other companies may calculate similar non-GAAP financial measures differently than we do, limiting their usefulness as comparative measures.

Our non-GAAP financial measures are calculated by making the following adjustments to our 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 stand-alone basis. We believe that it is useful for investors to understand the total amount of revenue that we and the acquired company would have recognized on a stand-alone basis under GAAP, absent the accounting adjustment associated with the business acquisition. 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 measure helps management and investors 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 because they are inconsistent in amount and frequency and are significantly impacted by the timing and size of acquisitions. We also exclude these amounts to provide easier 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.

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. 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. Our non-GAAP financial measures exclude the amortization of the imputed discount on our convertible notes. 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 assumed non-convertible debt borrowing rate. For GAAP purposes, we are required to recognize imputed interest expense on the difference between our assumed non-convertible debt borrowing rate and the coupon rate on our $400.0 million of 1.50% convertible notes. This difference is excluded from our non-GAAP financial measures because we believe that this expense is based upon subjective assumptions and does not reflect the cash cost of our convertible debt.

Losses and expenses on early retirements or modifications of debt. We exclude from our non-GAAP financial measures losses on early retirements of debt attributable to refinancing or repaying our debt, and expenses incurred to modify debt terms, because we believe they are not reflective of our ongoing operations.

Acquisition Expenses, net. In connection with acquisition activity (including with respect to acquisitions that are not consummated), we incur expenses, including legal, accounting, and other professional fees, integration costs, changes in the fair value of contingent consideration obligations, and other costs. Integration costs may consist of information technology expenses as systems are integrated across the combined entity, consulting expenses, marketing expenses, and professional fees, as well as non-cash charges to write-off or impair the value of redundant assets. We exclude these expenses from our non-GAAP financial measures because they are unpredictable, can vary based on the size and complexity of each transaction, and are unrelated to our continuing operations or to the continuing operations of the acquired businesses.

Restructuring Expenses. We exclude restructuring expenses from our non-GAAP financial measures, which include employee termination costs, facility exit costs, certain professional fees, asset impairment charges, and other costs directly associated with resource realignments incurred in reaction to changing strategies or business conditions. All of these costs can vary significantly in amount and frequency based on the nature of the actions as well as the changing needs of our business and we believe that excluding them provides easier comparability of pre- and post-restructuring operating results.

Impairment Charges and Other Adjustments. We exclude from our non-GAAP financial measures asset impairment charges (other than those already included within restructuring or acquisition activity), rent expense for redundant facilities, gains or losses on sales of property, and certain professional fees unrelated to our ongoing operations, all of which are unusual in nature and can vary significantly in amount and frequency.

Non-GAAP income tax adjustments. We exclude our GAAP provision (benefit) for income taxes from our non-GAAP measures of net income attributable to Verint Systems Inc., and instead include a non-GAAP provision for income taxes, determined by applying a non-GAAP effective income tax rate to our income before provision for income taxes, as adjusted for the non-GAAP items described above. The non-GAAP effective income tax rate is generally based upon the income taxes we expect to pay in the reporting year. We adjust our non-GAAP effective income tax rate to exclude current-year tax payments or refunds associated with prior-year income tax returns and related amendments which were significantly delayed as a result of our previous extended filing delay. Our GAAP effective income tax rate can vary significantly from year to year as a result of tax law changes, settlements with tax authorities, changes in the geographic mix of earnings including acquisition activity, changes in the projected realizability of deferred tax assets, and other unusual or period-specific events, all of which can vary in size and frequency. We believe that our non-GAAP effective income tax rate removes much of this variability and facilitates meaningful comparisons of operating results across periods. Our non-GAAP effective income tax rate for the year ended January 31, 2018 is 11.5%. We evaluate our non-GAAP effective income tax rate on an ongoing basis and it can change from time to time. Our non-GAAP income tax rate can differ materially from our GAAP effective income tax rate.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure defined as net income (loss) before interest expense, interest income, income taxes, depreciation expense, amortization expense, revenue adjustments related to acquisitions, restructuring expenses, acquisition expenses, and other expenses excluded from our non-GAAP financial measures as described above. We believe that adjusted EBITDA is also commonly used by investors to evaluate operating performance between competitors because it helps reduce variability caused by differences in capital structures, income taxes, stock-based compensation accounting policies, and depreciation and amortization policies. Adjusted EBITDA is also used by credit rating agencies, lenders, and other parties to evaluate our creditworthiness.

Net Debt

Net Debt is a non-GAAP measure defined as the sum of long-term and short-term debt on our consolidated balance sheet, excluding unamortized discounts and issuance costs, less the sum of cash and cash equivalents, restricted cash and bank time deposits, and short-term investments. We use this non-GAAP financial measure to help evaluate our capital structure, financial leverage, and our ability to reduce debt and to fund investing and financing activities, and believe that it provides useful information to investors.

(in thousands, except per share data)	Three Months Ended April 30, 2017	July 31, 2017	October 31, 2017	January 31, 2018	Year Ended January 31, 2018
Table of Reconciliation from GAAP Revenue to Non-GAAP Revenue					
GAAP revenue	**$ 260,995**	**$ 274,777**	**$ 280,726**	**$ 318,731**	**$ 1,135,229**
Revenue adjustments related to acquisitions	4,739	3,461	3,034	3,995	15,229
Non-GAAP revenue	$ 265,734	$ 278,238	$ 283,760	$ 322,726	$ 1,150,458
Table of Reconciliation from GAAP Gross Profit to Non-GAAP Gross Profit					
GAAP gross profit	**$ 150,192**	**$ 164,103**	**$ 169,321**	**$ 204,826**	**$ 688,442**
GAAP gross margin	**57.5 %**	**59.7 %**	**60.3%**	**64.3%**	**60.6 %**
Revenue adjustments related to acquisitions	4,739	3,461	3,034	3,995	15,229
Amortization of acquired technology	9,534	9,530	9,182	9,970	38,216
Stock-based compensation expenses	1,593	2,078	2,197	2,597	8,465
Acquisition expenses, net	1	67	23	22	113
Restructuring expenses	813	205	919	286	2,223
Non-GAAP gross profit	**$ 166,872**	**$ 179,444**	**$ 184,676**	**$ 221,696**	**$ 752,688**
Non-GAAP gross margin	**62.8 %**	**64.5 %**	**65.1%**	**68.7%**	**65.4 %**
Table of Reconciliation from GAAP (Loss) Income to Non-GAAP Operating Income					
GAAP operating (loss) income	**$ (9,385)**	**$ 3,946**	**$ 17,812**	**$ 36,257**	**$ 48,630**
As a percentage of GAAP revenue	**(3.6)%**	**1.4 %**	**6.3%**	**11.4%**	**4.3 %**
Revenue adjustments related to acquisitions	4,739	3,461	3,034	3,995	15,229
Amortization of acquired technology	9,534	9,530	9,182	9,970	38,216
Amortization of other acquired intangible assets	11,537	8,142	7,048	7,482	34,209
Stock-based compensation expenses	17,683	16,804	15,966	18,913	69,366
Acquisition expenses, net	4,852	1,666	(4,063)	(859)	1,596
Restructuring expenses	3,478	1,770	6,309	1,960	13,517
Impairment charges	—	—	—	3,324	3,324
Other adjustments	292	309	490	970	2,061
Non-GAAP operating income	**$ 42,730**	**$ 45,628**	**$ 55,778**	**$ 82,012**	**$ 226,148**
As a percentage of non-GAAP revenue	**16.1 %**	**16.4 %**	**19.7%**	**25.4%**	**19.7 %**
Table of Reconciliation from GAAP Other Expense, Net to Non-GAAP Other Expense, Net					
GAAP other expense, net	**$ (10,547)**	**$ (5,260)**	**$ (8,802)**	**$ (5,121)**	**$ (29,730)**
Unrealized gains on derivatives, net	(95)	(892)	(890)	(1,359)	(3,236)
Amortization of convertible note discount	2,756	2,792	2,829	2,866	11,243
Losses and expenses on early retirement or modification of debt	—	1,934	—	747	2,681
Acquisition expenses, net	682	38	(10)	152	862
Restructuring expenses	80	58	1	—	139
Non-GAAP other expense, net	**$ (7,124)**	**$ (1,330)**	**$ (6,872)**	**$ (2,715)**	**$ (18,041)**

(in thousands, except per share data)	Three Months Ended April 30, 2017	July 31, 2017	October 31, 2017	January 31, 2018	Year Ended January 31, 2018
Table of Reconciliation from GAAP (Benefit) Provision for Income Taxes to Non-GAAP Provision for Income Taxes					
GAAP (benefit) provision for income taxes	**$ (892)**	**$ 4,452**	**$ 5,944**	**$ 12,850**	**$ 22,354**
GAAP effective income tax rate	**4.5 %**	**(338.8)%**	**66.0%**	**41.3%**	**118.3 %**
Non-GAAP tax adjustments	4,754	419	(91)	(3,436)	1,646
Non-GAAP provision for income taxes	**$ 3,862**	**$ 4,871**	**$ 5,853**	**$ 9,414**	**$ 24,000**
Non-GAAP effective income tax rate	**10.8 %**	**11.0 %**	**12.0%**	**11.9%**	**11.5 %**
Table of Reconciliation from GAAP Net (Loss) Income Attributable to Verint Systems Inc. to Non-GAAP Net Income Attributable to Verint Systems Inc.					
GAAP net (loss) income attributable to Verint Systems Inc.	**$ (19,786)**	**$ (6,427)**	**$ 2,489**	**$ 17,097**	**$ (6,627)**
Revenue adjustments related to acquisitions	4,739	3,461	3,034	3,995	15,229
Amortization of acquired technology	9,534	9,530	9,182	9,970	38,216
Amortization of other acquired intangible assets	11,537	8,142	7,048	7,482	34,209
Stock-based compensation expenses	17,683	16,804	15,966	18,913	69,366
Unrealized gains on derivatives, net	(95)	(892)	(890)	(1,359)	(3,236)
Amortization of convertible note discount	2,756	2,792	2,829	2,866	11,243
Losses and expenses on early retirement or modification of debt	—	1,934	—	747	2,681
Acquisition expenses, net	5,534	1,704	(4,073)	(707)	2,458
Restructuring expenses	3,558	1,828	6,310	1,960	13,656
Impairment charges	—	—	—	3,324	3,324
Other adjustments	292	309	490	970	2,061
Non-GAAP tax adjustments	(4,754)	(419)	91	3,436	(1,646)
Total GAAP net (loss) income adjustments	50,784	45,193	39,987	51,597	187,561
Non-GAAP net income attributable to Verint Systems	**$ 30,998**	**$ 38,766**	**$ 42,476**	**$ 68,694**	**$ 180,934**
Table Comparing GAAP Diluted Net (Loss) 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 (loss) income per common share attributable to Verint Systems Inc.	$ (0.32)	$ (0.10)	$ 0.04	$ 0.26	$ (0.10)
Non-GAAP diluted net income per common share attributable to Verint Systems Inc.	$ 0.49	$ 0.61	$ 0.66	$ 1.05	$ 2.81
GAAP weighted-average shares used in computing diluted net (loss) income per common share attributable to Verint Systems Inc.	**62,485**	**63,185**	**64,588**	**65,139**	**63,312**
Additional weighted-average shares applicable to non-GAAP net income per common share attributable to Verint Systems Inc.	995	861	—	—	1,046
Non-GAAP diluted weighted-average shares used in computing net income per common share attributable to Verint Systems Inc.	**63,480**	**64,046**	**64,588**	**65,139**	**64,358**

(in thousands, except per share data)	Three Months Ended April 30, 2017	July 31, 2017	October 31, 2017	January 31, 2018	Year Ended January 31, 2018
Table of Reconciliation from GAAP Net (Loss) Income Attributable to Verint Systems Inc. to Adjusted EBITDA					
GAAP net (loss) income attributable to Verint Systems Inc.	**$ (19,786)**	**$ (6,427)**	**$ 2,489**	**$ 17,097**	**$ (6,627)**
As a percentage of GAAP revenue	**(7.6)%**	**(2.3)%**	**0.9%**	**5.4%**	**(0.6)%**
Net income attributable to noncontrolling interest	746	661	577	1,189	3,173
(Benefit) provision for income taxes	(892)	4,452	5,944	12,850	22,354
Other expense, net	10,547	5,260	8,802	5,121	29,730
Depreciation and amortization(1)	28,621	25,233	23,798	25,226	102,878
Revenue adjustments related to acquisitions	4,739	3,461	3,034	3,995	15,229
Stock-based compensation expenses	17,683	16,804	15,966	18,913	69,366
Acquisition expenses, net	4,852	1,666	(4,063)	(859)	1,596
Restructuring expenses	3,476	1,768	6,309	1,953	13,506
Impairment charges	—	—	—	3,324	3,324
Other adjustments	292	309	490	970	2,061
Adjusted EBITDA	**$ 50,278**	**$ 53,187**	**$ 63,346**	**$ 89,779**	**$ 256,590**
As a percentage of non-GAAP revenue	**18.9 %**	**19.1 %**	**22.3%**	**27.8%**	**22.3 %**

Table of Reconciliation from Gross Debt to Net Debt	April 30, 2017	July 31, 2017	October 31, 2017	January 31, 2018
Current maturities of long-term debt	$ 4,573	$ 4,577	$ 4,552	$ 4,500
Long-term debt	746,312	763,788	766,006	768,484
Unamortized debt discounts and issuance costs	57,468	56,961	53,681	50,141
Gross debt	**808,353**	**825,326**	**824,239**	**823,125**
Less:				
Cash and cash equivalents	340,091	365,138	312,666	337,942
Restricted cash and bank time deposits	12,623	35,673	63,326	33,303
Short-term investments	4,533	8,410	6,411	6,566
Net debt, excluding long-term restricted cash	**451,106**	**416,105**	**441,836**	**445,314**
Long-term restricted cash	51,264	31,582	31,637	28,402
Net debt, including long-term restricted cash	**$ 399,842**	**$ 384,523**	**$ 410,199**	**$ 416,912**

(1) Adjusted for financing fee amortization.