VERIFONE SYSTEMS, INC.
Form 10-Q
June 05, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2014

Or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-32465

VERIFONE SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	04-3692546
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2099 Gateway Place, Suite 600
San Jose, CA 95110
(Address of principal executive offices with zip code)
(408) 232-7800
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on May 30, 2014:

Class	Number of shares
Common Stock, $0.01 par value per share	111,722,717

Table of Contents

VERIFONE SYSTEMS, INC.
TABLE OF CONTENTS

Table of Contents

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
	(Unaudited, in thousands, except per share data)			
Net revenues:				
System solutions	$290,734	$276,560	$551,900	$558,268
Services	175,683	149,727	350,583	296,766
Total net revenues	466,417	426,287	902,483	855,034
Cost of net revenues:				
System solutions	187,571	180,872	355,079	355,115
Services	103,572	91,109	201,913	173,651
Total cost of net revenues	291,143	271,981	556,992	528,766
Total gross margin	175,274	154,306	345,491	326,268
Operating expenses:				
Research and development	49,999	41,581	100,531	81,383
Sales and marketing	56,417	46,496	107,028	92,244
General and administrative	48,749	43,676	99,663	83,657
Litigation settlement and loss contingency expense	9,000	69,000	9,000	69,000
Amortization of purchased intangible assets	24,657	23,122	49,332	47,818
Total operating expenses	188,822	223,875	365,554	374,102
Operating loss	(13,548)	(69,569)	(20,063)	(47,834)
Interest, net	(9,490)	(11,249)	(20,879)	(22,751)
Other income (expense), net	(1,183)	2,306	(6,310)	6,246
Loss before income taxes	(24,221)	(78,512)	(47,252)	(64,339)
Income tax benefit	(658)	(21,483)	(7,592)	(19,020)
Consolidated net loss	(23,563)	(57,029)	(39,660)	(45,319)
Net income attributable to noncontrolling interests	(352)	(1,347)	(488)	(1,219)
Net loss attributable to VeriFone Systems, Inc. stockholders	$(23,915)	$(58,376)	$(40,148)	$(46,538)
Net loss per share attributable to VeriFone Systems, Inc. stockholders:				
Basic	$(0.22)	$(0.54)	$(0.36)	$(0.43)
Diluted	$(0.22)	$(0.54)	$(0.36)	$(0.43)
Weighted average number of shares used in computing net loss per share:				
Basic	111,104	108,314	110,706	108,122
Diluted	111,104	108,314	110,706	108,122

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

Table of Contents

VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
	(Unaudited, in thousands)			
Net loss attributable to VeriFone Systems, Inc. stockholders	$(23,915)	$(58,376)	$(40,148)	$(46,538)
Other comprehensive income (loss):				
Net change in:				
Foreign currency translation	15,680	(44,737)	(3,016)	3,538
Unrealized gain (loss) on derivatives, net of tax	224	(243)	489	684
Other	28	(299)	(144)	11
Comprehensive loss attributable to VeriFone Systems, Inc. stockholders	$(7,983)	$(103,655)	$(42,819)	$(42,305)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	April 30, 2014	October 31, 2013
	(Unaudited, in thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$229,829	$268,220
Accounts receivable, net of allowances of $9,815 and $12,652	300,843	284,020
Inventories, net	113,338	138,695
Prepaid expenses and other current assets	124,698	134,057
Total current assets	768,708	824,992
Fixed assets, net	180,946	172,187
Purchased intangible assets, net	559,694	642,890
Goodwill	1,254,568	1,252,472
Deferred tax assets, net	25,167	23,897
Other long-term assets	72,015	77,282
Total assets	$2,861,098	$2,993,720
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$146,858	$116,533
Accruals and other current liabilities	230,677	292,019
Deferred revenue, net	97,601	86,576
Short-term debt	103,843	92,536
Total current liabilities	578,979	587,664
Long-term deferred revenue, net	49,919	42,622
Long-term deferred tax liabilities	158,881	175,945
Long-term debt	836,411	943,325
Other long-term liabilities	94,656	92,510
Total liabilities	1,718,846	1,842,066
Commitments and contingencies		
Redeemable noncontrolling interest in subsidiary	711	593
Stockholders’ equity:		
Preferred stock: $0.01 par value, 10,000 shares authorized, no shares issued and outstanding as of April 30, 2014 and October 31, 2013, respectively	—	—
Common stock: $0.01 par value, 200,000 shares authorized, 111,485 and 110,160 shares issued and outstanding as of April 30, 2014 and October 31, 2013, respectively	1,115	1,102
Additional paid-in capital	1,633,212	1,598,735
Accumulated deficit	(540,226)	(500,078)
Accumulated other comprehensive income	12,176	14,847
Total stockholders’ equity	1,106,277	1,114,606
Noncontrolling interest in subsidiaries	35,264	36,455
Total liabilities and equity	$2,861,098	$2,993,720

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended April 30,	
	2014	2013
	(Unaudited, in thousands)	
Cash flows from operating activities		
Consolidated net loss	$(39,660)	$(45,319)
Adjustments to reconcile consolidated net loss to net cash provided by operating activities:		
Depreciation and amortization, net	106,143	101,224
Stock-based compensation expense	27,609	22,388
Deferred income taxes, net	(14,387)	(42,216)
Other	6,402	1,000
Net cash provided by operating activities before changes in operating assets and liabilities	86,107	37,077
Changes in operating assets and liabilities, net of effects of business acquisitions:		
Accounts receivable, net	(16,678)	50,140
Inventories, net	24,858	(1,646)
Prepaid expenses and other assets	4,544	(3,294)
Accounts payable	29,786	(41,537)
Deferred revenue, net	18,766	12,043
Other current and long-term liabilities	(58,948)	79,798
Net change in operating assets and liabilities	2,328	95,504
Net cash provided by operating activities	88,435	132,581
Cash flows from investing activities		
Capital expenditures	(41,902)	(42,213)
Acquisition of businesses, net of cash and cash equivalents acquired	—	(11,953)
Other investing activities, net	2,618	7,989
Net cash used in investing activities	(39,284)	(46,177)
Cash flows from financing activities		
Proceeds from debt, net of issuance costs	86,906	30,053
Repayments of debt	(182,639)	(58,402)
Proceeds from issuance of common stock through employee equity incentive plans	10,388	5,075
Payments of acquisition-related contingent consideration	(415)	(9,280)
Other financing activities, net	(1,559)	(1,689)
Net cash used in financing activities	(87,319)	(34,243)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(223)	(280)
Net increase (decrease) in cash and cash equivalents	(38,391)	51,881
Cash and cash equivalents, beginning of period	268,220	454,072
Cash and cash equivalents, end of period	$229,829	$505,953

The accompanying notes are an integral part of these condensed consolidated financial statements.

6

VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Unaudited

Note 1. Principles of Consolidation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of VeriFone Systems, Inc. and our wholly-owned and majority-owned subsidiaries, and have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions on Form 10-Q pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. All significant inter-company accounts and transactions have been eliminated. In accordance with those rules and regulations, we have omitted certain information and notes normally provided in our annual consolidated financial statements. In the opinion of management, the unaudited Condensed Consolidated Financial Statements contain all adjustments, consisting only of normal recurring items, necessary for the fair presentation of our financial position and results of operations for the interim periods. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2013. The results of operations for the three and six months ended April 30, 2014 are not necessarily indicative of the results expected for the entire fiscal year.

We operate in three segments: Americas, EMEA, and ASPAC. Our Americas segment is defined as our operations in North America, South America, Central America, and the Caribbean. Our EMEA segment is defined as our operations in Europe, the Middle East, and Africa. Our ASPAC segment consists of our operations in Asia, Australia, New Zealand, and other Asia Pacific Rim countries. Our reportable segments are the same as our operating segments. We determine our operating segments based on discrete financial information used by our Chief Executive Officer, who is our chief operating decision maker, to assess performance, allocate resources, and make decisions regarding VeriFone's operations. Our Chief Executive Officer is evaluating using global product line financial information to manage the business in the future. If our Chief Executive Officer is provided different financial information to assess performance, allocate resources and make decisions regarding VeriFone's operations, we will reassess our operating segment presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. We evaluate our estimates on an ongoing basis when updated information related to such estimates becomes available. We base our estimates on historical experience and information available to us at the time these estimates are made. Actual results could differ materially from these estimates.

Significant Accounting Policies

During the three and six months ended April 30, 2014, there have been no changes in our significant accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2013.

Concentrations of Credit Risk

For the three months ended April 30, 2014 and 2013 no single customer accounted for more than 10% of our total net revenues. For the three months ended April 30, 2014, one customer accounted for approximately 12.5% of total net revenues in our Americas reportable segment and one customer accounted for approximately 11.7% of total net revenues in our ASPAC reportable segment. No single customer accounted for more than 10% of total net revenues in our EMEA reportable segment for the three months ended April 30, 2014. For the three months ended April 30, 2013, one customer accounted for approximately 14.2% of total net revenues in our Americas reportable segment and one customer accounted for approximately 15.5% of total net revenues in our

ASPAC reportable segment. No single customer accounted for more than 10% of total net revenues in our EMEA reportable segment for the three months ended April 30, 2013.

For the six months ended April 30, 2014 and 2013 no single customer accounted for more than 10% of our total net revenues. For the six months ended April 30, 2014, no single customer accounted for more than 10% of total net revenues in any of our reportable segments. For the six months ended April 30, 2013, three customers accounted for approximately 11.2%, 10.7% and 10.2% of total net revenues in our ASPAC reportable segment, and no single customer accounted for more than 10% of total net revenues in our other reportable segments.

As of April 30, 2014 and October 31, 2013, no single customer accounted for more than 10% of our Accounts receivable, net.

Recent Accounting Pronouncements

We adopted ASU 2013-02, Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income, effective November 1, 2013. ASU 2013-02 requires disclosure of amounts reclassified out of accumulated other comprehensive income by component and by net income line item. Adoption of ASU 2013-02 had no impact on our consolidated financial position, or results of operations.

During July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 provides presentation requirements for unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. ASU 2013-11 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2013. Early adoption and retrospective application is permitted. ASU 2013-11 may impact the asset or liability financial statement presentation of certain unrecognized tax benefits, but will not change our assessment of the realizability of our deferred tax assets, and will not have a material impact on our consolidated results of operations. We plan to adopt ASU 2013-11 in our first quarter of fiscal year 2015.

During April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have or will have a major effect on an entity's operations and financial results, and requires expanded disclosures for discontinued operations. ASU 2014-08 is effective for all disposals of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals that have not been reported in financial statements previously issued or available for issuance. We adopted ASU 2014-08 effective April 30, 2014, and adoption had no impact on our financial statement presentation, financial position or results of operations.

During May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides new guidance on the recognition of revenue and states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently evaluating the impact of the adoption of this accounting standard update on our consolidated financial position or results of operations.

Note 2. Net Loss per Share of Common Stock

Basic net loss per share of common stock is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period. Diluted net loss per share of common stock is computed using the weighted average number of shares of common stock outstanding plus the effect of common stock equivalents, unless the common stock equivalents are anti-dilutive. The potential dilutive shares of our common stock resulting from assumed exercises of equity related instruments are determined using the treasury stock method. Under the treasury stock method, an increase in the fair market value of our common stock will result in a greater number of dilutive securities.

Table of Contents
VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the computation of net loss per share of common stock (in thousands, except per share data):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
Basic and diluted net loss per share attributable to VeriFone Systems, Inc. stockholders:				
Numerator:				
Net loss attributable to VeriFone Systems, Inc. stockholders	$(23,915)	$(58,376)	$(40,148)	$(46,538)
Denominator:				
Weighted average shares attributable to VeriFone Systems, Inc. stockholders - basic	111,104	108,314	110,706	108,122
Weighted average effect of dilutive securities:				
Stock options, RSUs and RSAs	—	—	—	—
Weighted average shares attributable to VeriFone Systems, Inc. stockholders - diluted	111,104	108,314	110,706	108,122
Net loss per share attributable to VeriFone Systems, Inc. stockholders:				
Basic	$(0.22)	$(0.54)	$(0.36)	$(0.43)
Diluted	$(0.22)	$(0.54)	$(0.36)	$(0.43)

For the three months ended April 30, 2014 and 2013, equity incentive awards representing 9.2 million and 6.8 million shares of common stock, respectively, were anti-dilutive. For the six months ended April 30, 2014 and 2013, equity incentive awards representing 9.2 million and 6.7 million shares of common stock, respectively, were anti-dilutive. Anti-dilutive awards, which include stock options, RSUs and RSAs, could impact future calculations of diluted net income per share in periods when we are profitable if the fair market value of our common stock increases.

Warrants to purchase 7.2 million shares of our common stock were outstanding at April 30, 2013 and expired unexercised in equal amounts on each trading day from December 19, 2013 to February 3, 2014. The warrants were anti-dilutive in all periods presented because the warrants' $62.356 exercise price was greater than the average share price of our common stock during each of those periods when they were outstanding.

Note 3. Income Taxes

We recorded an income tax benefit of $0.7 million and $21.5 million for the three months ended April 30, 2014 and 2013, respectively. We recorded income tax benefits of $7.6 million and $19.0 million for the six months ended April 30, 2014 and 2013, respectively. The income tax benefit for the six months ended April 30, 2014 includes tax benefits from statutory tax rate changes in certain foreign countries, decreases in prior year unrecognized tax benefits, and other discrete activity. Losses generated during the three and six months ended April 30, 2014 in the U.S. federal, state, and certain foreign jurisdictions did not result in a tax benefit due to valuation allowances. The income tax benefit for the three and six months ended April 30, 2013 includes a discrete tax benefit of $21.3 million related to Litigation settlement and loss contingency expense and a discrete tax benefit of $7.2 million related to the impact of changes in the statutory tax rates on deferred taxes offset by a discrete tax expense of $10.7 million related to an increase in uncertain tax positions.

Our total unrecognized tax benefits were approximately $114.3 million as of April 30, 2014. The amount of unrecognized tax benefits could be reduced upon closure of tax examinations or if the statute of limitations on certain tax filings expires without assessment from the relevant tax authorities. We believe that it is reasonably possible that there could be an immaterial reduction in unrecognized tax benefits due to statute of limitation expirations in multiple tax jurisdictions during the next 12 months. Interest and penalties accrued on these uncertain tax positions will also be released upon the expiration of the applicable statute of limitations.

Table of Contents

VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4. Balance Sheet and Statement of Operations Details

Cash and Cash Equivalents

As of April 30, 2014 and October 31, 2013, $203.9 million and $206.2 million, respectively, of our cash and cash equivalents were held by our foreign subsidiaries. If we decide to distribute or use such cash and cash equivalents outside those foreign jurisdictions, including a distribution to the U.S., we may be subject to additional taxes or costs.

As of April 30, 2014 and October 31, 2013, Prepaid expenses and other current assets included $6.7 million and $5.6 million, respectively, of restricted cash, and Other long-term assets included $8.2 million and $8.6 million, respectively, of restricted cash. Restricted cash was mainly comprised of pledged deposits and deposits to Brazilian courts related to tax proceedings pending adjudication.

Inventories, net

Inventories, net consisted of the following (in thousands):

	April 30, 2014	October 31, 2013
Raw materials	$32,658	$35,247
Work-in-process	2,844	2,030
Finished goods	77,836	101,418
Total inventories, net	$113,338	$138,695

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	April 30, 2014	October 31, 2013
Prepaid expenses	$39,490	$42,837
Prepaid taxes	28,155	23,427
Deferred income taxes	26,277	30,162
Insurance proceeds receivable	—	10,000
Other current assets	30,776	27,631
Total prepaid expenses and other current assets	$124,698	$134,057

Other current assets were primarily comprised of customer related bankers acceptances receivable, restricted cash, and other receivables.

Table of Contents
VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fixed Assets, Net

Fixed assets, net consisted of the following (in thousands):

	Estimated Useful Life (Years)	April 30, 2014	October 31, 2013
Revenue generating assets	5	$168,563	$147,017
Computer hardware and software	3-5	89,106	82,069
Machinery and equipment	3-10	47,820	43,987
Leasehold improvements	Lesser of the term of the lease or the estimated useful life	24,646	22,464
Office equipment, furniture, and fixtures	3-5	14,651	13,694
Buildings	40-50	6,808	6,827
Total depreciable fixed assets, at cost		351,594	316,058
Accumulated depreciation		(185,138)	(152,989)
Depreciable fixed assets, net		166,456	163,069
Construction in progress		13,274	7,968
Land		1,216	1,150
Total fixed assets, net		$180,946	$172,187

Total depreciation expense for the three months ended April 30, 2014 and 2013 was $14.6 million and $13.0 million, respectively. Total depreciation expense for the six months ended April 30, 2014 and 2013 was $28.8 million and $25.3 million, respectively.

Accruals and Other Current Liabilities

Accruals and other current liabilities consisted of the following (in thousands):

	April 30, 2014	October 31, 2013
Accrued legal loss contingencies, including interest (Note 9)	$33,500	$96,781
Accrued expenses	70,108	73,522
Accrued compensation	63,934	60,175
Other current liabilities	63,135	61,541
Total accruals and other current liabilities	$230,677	$292,019

Other current liabilities were primarily comprised of sales and value-added taxes payable, accrued warranty, income taxes payable, and accrued liabilities for contingencies related to tax assessments.

Accrued Warranty

Activity related to accrued warranty consisted of the following (in thousands):

	Six months ended April 30, 2014
Balance at beginning of period	$13,352
Warranty charged to Cost of net revenues	4,646
Utilization of warranty accrual	(6,191)
Other	903
Balance at end of period	12,710
Less: current portion	(11,476)
Long-term portion	$1,234

Table of Contents
VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred Revenue, Net

Deferred revenue, net of related costs consisted of the following (in thousands):

	April 30, 2014	October 31, 2013
Deferred revenue	$164,558	$144,181
Deferred cost of revenue	(17,038)	(14,983)
Deferred revenue, net	147,520	129,198
Less: current portion	(97,601)	(86,576)
Long-term portion	$49,919	$42,622

Stock-Based Compensation Expense

The following table presents the stock-based compensation expense recognized in our Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
Cost of net revenues	$208	$417	$761	$963
Research and development	1,744	1,390	5,859	3,007
Sales and marketing	5,864	3,769	8,628	7,862
General and administrative	4,061	4,454	12,361	10,556
Total stock-based compensation expense	$11,877	$10,030	$27,609	$22,388

Accumulated Other Comprehensive Income (Loss)

Activity related to Accumulated other comprehensive income (loss), net of tax, for the six months ended April 30, 2014 consisted of the following (in thousands):

	Foreign currency translation adjustments	Unrealized loss on derivatives designated as cash flow hedges (1)	Other (2)	Total
Balance as of October 31, 2013	$18,301	$(2,014)	$(1,440)	$14,847
Gains (losses) before reclassifications, net of tax	(3,016)	1,862	152	(1,002)
Amounts reclassified from Accumulated other comprehensive income (loss), net of tax	—	(1,373)	(296)	(1,669)
Other comprehensive gain (loss)	(3,016)	489	(144)	(2,671)
Balance as of April 30, 2014	$15,285	$(1,525)	$(1,584)	$12,176

(1) Amounts reclassified from Accumulated other comprehensive income (loss), net of tax, were recorded in Interest, net in the Condensed Consolidated Statements of Operations. The related tax impacts were insignificant.

(2) Amounts reclassified from Accumulated other comprehensive income (loss), net of tax, were recorded in Other income (expense), net in the Condensed Consolidated Statements of Operations. The related tax impacts were insignificant.

Note 5. Financial Instruments

Fair Value Measurements

Our financial assets and liabilities consist principally of cash, money market funds, short-term time deposits, accounts receivable, investments, accounts payable, debt, foreign exchange forward contracts, interest rate swaps, and acquisition-related earn-out payables. We measure and record certain of our financial assets and liabilities at fair value on a recurring basis. The estimated fair value of cash, accounts receivable, and accounts payable approximates their carrying value. The estimated fair value of our debt approximates the carrying value because the interest rate on such debt adjusts to market rates on a periodic basis. Money market funds, short-term time deposits, investments, foreign exchange forward contracts and interest rate swaps are recorded at estimated fair value.

The following tables present our significant assets and liabilities that are measured at fair value on a recurring basis and their classification within the fair value hierarchy (in thousands). There were no transfers between levels of fair value hierarchy in the three and six months ended April 30, 2014 and 2013.

	April 30, 2014				October 31, 2013			
	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3
Assets								
Current assets:								
Cash and cash equivalents								
Money market funds	$8,634	$8,634	$—	$—	$638	$638	$—	$—
Other current and long-term assets:								
Derivative financial instruments	150	—	150	—	435	—	435	—
Total assets measured and recorded at fair value	$8,784	$8,634	$150	$—	$1,073	$638	$435	$—
Liabilities								
Other current and long-term liabilities:								
Derivative financial instruments	$2,581	$—	$2,581	$—	$3,720	$—	$3,720	$—
Total liabilities measured and recorded at fair value	$2,581	$—	$2,581	$—	$3,720	$—	$3,720	$—

Derivative Financial Instruments

Interest Rate Swap Agreements Designated as Cash Flow Hedges

We use interest rate swap agreements to hedge the variability in cash flows related to interest payments. On March 23, 2012, we entered into a number of interest rate swap agreements to effectively convert $500.0 million of the term A loan from a floating rate to a 0.71% fixed rate plus applicable margin. The interest rate swaps qualify for hedge accounting treatment as cash flow hedges. The interest rate swaps are effective for the period from March 30, 2012 to March 31, 2015. The notional amounts of interest rate swap agreements outstanding as of April 30, 2014 and October 31, 2013 were $500.0 million.

Gains and losses arising from the effective portion of interest rate swap agreements are recorded in Accumulated other comprehensive income (loss), and are subsequently reclassified into earnings in the period or periods during which the underlying transactions affect earnings. As of April 30, 2014, the estimated net derivative loss related to our cash flow hedges included in Accumulated other comprehensive income (loss) that will be reclassified into earnings within the next 12 months was $2.4 million.

VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Foreign Exchange Forward Contracts Not Designated as Hedging Instruments

We arrange and maintain foreign exchange forward contracts so as to yield gains or losses to offset changes in foreign currency denominated assets or liabilities due to changes in foreign exchange rates, in an attempt to mitigate the volatility associated with foreign currency transaction gains or losses. Our foreign currency exposures are predominantly inter-company receivables and payables arising from product sales and loans from one of our entities to another. Our foreign exchange forward contracts generally mature within 90 days. The notional amounts of such contracts outstanding as of April 30, 2014 and October 31, 2013 were $234.0 million and $245.5 million, respectively.

We recognized the following gains (losses) on foreign exchange forward contracts not designated as cash flow hedges (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
Gains (losses) recognized in Other income (expense), net in our Condensed Consolidated Statements of Operations	$(5,142)	$(1,285)	$(5,573)	$1,112

Note 6. Goodwill and Purchased Intangible Assets

Goodwill

Activity related to goodwill consisted of the following (in thousands):

	Six months ended April 30, 2014
Balance at beginning of period	$1,252,472
Adjustment related to prior fiscal year acquisition	(622)
Currency translation adjustments	2,718
Balance at end of period	$1,254,568

Goodwill is not amortized. We review goodwill for impairment annually, and whenever events or changes in circumstances indicate its carrying amount may not be recoverable. Based on our review for potential indicators of impairment performed during the six months ended April 30, 2014 and the fiscal year ended October 31, 2013, there were no indicators of impairment.

Purchased Intangible Assets, Net

Purchased intangible assets, net consisted of the following (in thousands):

	April 30, 2014			October 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$722,996	$(228,041)	$494,955	$726,225	$(182,980)	$543,245
Developed and core technology	157,613	(103,900)	53,713	175,981	(90,491)	85,490
Other	23,212	(12,186)	11,026	24,377	(10,222)	14,155
Total	$903,821	$(344,127)	$559,694	$926,583	$(283,693)	$642,890

VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Amortization of purchased intangible assets was allocated as follows (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
Included in cost of net revenues	$11,074	$11,062	$22,537	$22,123
Included in operating expenses	24,657	23,122	49,332	47,818
Total amortization of purchased intangible assets	$35,731	$34,184	$71,869	$69,941

Note 7. Financings

Amounts outstanding under our financing arrangements consisted of the following (in thousands):

	April 30, 2014	October 31, 2013
2011 Credit Agreement		
Term A loan	$883,606	$922,156
Term B loan	—	48,428
Revolving loan	55,000	63,000
Other	1,648	2,277
Total amounts outstanding	940,254	1,035,861
Less: current portion	(103,843)	(92,536)
Long-term portion	$836,411	$943,325

2011 Credit Agreement

On December 24, 2013, we paid the $48.4 million balance due on the outstanding term B loan. This payment was partially funded through $47.0 million additional borrowings under the revolving loan.

Key terms of the 2011 Credit Agreement include financial maintenance covenants and certain representations, warranties, covenants, and conditions that are customarily required for similar financings, and are described in Note 9, Financings, in the Notes to Consolidated Financial Statements of our 2013 Annual Report on Form 10-K. We were in compliance with all financial covenants under the 2011 Credit Agreement as of April 30, 2014.

Borrowings under the 2011 Credit Agreement bear interest at a “Base Rate” or “Eurodollar Rate”, at our option, plus an applicable margin based on certain financial ratios, determined and payable quarterly. The interest rate of each of the term A loan and the revolving loan is one month LIBOR plus the applicable margin. As of April 30, 2014, we elected the "Eurodollar Rate" margin option and the interest margins were 2.75% for the term A loan and the revolving loan. Accordingly, as of April 30, 2014, the interest rate on the term A and revolving loan was 2.91%.

Note 8. Restructurings

As part of cost optimization and corporate transformation initiatives, during April 2014 our management approved, committed to and initiated a restructuring plan under which we will reduce headcount and close facilities. This plan is estimated to be complete by March 2015 and will cost approximately $6.5 million, including approximately $5.4 million for employee involuntary termination benefits and approximately $1.1 million related to facility exits.

Table of Contents
VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Subsequent to the end of our second quarter of fiscal 2014, on June 1, 2014, our management approved, committed to and initiated another restructuring plan under which we will reduce headcount, close facilities and consolidate data centers. We expect to incur charges totaling approximately $17.0 million under this plan, including approximately $15.0 million related to employee involuntary termination benefits and approximately $2.0 million related to facility exits and data center consolidations.

The determination of when we accrue for employee involuntary termination benefits depends on whether the termination benefits are provided under a one-time benefit arrangement or under an on-going benefit arrangement. We record charges for one-time benefit arrangements in accordance with ASC 420 Exit or Disposal Cost Obligations and charges for on-going benefit arrangements in accordance with ASC 712 Nonretirement Postemployment Benefits.

Activity related to our restructuring plans for the six months ended April 30, 2014 consisted of the following (in thousands):

	Employee Involuntary Termination Benefits	Facilities Related Costs	Total
Balance as of October 31, 2013	$—	$581	$581
Current year charges	5,102	1,140	6,242
Other adjustments	—	(471)	(471)
Cash payments	(3,141)	(110)	(3,251)
Balance as of April 30, 2014	$1,961	$1,140	3,101
Less: current portion			(1,961)
Long-term portion			$1,140

The restructuring liability at October 31, 2013 related to a facility that was exited under our 2008 restructuring plan and for which the lease was terminated during March 2014.

The current portion of our restructuring liability is included in Accruals and other current liabilities and the long-term portion of our restructuring liability is included in Other long-term liabilities in the Condensed Consolidated Balance Sheets.

The following table presents the restructuring expense recognized in our Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
Cost of net revenues	$866	$—	$866	$—
Research and development	734	—	734	323
Sales and marketing	2,614	—	2,614	—
General and administrative	1,557	—	1,557	—
	$5,771	$—	$5,771	$323

Note 9. Commitments and Contingencies

Commitments

Leases

We lease certain facilities under non-cancelable operating leases. In connection with our taxi solutions business, we enter into operating lease arrangements for the right to place advertising in or on taxicabs. In general, these lease arrangements are non-cancelable for terms ranging from three to ten years, require us to pay minimum lease amounts based on the type and locations of the advertising displays in or on the taxicabs, and are subject to fee escalation clauses. Based upon the number of operational taxicabs with our advertising displays at April 30, 2014, we had total lease commitments of $104.8 million relating to such lease arrangements, which are included in the future minimum lease payments in the table below.

Future minimum lease payments and sublease rental income under these leases as of April 30, 2014 were as follows (in thousands):

Years Ending October 31:	Minimum Lease Payments	Sublease Rental Income	Net Minimum Lease Payments
Remainder of fiscal year 2014	$25,562	$(89)	$25,473
2015	34,431	(153)	34,278
2016	27,707	—	27,707
2017	23,468	—	23,468
2018	14,831	—	14,831
Thereafter	35,872	—	35,872
Total	$161,871	$(242)	$161,629

Rent expense consisted of the following (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
Rent expense for non-cancelable taxi operating leases	$9,528	$7,450	$17,978	$15,090
Facility and other rent expense	7,406	6,960	14,824	13,947
Total rent expense	$16,934	$14,410	$32,802	$29,037

Manufacturing Agreements

We work on a purchase order basis with our contract manufacturers, which are located in China, Singapore, Malaysia, Brazil, Germany, Romania, and France, and component suppliers located throughout the world, to supply nearly all of our finished goods inventories, spare parts, and accessories. We provide each such supplier with a purchase order to cover the manufacturing requirements, which generally constitutes a binding commitment by us to purchase materials and finished goods produced by the manufacturer as specified in the purchase order. Most of these purchase orders are considered to be non-cancelable and are expected to be paid within one year of the issuance date. As of April 30, 2014, the amount of purchase commitments issued to contract manufacturers and component suppliers totaled approximately $122.3 million. Of this amount, $13.7 million has been recorded in Accruals and other current liabilities in our Condensed Consolidated Balance Sheets because these commitments are not expected to have future value to us.

17

Bank Guarantees

We have issued bank guarantees with maturities ranging from two months to six years to certain of our customers and vendors as required in some countries to support certain performance obligations under our service or other agreements with those parties. As of April 30, 2014, the maximum amount that may become payable under these guarantees was $13.8 million, of which $3.6 million was collateralized by restricted cash deposits.

Letters of Credit

We provide standby letters of credit in the ordinary course of business to third parties as required. As of April 30, 2014, the maximum amounts that may become payable under these letters of credit was $8.0 million, of which $4.9 million was collateralized by restricted cash deposits.

Contingencies

We evaluate the circumstances regarding outstanding and potential litigation, and other contingencies on a quarterly basis to determine whether there is at least a reasonable possibility that a loss exists requiring accrual or disclosure, and if so, whether an estimate of the possible loss or range of loss can be made, or whether such an estimate cannot be made. When a loss is probable and reasonably estimable, we accrue for such amount based on our estimate of the probable loss considering information available at the time. When a loss is reasonably possible, we disclose the estimated possible loss or range of loss in excess of amounts accrued. Except as otherwise disclosed below, we do not believe that losses were probable or that there was a reasonable possibility that a material loss may have been incurred with respect to the matters disclosed.

Brazilian Tax Assessments

State Value-Added Tax

The Brazilian subsidiary we acquired as part of our acquisition of Hypercom in August 2011 received an unfavorable administrative decision on a tax enforcement action against it filed by the São Paulo State Revenue Department for collection of state sales taxes related to purported sales of software for the 1998 and 1999 tax years. In 2004, an appeal against this unfavorable administrative decision was filed in a judicial proceeding. The first level decision in the judicial proceeding was issued in our favor. The São Paulo State Revenue Department filed an appeal of this decision. The second level administrative decision ordered that the case be returned to the lower court in order to allow the production of further evidence. Based on our current understanding of the underlying facts of this matter, we believe it is reasonably possible that we may receive an unfavorable decision in this proceeding. The tax assessment including estimated interest through April 30, 2014 for this matter totals approximately 7.4 million Brazilian reais (approximately $3.3 million at the foreign exchange rate as of April 30, 2014). As of April 30, 2014, we have not accrued for this matter.

Federal Tax Assessments

Brazilian Federal Tax Amnesty

In December 2013, without admitting any fault or liability, we elected to enroll certain of our pending Brazilian tax assessments in the Brazilian Federal Tax Amnesty Program created by Law n. 11.941/2009 in 2009 and reopened for enrollment from October 2013 to December 2013, known as the "REFIS Amnesty.” The REFIS Amnesty is a program administered by the Brazilian tax authorities and allows entities charged with tax assessments that fall within the program's scope to voluntarily settle such assessments with certain discounts applied to the amounts due. After conducting an evaluation of our existing Brazilian federal tax assessments and the terms offered by the REFIS Amnesty, we determined to voluntarily settle a number of our pending assessments.

Tax assessment matters that fall within the REFIS Amnesty's scope are generally listed in the program's web-based portal for enrollment. Although no formal acceptance by the tax authorities is issued at the time of our enrollment of a matter, we expect the tax authorities to confirm our enrollment as they complete their process to formally consolidate the matters we enrolled in the REFIS Amnesty. In connection with our enrollment of the tax assessments into the REFIS Amnesty, we were required to forego any further legal defense or proceedings with respect to the merits of such assessments. In exchange, the enrolled assessments are closed and we are granted discounts on our payment of the related accrued interest and penalties and are able to pay under an installment plan, subject to our compliance with the terms of the program. For certain assessments, existing net operating loss carryforwards, or net operating losses, may be used to satisfy a portion of the settlement obligation. Under the terms of the REFIS Amnesty, our right to fund the settlement through the installment payment plan would be canceled after three instances of our not timely paying the installment amounts as scheduled, in which case the full amounts of the original tax debts, including interest and penalties without the benefit of discount, would become immediately due and payable. We have included the terms and amounts below for those assessments that we have placed into the REFIS Amnesty.

Federal Tax Assessments related to Brazilian Subsidiaries from Lipman Acquisition

Two of our Brazilian subsidiaries that were acquired as a part of the November 2006 acquisition of Lipman Electronic Engineering Ltd. (“Lipman”) were notified of assessments regarding Brazilian customs penalties that relate to alleged infractions in the importation of goods. The assessments were issued by the Federal Revenue Department in the City of Vitória, the City of São Paulo, and the City of Itajai. In each of these cases, the tax authorities allege that the structure used for the importation of goods was simulated with the objective of evading taxes levied on the importation by under-invoicing the imported goods. The tax authorities allege that the simulation was created through an interposition of parties and that the real sellers and buyers of the imported goods were hidden. In February 2013, the São Paulo assessment was canceled following a favorable second level decision that was not appealed.

In the Vitória tax assessment, the fines were reduced from 4.7 million Brazilian reais (approximately $2.1 million at the foreign exchange rate as of April 30, 2014) to 1.5 million Brazilian reais (approximately $657,000 at the foreign exchange rate as of April 30, 2014) on a first level administrative decision on January 26, 2007. Both we and the tax authorities filed appeals of the first level administrative decision. In this appeal, we argued that the tax authorities did not have enough evidence to determine that the import transactions were indeed fraudulent and that, even if there were some irregularities in such importations, they could not be deemed to be our responsibility since all the transactions were performed by the third-party importer of the goods. On June 30, 2010, the Taxpayers Administrative Council of Tax Appeals decided to reinstate the original claim amount of 4.7 million Brazilian reais (approximately $2.1 million at the foreign exchange rate as of April 30, 2014) against us. On February 27, 2013, the Taxpayers Administrative Council of Tax Appeals issued its formal ruling reinstating the original claim amount. On May 31, 2013, we filed a motion to clarify such ruling, which is pending a decision.

In the Itajai tax assessment, we were notified on January 18, 2008, of a first level administrative decision rendered that maintained the total fine of 2.0 million Brazilian reais (approximately $888,000 at the foreign exchange rate as of April 30, 2014) as imposed, excluding interest. On May 27, 2008, we appealed the first level administrative decision to the Taxpayers Council. This matter is pending second level decision.

In December 2013, we sought to enroll the entire amount of tax liabilities in dispute for both the Vitória and Itajai assessments in the REFIS Amnesty. However, because we are named as a jointly-liable party rather than as the primary defendant in these matters, these assessments were not listed in the REFIS Amnesty web-based portal as available for election under the REFIS Amnesty. We believe these matters qualify for inclusion in the REFIS

Amnesty and have filed the required notifications to our local tax office and commenced payments to indicate our decision to enroll these matters in the REFIS Amnesty. We expect the tax authorities' confirmation that these matters have been included in the REFIS Amnesty once they complete their procedures to consolidate the enrolled assessments. We elected to make the amnesty payments for these matters in monthly installments over a 30-month period for total payments, inclusive of interest and penalties, of 7.6 million Brazilian reais (approximately $3.4 million at the foreign exchange rate as of April 30, 2014). We accrued the full amount of the payments, plus estimated interest, under the REFIS Amnesty for these matters in December 2013 when we enrolled in the program, and made our first payment on December 26, 2013. As of April 30, 2014, we have remaining installment payments totaling 6.3 million Brazilian reais (approximately $2.8 million at the foreign exchange rate as of April 30, 2014).

Table of Contents
VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We had previously accrued the estimated liability for both the Vitória and Itajai assessments. Based on our understanding of the underlying facts of these matters, we believe it is probable we may receive an unfavorable decision for each of these assessments unless we are able to resolve these matters through the REFIS Amnesty. Upon confirmation of acceptance of these matters into the REFIS Amnesty, we will reduce our accrued liabilities related to these matters to reflect the discounted amounts due under the REFIS Amnesty. As of April 30, 2014, we have accruals totaling 12.3 million Brazilian reais (approximately $5.5 million at the foreign exchange rate as of April 30, 2014).

Federal Tax Assessments related to Brazilian Subsidiary from Hypercom Acquisition

The Brazilian subsidiary we acquired as part of our acquisition of Hypercom in August 2011 is the subject of outstanding tax assessments by the federal tax authorities alleging unpaid IRPJ, CSL, COFINS and PIS taxes from 2002 and 2003. The 2002 assessments are the subject of an administrative proceeding and the 2003 assessments are the subject of a civil enforcement action. Three of the four claims for the 2002 assessments were previously settled prior to our acquisition of Hypercom. The first level administrative court issued an unfavorable decision for the remaining claim related to the 2002 tax assessments. Our appeal to the Administrative Tax Appeals Council was denied in December 2013. With respect to the 2003 tax assessments, we received a partially favorable ruling, and our appeal for the remaining assessments is pending decision in the civil courts. In December 2013, we elected to enroll the tax liability for the remaining 2002 assessment in dispute and the portion of the 2003 assessments for which we received an unfavorable ruling in the REFIS Amnesty.

For the 2002 assessment, we applied available net operating losses, to the extent permitted, toward the interest and penalties portion of the settlement obligation under the REFIS Amnesty. For the remaining balance, we elected to make the amnesty payments in monthly installments over a 90-month period for total payments of 2.2 million Brazilian reais (approximately $994,000 at the foreign exchange rate as of April 30, 2014). We accrued the full amount of the payments, plus estimated interest, under the REFIS Amnesty for this matter in December 2013 when we enrolled in the program, and made our first payment on December 26, 2013. As of April 30, 2014, we have remaining installment payments totaling 2.2 million Brazilian reais (approximately $971,000 at the foreign exchange rate as of April 30, 2014).

For the 2003 assessments, we applied available net operating losses, to the extent permitted, toward the interest and penalties portion of the settlement obligation under the REFIS Amnesty. At the time we initially appealed the 2003 assessments to the civil courts, we were required to make a deposit of 2.8 million Brazilian reais (approximately $1.3 million at the foreign exchange rate as of April 30, 2014) to the court in order to perfect our appeal. In light of our enrollment of certain of the 2003 assessments in the REFIS Amnesty, we have notified the civil court of our enrollment and requested the release of the portion of the deposit for the assessments enrolled in the REFIS Amnesty, which totals 675,000 Brazilian reais (approximately $303,000 at the foreign exchange rate as of April 30, 2014). Once approved by the court, the released funds will be applied against the settlement obligation under the REFIS Amnesty. Approximately 2.2 million Brazilian reais (approximately $973,000 at the foreign exchange rate as of April 30, 2014) will remain deposited in connection with the 2003 assessments that will continue in the civil courts and which deposits will be released to the prevailing party after resolution of the underlying assessments.

Excluding the assessments that have been enrolled in the REFIS Amnesty for this matter, which have been accrued as described above, the remaining assessments total 3.8 million Brazilian reais (approximately $1.7 million at the foreign exchange rate as of April 30, 2014), including estimated penalties and interest, as of April 30, 2014. Based on our current understanding of the underlying facts of this matter, we believe it is reasonably possible we may receive an unfavorable decision related to these remaining assessments.

20

We also elected to enroll a number of outstanding tax offset requests that were previously applied for by the Brazilian subsidiary we acquired as part of our acquisition of Hypercom in August 2011 in the REFIS Amnesty. These outstanding tax offset requests relate to non-income tax debts, primarily for IRPJ, PIS and COFINS for past tax years, and total approximately 2.5 million Brazilian reais (approximately $1.1 million at the foreign exchange rate as of April 30, 2014), including estimated penalties and interest. We applied available net operating losses toward the interest and penalties portion of the settlement obligation under the REFIS Amnesty. For the remaining balance, we elected to make the amnesty payments in monthly installments over a 90-month period for total payments of 1.3 million Brazilian reais (approximately $600,000 at the foreign exchange rate as of April 30, 2014). We accrued the full amount of the payments, plus estimated interest, under the REFIS Amnesty for these matters in December 2013 when we enrolled in the program, and made our first payment on December 26, 2013. As of April 30, 2014, we have remaining installment payments totaling 1.3 million Brazilian reais (approximately $586,000 at the foreign exchange rate as of April 30, 2014).

Municipality Services Tax Assessments

In December 2009, one of the Brazilian subsidiaries that were acquired as part of the Lipman acquisition was notified of a tax assessment regarding alleged nonpayment of tax on services rendered for the period from September 2004 to December 2004. This assessment was issued by the municipality of São Paulo (the "municipality"), and asserts a services tax deficiency and related penalties totaling 875,000 Brazilian reais (approximately $392,000 at the foreign exchange rate as of April 30, 2014), excluding interest. The municipality claims that the Brazilian subsidiary rendered certain services within the municipality of São Paulo but simulated that those services were rendered in another city. At the end of December 2010 the municipality issued further tax assessments alleging the same claims for 2005 through June 2007. These additional subsequent claims assert services tax deficiencies and related penalties totaling 5.9 million Brazilian reais (approximately $2.6 million at the foreign exchange rate as of April 30, 2014), excluding interest. We received unfavorable decisions from the administrative courts, which ruled to maintain the tax assessments for each of these matters. No further grounds of appeal are available to us for these assessments within the administrative courts. In October 2012, as a result of the decision at the administrative level, the tax authorities filed an enforcement action in the civil courts to collect on the services tax assessments amounts awarded by the administrative court, and seeking other related costs and fees. On March 6, 2013, we filed our defensive claims in the civil courts in response to the tax authorities' enforcement action. In February 2013 the tax authorities filed an additional enforcement action in the civil courts to collect on the penalties related to the services tax assessments amounts awarded by the administrative courts. Based on our understanding of the underlying facts of this matter and our evaluation of the potential outcome at the judicial level, we believe it is reasonably possible that our Brazilian subsidiary will be required to pay some amount of the alleged tax assessments and penalties related to these matters, as well as amounts of interest and certain costs and fees imposed by the court related thereto. As of April 30, 2014, the amount of the alleged tax assessments and penalties related to these matters was approximately 5.8 million Brazilian reais (approximately $2.6 million at the foreign exchange rate as of April 30, 2014), and the estimated interest, costs and fees related thereto were approximately 11.9 million Brazilian reais (approximately $5.3 million at the foreign exchange rate as of April 30, 2014).

The Brazilian subsidiary we acquired as part of our acquisition of Hypercom in August 2011 received an unfavorable administrative decision on a tax enforcement action against it filed by the municipality of Curitiba for collection of alleged services tax deficiency. An appeal against this unfavorable administrative decision was filed in a judicial proceeding and currently the case is pending the municipality of Curitiba's compliance with the writ of summons. As of April 30, 2014, the underlying assessment, including estimated interest, was approximately 7.3 million Brazilian reais (approximately $3.3 million at the foreign exchange rate as of April 30, 2014). Based on our current understanding of the underlying facts of this matter, we believe it is reasonably possible that we may receive an unfavorable decision in this proceeding.

21

Table of Contents

VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Patent Infringement and Commercial Litigation

Cardsoft, Inc. et al v. VeriFone Holdings, Inc., VeriFone, Inc., Hypercom Corporation, et al

On March 6, 2008, Cardsoft, Inc. and Cardsoft (Assignment for the Benefit of Creditors), LLC (collectively, "Cardsoft") commenced an action in the United States District Court for the Eastern District of Texas, Marshall Division, against us and Hypercom Corporation, among others, alleging infringement of U.S. Patents No. 6,934,945 and No. 7,302,683 purportedly owned by Cardsoft. Cardsoft sought, in its complaint, a judgment of infringement, an injunction against further infringement, damages, interest and attorneys' fees. On June 8, 2012, the jury returned an unfavorable verdict finding that Cardsoft's patents were valid and were infringed by the accused VeriFone and Hypercom devices, and further determined that a royalty rate of $3 per unit should be applied. Accordingly, the jury awarded Cardsoft infringement damages and royalties of approximately $15.4 million covering past sales of the accused devices by VeriFone and Hypercom. The jury concluded there was no willful infringement by either VeriFone or Hypercom.

Following the jury's verdict, we determined that it is probable we will incur a loss on this litigation based on the jury's verdict and current status of the litigation proceedings.

We filed our motions for judgment as a matter of law to overturn the jury's verdict and motions for a new trial, which the District Court denied. Cardsoft filed a motion for permanent injunction or in the alternative for a future royalty of $8 per unit on our future U.S. sales of the accused products through the March 16, 2018 expiration date of the patents. Cardsoft also filed a motion seeking pre-judgment interest at a rate of 5%. On October 30, 2013, the District Court issued judgment upholding the jury's verdict that the patent was valid and infringed. The judgment confirmed the jury's award of infringement damages and royalties of approximately $15.4 million covering past sales of the VeriFone and Hypercom accused devices, plus pre-judgment interest, post-judgment interest and costs. The court also ruled that an ongoing royalty should be applied for sales of the accused devices after the verdict date. However, the court did not set an ongoing royalty rate but instead ordered the parties to mediate on the issue of an ongoing royalty rate. The judgment confirmed that there was no willful infringement and that an injunction was not warranted. On December 18, 2013, we and Cardsoft participated in mediation but we were unable to reach resolution on this matter. In March 2014, Cardsoft filed a motion requesting the court to set an ongoing royalty rate. In April 2014, we filed our opposition to such motion as well as a motion requesting the court to issue a ruling as to whether an ongoing royalty applies in light of our redesigns of the products subject to the court's infringement ruling.

Given that we believed it probable that the District Court would award an ongoing royalty, and such amount was deemed estimable effective from our fiscal quarter ended July 31, 2012 when the jury verdict was issued, we accrued $3 per unit to Cost of net revenues for potential ongoing royalties, plus estimated pre-judgment interest. During the fiscal quarter ended October 31, 2012, we completed redesigns of the terminals subject to the jury's verdict specifically to address the Cardsoft allegations, and implemented such redesigns in the U.S. We obtained the legal opinion of independent intellectual property counsel that our terminals, as redesigned, do not infringe the Cardsoft patents-in-suit, taking into account the claim construction of the District Court in the Cardsoft action. Accordingly, although the question of whether our products, as redesigned, infringe the Cardsoft patents-in-suit is subject to determination by a court, whether the District Court in the underlying trial or another court, we concluded based on the procedures taken and legal reviews obtained, that it is not probable that an ongoing royalty based on the jury's verdict applies to our terminals as redesigned, and ceased accruing an ongoing royalty on the basis for our implementation of the redesigns. We continued to accrue for pre-judgment interest until judgment was entered. Our estimate of pre-judgment interest applies a rate of 4.12% which represents the seven year Treasury rate as of August 23, 2005, the date of the relevant hypothetical negotiation of the underlying claim. As noted above, Cardsoft previously filed a motion claiming royalties on our future U.S. sales of the accused products at a royalty rate higher than the rate awarded by the jury and pre-judgment interest at a rate higher than used in our estimates. Following entry of judgment, we have accrued for post-judgment interest at the statutorily determined rate equal to the one year constant maturity Treasury rate, currently 0.11% per annum, compounded annually.

Based on our assessment and the status of this case as described above, we have accrued an estimated loss through April 30, 2014, including estimated pre-judgment interest, potential ongoing royalties and post-judgment interest, totaling $20.0 million related to this ongoing litigation.

Table of Contents

On February 18, 2014, we filed our opening brief in our appeal of the District Court's judgment before the U.S. Court of Appeals for the Federal Circuit. Cardsoft filed its responsive brief in the appeal on April 30, 2014 and we filed our reply brief on May 19, 2014. We intend to vigorously pursue our appeal of any unfavorable judgment issued by the District Court and to defend any further claims related to this litigation. At this time we are unable to estimate the range of additional loss exceeding amounts already recognized, if any, related to any further amounts Cardsoft may seek and the District Court may award. Unfavorable rulings on such motions, including any unfavorable rulings by the District Court with respect to our redesigns, could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Creative Mobile Technologies, LLC v. VeriFone Systems, Inc. et al.

On December 17, 2012, Creative Mobile Technologies, LLC ("CMT"), a provider of in-taxi payment processing solutions, filed a complaint in the Supreme Court of the State of New York alleging breach by VeriFone Systems, Inc. and VeriFone Media, LLC (f/k/a Clear Channel Taxi Media, LLC) ("VML") of a sales representation agreement between CMT and VML. According to the complaint, CMT seeks damages and accounting, alleging breach of contract, breach of the duty of good faith and fair dealing and tortious interference with contract. On January 15, 2013, we removed this action to the United States District Court for the Southern District of New York. On February 13, 2013, we filed our answer and counterclaim, setting forth our general denial of the allegations, responses to specific allegations, our affirmative defenses and our counterclaim. The initial status conference was held in April 2013 and the parties engaged in discovery in the case. Without admitting any wrongdoing or violation of law, we entered into an agreement-in-principle on April 25, 2014, and a confidential settlement agreement on May 27, 2014, with CMT to settle the case for a total consideration of $9.0 million consisting of a $7.5 million one-time cash payment and a $1.5 million credit that may be applied by CMT within 24 months against purchases of certain VeriFone electronic payment terminals. We accrued the full amount of the settlement consideration in April 2014 when we entered into the agreement-in-principle. We paid the cash portion of the settlement consideration in June 2014. On June 4, 2014, the parties jointly filed with the court a stipulation of dismissal with prejudice to dismiss the action. On June 5, 2014, the court issued an order dismissing the case with prejudice.

Class Action and Derivative Lawsuits

In re VeriFone Holdings, Inc. Securities Litigation

On or after December 4, 2007, several securities class action complaints were filed against us and certain of our officers, former officers, and a former director. These lawsuits were consolidated in the U.S. District Court for the Northern District of California and are currently captioned as In re VeriFone Holdings, Inc. Securities Litigation, C 07-6140 EMC. The original actions were: Eichenholtz v. VeriFone Holdings, Inc. et al., C 07-6140 EMC; Lien v. VeriFone Holdings, Inc. et al., C 07-6195 JSW; Vaughn et al. v. VeriFone Holdings, Inc. et al., C 07-6197 VRW (Plaintiffs voluntarily dismissed this complaint on March 7, 2008); Feldman et al. v. VeriFone Holdings, Inc. et al., C 07-6218 MMC; Cerini v. VeriFone Holdings, Inc. et al., C 07-6228 SC; Westend Capital Management LLC v. VeriFone Holdings, Inc. et al., C 07-6237 MMC; Hill v. VeriFone Holdings, Inc. et al., C 07-6238 MHP; Offutt v. VeriFone Holdings, Inc. et al., C 07-6241 JSW; Feitel v. VeriFone Holdings, Inc., et al., C 08-0118 CW. On August 22, 2008, the court appointed plaintiff National Elevator Fund lead plaintiff and its attorneys lead counsel. Lead plaintiff filed its consolidated amended class action complaint on October 31, 2008, which asserts claims under the Securities Exchange Act Sections 10(b), 20(a), and 20A and SEC Rule 10b-5 for securities fraud and control person liability against us and certain of our current and former officers and directors, based on allegations that we and the individual defendants made false or misleading public statements regarding our business and operations during the putative class periods, and seeks unspecified monetary damages and other relief. We filed our motion to dismiss on December 31, 2008. The court granted our motion on May 26, 2009 and dismissed the consolidated amended class action complaint with leave to amend within 30 days of the ruling. The proceedings were stayed pending a mediation held in October 2009 at which time the parties failed to reach a mutually agreeable settlement. Lead plaintiff's first amended complaint was filed on December 3, 2009 followed by a second amended complaint filed on January 19, 2010. We filed a motion to dismiss the second amended complaint and the hearing on our motion was held on May 17, 2010. In July 2010, prior to any court ruling on our motion, lead plaintiff filed a motion for leave to file a third amended complaint on the basis that it had newly obtained evidence. Pursuant to a briefing schedule issued by the court we submitted our motion to dismiss the third amended complaint and lead plaintiff filed its opposition, following which the court took the matter under submission without further hearing. On March 8, 2011, the court ruled in our favor and dismissed the consolidated securities class action without leave to amend. On April 5, 2011, lead plaintiff filed its notice of appeal of the district court's ruling to the U.S. Court of Appeals for the Ninth Circuit. On June 24 and June 27, 2011, lead plaintiff dismissed its appeal as against defendants Paul Periolat, William Atkinson, and Craig Bondy. Lead plaintiff filed its opening brief on appeal on July 28, 2011. We filed our answering brief on September 28, 2011 and lead plaintiff filed its reply brief on October 31, 2011. A hearing on oral arguments for this appeal was held before a judicial panel of the Ninth Circuit on May 17, 2012. On December 21, 2012, the Ninth Circuit issued its opinion reversing the district court's dismissal of the consolidated shareholder securities class action against us and certain of our officers and directors, with the exception of the dismissal of lead plaintiff's claims under Section 20(a) of the Securities Exchange Act, which the Ninth Circuit affirmed. On January 4, 2013, we filed a petition for en banc rehearing with the Ninth Circuit. On January 30, 2013, the Ninth Circuit denied the petition for rehearing. On February 8, 2013, the Ninth Circuit issued a mandate returning this case to the U.S. District Court for the Northern District of California for further proceeding on lead plaintiff's claims, except for the dismissed Section 20(a) claim.

Table of Contents
VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On August 9, 2013, we entered into a stipulation of settlement in this consolidated shareholder securities class action with and among the other defendants and the lead plaintiff therein. The settlement is subject to various customary conditions, including preliminary approval by the U.S. District Court for the Northern District of California, notice to class members, class member opt-out thresholds and final approval by the court. If the settlement becomes final, the total settlement consideration paid for the benefit of the settlement class would be $95.0 million, plus a potential contingent adjustment if we had been acquired on or before April 15, 2014. We have coverage from our insurance carriers for this settlement consideration in the amount of approximately $33.8 million. The net amount of approximately $61.2 million (excluding the contingent adjustment) would be paid by us. On October 15, 2013, the court entered an order preliminarily approving the settlement. On November 5, 2013, we deposited approximately $61.2 million, and our insurance carriers have deposited the remaining portion, of the $95.0 million settlement consideration into an escrow account for the settlement. The hearing on final approval of the settlement was held on February 14, 2014. On February 18, 2014, the court issued an order granting the parties' motion for settlement, and indicated that it intended to issue a final approval of the settlement, subject to the lead plaintiff's submission of a notice plan regarding Israeli investors that includes (i) a longer time period for Israeli class members to file their claims and (ii) the dissemination to Israeli investors of a Hebrew language version of the notice of the proposed settlement, proof of claim and release form (the "Hebrew-Language Notice"). On February 20, 2014, in response to the court's order, the lead plaintiff filed a proposed notice plan that included (i) an extension of the time period for Israeli class members to file claims to April 30, 2014, (ii) a plan to mail the Hebrew-Language Notice to Israeli investors, (iii) a plan to publish the Hebrew-Language Notice in a leading newspaper in Israel, and (iv) a revision to the claims website to post the Hebrew-Language Notice and make clear that the claims deadline for Israeli class members has been extended to April 30, 2014. On February 25, 2014, the court issued a final order approving the settlement, dismissing the case with prejudice and entering judgment in the action. One of the objectors to the settlement filed a notice of appeal to the court's February 25, 2014 judgment and orders, and subsequently filed a motion for voluntary dismissal of the appeal with prejudice. On June 2, 2014, the U.S. Court of Appeals for the Ninth Circuit issued an order, dismissing the appeal with prejudice.

We have denied and continue to deny each and all of the claims alleged in the consolidated shareholder securities class action. Nonetheless, we have agreed to the settlement to eliminate the uncertainty, distraction, burden and expense of further litigation. This settlement also applies to members of the putative class of plaintiffs in the Israel Class Action described below under U.S. law.

In re VeriFone Holdings, Inc. Shareholder Derivative Litigation Proceedings

Beginning on December 13, 2007, several actions were also filed against certain current and former directors and officers derivatively on our behalf. These derivative lawsuits were filed in: (1) the U.S. District Court for the Northern District of California, as In re VeriFone Holdings, Inc. Shareholder Derivative Litigation, Lead Case No. C 07-6347 MHP, which consolidates King v. Bergeron, et al. (Case No. 07-CV-6347), Hilborn v. VeriFone Holdings, Inc., et al. (Case No. 08-CV-1132), Patel v. Bergeron, et al. (Case No. 08-CV-1133), and Lemmond, et al. v. VeriFone Holdings, Inc., et al. (Case No. 08-CV-1301); and (2) the Superior Court of California, County of Santa Clara, as In re VeriFone Holdings, Inc. Derivative Litigation, Lead Case No. 1-07-CV-100980, which consolidates Catholic Medical Mission Board v. Bergeron, et al. (Case No. 1-07-CV-100980) and Carpel v. Bergeron, et al. (Case No. 1-07-CV-101449). We prevailed in our motion to dismiss the federal derivative claims before the U.S. District Court for the Northern District of California and, on November 28, 2011, in ruling on lead plaintiff's appeal against the district court's judgment dismissing lead plaintiff's derivative claims, the Ninth Circuit issued judgment affirming the dismissal of lead plaintiff's complaint against us. Lead plaintiff did not appeal the Ninth Circuit's judgment and the federal derivative action is now closed.

25

On October 31, 2008, the state derivative plaintiffs filed their consolidated derivative complaint in the Superior Court of California, County of Santa Clara naming us as a nominal defendant and bringing claims for insider selling, breach of fiduciary duty, unjust enrichment, waste of corporate assets and aiding and abetting breach of fiduciary duty against certain of our current and former officers and directors and our largest stockholder as of October 31, 2008, GTCR Golder Rauner LLC. On February 18, 2009, plaintiff Catholic Medical Mission Board voluntarily dismissed itself from the action. In November 2008, we filed a motion to stay the state court action pending resolution of the parallel federal actions, and the parties agreed by stipulation to delay briefing on the motion to stay until after the issue of demand futility was resolved in the federal derivative case. On June 2, 2011, the court entered a stipulated order requiring the parties to submit a case status report on August 1, 2011 and periodically thereafter. The parties submitted status reports to the court through February 1, 2013 as requested by the court. On January 30, 2013, counsel for plaintiff informed us that Mr. Carpel, the nominal plaintiff, had sold his shares in the company and therefore no longer had standing to maintain a derivative action against us. On February 15, 2013, plaintiff filed a motion for leave to publish notice to our stockholders seeking a new nominal plaintiff. On May 10, 2013, the court adopted its tentative order granting the motion to publish notice, which was formally entered on May 17, 2013. Under the terms of the order, the parties were ordered to publish notice of the potential dismissal of the action and any qualifying shareholder who wishes to intervene must notify the court within ninety days from the formal entry of the order. Otherwise, the action will be dismissed. On August 14, 2013, counsel for the former nominal plaintiff, Mr. Carpel, filed a notice of intent to substitute a new nominal plaintiff, Joel Gerber, into the action. On September 16, 2013, counsel for former plaintiff Carpel filed a motion to substitute a new plaintiff, Joel Gerber, into the action. On October 16, 2013, the court granted the motion and deemed the amended complaint filed as of the same date. Pursuant to the parties' stipulation, VeriFone's demurrer to the amended complaint was filed on April 7, 2014. On May 23, 2014, plaintiff filed a statement of non-opposition to VeriFone's demurrer and filed a motion to stay the action to allow plaintiff to make a demand on VeriFone's current Board of Directors. A hearing on the demurrer, the motion to stay, and a case management conference are scheduled for July 11, 2014.

Israel Class Action

On January 27, 2008, a class action complaint was filed against us in the Central District Court in Tel Aviv, Israel on behalf of purchasers of our stock on the Tel Aviv Stock Exchange. The complaint seeks compensation for damages allegedly incurred by the class of plaintiffs due to the publication of erroneous financial reports. We filed a motion to stay the action, in light of the proceedings already filed in the United States, on March 31, 2008. A hearing on the motion was held on May 25, 2008. Further briefing in support of the stay motion, specifically with regard to the threshold issue of applicable law, was submitted on June 24, 2008. On September 11, 2008, the Israeli District Court ruled in our favor, holding that U.S. law would apply in determining our liability. On October 7, 2008, plaintiffs filed a motion for leave to appeal the Israeli District Court's ruling to the Israeli Supreme Court. Our response to plaintiffs' appeal motion was filed on January 18, 2009. The Israeli District Court has stayed its proceedings until the Israeli Supreme Court rules on plaintiffs' motion for leave to appeal. On January 27, 2010, after a hearing before the Israeli Supreme Court, the court dismissed the plaintiffs' motion for leave to appeal and addressed the case back to the Israeli District Court. The Israeli Supreme Court instructed the Israeli District Court to rule whether the Israel class action should be stayed, under the assumption that the applicable law is U.S. law. Plaintiffs subsequently filed an application for reconsideration of the Israeli District Court's ruling that U.S. law is the applicable law. Following a hearing on plaintiffs' application, on April 12, 2010, the parties agreed to stay the proceedings pending resolution of the U.S. securities class action, without prejudice to plaintiffs' right to appeal the Israeli District Court's decision regarding the applicable law to the Israeli Supreme Court. On May 25, 2010, plaintiff filed a motion for leave to appeal the decision regarding the applicable law with the Israeli Supreme Court. In August 2010, plaintiff filed an application to the Israeli Supreme Court arguing that the U.S. Supreme Court's decision in Morrison et al. v. National Australia Bank Ltd., 561 U.S. __, 130 S. Ct. 2869 (2010), may affect the outcome of the appeal currently pending before the Court and requesting that this authority be added to the Court's record. Plaintiff concurrently filed an application with the Israeli District Court asking that court to reverse its decision regarding the applicability of U.S. law to the Israel class action, as well as to cancel its decision to stay the Israeli proceedings in favor of the U.S. class action in light of the U.S. Supreme Court's decision in Morrison. On August 25, 2011, the Israeli District Court issued a decision denying plaintiff's application and reaffirming its ruling that the law applicable to the Israel class action is U.S. law. The Israeli District Court also ordered that further proceedings in the case be stayed pending the decision on appeal in the U.S. class action.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On November 13, 2011, plaintiff filed an amended application for leave to appeal addressing the Israeli District Court's ruling. We filed an amended response on December 28, 2011. On January 1, 2012, the Israeli Supreme Court ordered consideration of the application by three justices. On July 2, 2012, the Israeli Supreme Court ordered us to file an updated notice on the status of the proceedings in the U.S. securities class action then pending in the U.S. Court of Appeals for the Ninth Circuit by October 1, 2012. On October 11, 2012, we filed an updated status notice in the Israeli Supreme Court on the proceedings in the U.S. securities class action pending at the time in the U.S. Court of Appeals for the Ninth Circuit. On January 9, 2013, the Israeli Supreme Court held a further hearing on the status of the appeal in the U.S. Court of Appeals for the Ninth Circuit and recommended that the parties meet and confer regarding the inclusion of the Israeli plaintiffs in the federal class action pending in the U.S. On February 10, 2013, the Israeli Supreme Court issued an order staying the case pursuant to the joint notice submitted to the court by the parties on February 4, 2013. The plaintiff and putative class members in this action are included in the stipulated settlement of the federal securities class action, In re VeriFone Holdings, Inc., disclosed above unless an individual plaintiff opts out. Following the February 25, 2014 judgment and orders by the U.S. court, in April 2014, the parties in the Israeli class action filed a joint motion requesting that the Israeli Supreme Court renew the proceedings on appeal concerning the determination of the applicable law. A hearing is scheduled for June 23, 2014.

In re VeriFone Securities Litigation

On March 7, 2013, a putative securities class action was filed in the U.S. District Court for the Northern District of California against us certain of our former officers and one of our current officers and alleged claims in connection with our February 20, 2013 announcement of preliminary financial results for the fiscal quarter ended January 31, 2013. The action, captioned Sanders v. VeriFone Systems, Inc. et al., Case No. C 13-1038, and subsequently re-captioned In re VeriFone Securities Litigation, was initially brought on behalf of a putative class of purchasers of VeriFone securities between December 14, 2011 and February 19, 2013 and asserted claims under the Securities Exchange Act Sections 10(b) and 20(a) and SEC Rule 10b-5 for securities fraud and control person liability. The claims were based on allegations that we and the individual defendants made false or misleading public statements regarding our business, operations, and financial controls during the putative class period. The complaint sought unspecified monetary damages and other relief. Two additional class actions related to the same matter (Laborers Local 235 Benefit Funds v. VeriFone Systems, Inc. et al., Case No. CV 13-1676 and Bland v. VeriFone Systems, Inc. et al., Case No. CV 13-1853) were filed in April 2013. On May 6, 2013, several putative plaintiffs and plaintiffs' law firms filed motions to consolidate these three securities class actions and requesting appointment as lead plaintiff and lead counsel, respectively. The plaintiffs in Laborers Local 235 Benefit Funds v. VeriFone Systems, Inc. et al. and Bland v. VeriFone Systems, Inc. et al. voluntarily dismissed their respective actions, without prejudice, on July 10, 2013 and July 17, 2013, respectively, and filed motions to be appointed lead plaintiff in the action previously captioned Sanders v. VeriFone Systems, Inc. et al. On October 7, 2013, the court entered an order appointing the Selz Funds as lead plaintiffs and appointing Gold Bennett Cera & Sidener LLP as lead counsel. Lead plaintiffs' first amended complaint was filed on December 16, 2013. The first amended complaint expanded the putative class period to December 14, 2011 and February 20, 2013, inclusive, and removed the current officer who was named in the original complaint from the action. We filed our motion to dismiss the amended complaint on February 14, 2014, lead plaintiffs filed their opposition on April 15, 2014 and we filed our reply on May 16, 2014. On May 27, 2014, the court took the motion to dismiss under submission without oral argument.

Dolled v. Bergeron et al.

On April 19, 2013, a derivative action, Dolled v. Bergeron et al., Case No. 113-CV-245056, was filed in the Superior Court of California, County of Santa Clara in connection with our February 20, 2013 announcement of preliminary financial results for the fiscal quarter ended January 31, 2013. The action, brought derivatively on behalf of VeriFone, names VeriFone as a nominal defendant and brings claims for insider selling, breach of fiduciary duty and unjust enrichment variously against certain of our current and former officers and directors. The complaint seeks unspecified monetary damages, restitution and disgorgement of profits and compensation paid to defendants, injunctive relief directing us to reform its corporate governance, and payment of the plaintiff's costs and attorneys' fees. On May 30, 2013, the court entered the parties' stipulation and proposed order, which appointed plaintiff and plaintiff's counsel as lead plaintiff and lead counsel, respectively, in the consolidated action, captioned In re VeriFone Systems, Inc. Derivative Litigation. The next case management conference is scheduled for July 18, 2014.

Zoumboulakis v. McGinn et al.

On May 24, 2013, a federal derivative action, Zoumboulakis v. McGinn et al., Case No. 13-CV-02379, was filed in the U.S. District Court for the Northern District of California against certain current and former directors and officers derivatively on our behalf. The complaint, which names us as a nominal defendant, alleges breach of fiduciary duty and abuse of control and asserts claims under Section 14(a) of the Securities Exchange Act of 1934 for false or misleading financial statements and proxy statement disclosures. The complaint seeks unspecified monetary damages, including exemplary damages, restitution from defendants, injunctive relief directing us to make certain corporate governance reforms, and payment of the plaintiff's costs and attorneys' fees. On August 12, 2013, the court entered defendants' motion seeking to relate this action to the pending shareholder class action, Sanders v. VeriFone Systems, Inc. et al. On October 31, 2013, the court entered a stipulation and order setting a December 31, 2013 deadline for the filing of an amended complaint and setting a January 30, 2014 deadline for defendants to move or answer. An initial case management conference was held on January 17, 2014. On January 21, 2014, plaintiff filed an amended complaint, which removed one of our former officers from the action and added an additional former director as a defendant. The amended complaint brings claims against the defendants for breach of fiduciary duty, abuse of control, violations of Securities Exchange Act Section 14(a), and unjust enrichment. The amended complaint also brings claims for insider trading against three of the named former and current directors. We filed our motion to dismiss the amended complaint on March 7, 2014, plaintiff filed her opposition on April 23, 2014, and we filed our reply on May 16, 2014. On May 27, 2014, the court took the motion to dismiss under submission without oral argument.

If any of these class action or derivative lawsuits is resolved adversely to us, it could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Antitrust Investigation

The Competition Commission of India ("CCI") is investigating certain complaints made against us alleging unfair practices based on certain provisions in our software development license arrangements in India. We have cooperated with requests by the CCI in its investigation. In March 2014, the director general of the CCI investigating the allegations issued a report rejecting certain of the allegations, but also finding that certain provisions of our licenses may constitute unfair business practices. We are preparing our response to the director general's report. A hearing in this matter is scheduled for July 2014.

Other Litigation

After termination of their services, several former contractors of one of our Brazilian subsidiaries filed individual lawsuits in the Labor Court of São Paulo against the subsidiary alleging an employer-employee relationship and wrongful termination, and claiming, among other damages, statutorily-imposed salaries, vacations, severance and bonus amounts, social contributions and penalties and moral damages. In October 2012, we received a partially unfavorable judgment for one of these lawsuits, with the court ruling that an employer-employee relationship existed. We did not prevail in our appeal of the unfavorable judgment and this matter is now pending final appeal. We believe it is probable that we may not prevail on this matter. As of April 30, 2014, we have accrued for the estimated probable loss for this matter, which amount is not material to our results of operations. We have settled, without admitting any wrongdoing or violation of law, the other filed lawsuits, in each case, for a cash payment. The amounts of these settlements are not material to our results of operations.

Certain of the foregoing cases are still in the preliminary stages, and we are not able to quantify the extent of our potential liability, if any. Further, the outcome of litigation is inherently unpredictable and subject to significant uncertainties. If any of these matters are resolved adversely to us, this could have a material adverse effect on our business, financial condition, results of operations, and cash flows. In addition, defending these legal proceedings is likely to be costly, which may have a material adverse effect on our financial condition, results of operations and cash flows, and may divert management's attention from the day-to-day operations of our business. We are subject to various other legal proceedings related to commercial, customer, and employment matters that have arisen during the ordinary course of business, including a number of pending labor-related claims that arose in the ordinary course of business against the Hypercom Brazilian subsidiary prior to our acquisition of Hypercom. The outcome of such legal proceedings is inherently unpredictable and subject to significant uncertainties. Although there can be no assurance as to the ultimate disposition of these matters, our management has determined, based upon the information available at the date of these financial statements, including expected availability of insurance coverage, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Export Control Matters

As disclosed in Part II Item 5, Other Information, of our Quarterly Report on Form 10-Q for our fiscal quarter ended January 31, 2013, we previously discovered certain unauthorized activities which may potentially constitute violations of U.S. export control laws and regulations that prohibit the shipment of our products and the provision of our services to countries, governments and persons targeted by U.S. sanctions. In connection with our discoveries we have made a voluntary disclosure to the U.S. Department of Treasury's Office of Foreign Assets Control (“OFAC”) regarding these potential violations. This voluntary disclosure process with OFAC is in the initial stages and we cannot predict whether or when OFAC would review this matter or what enforcement action, if any, it may take. If we were found to be in violation of U.S. sanctions or export control laws, it could result in fines or penalties for us, which could harm our results of operations.

Income Tax Uncertainties

As of April 30, 2014, the amount payable for unrecognized tax benefits was $65.6 million, including accrued interest and penalties, none of which is expected to be paid within one year. This amount is included in Other long-term liabilities in our Condensed Consolidated Balance Sheet as of April 30, 2014. We are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority may occur.

Note 10. Segment and Geographic Information

Segment Information

Our operating segments are Americas, EMEA, and ASPAC. We determine our operating segments based on the discrete financial information used by our Chief Executive Officer, who is our chief operating decision maker, to assess performance, allocate resources, and make decisions regarding VeriFone's operations. We do not separately evaluate assets by segment, and therefore assets by segment are not presented below. Net revenues and operating income (loss) of each segment reflect net revenues and expenses that are directly attributable to that segment. Net revenues and expenses not allocated to segment net revenues and segment operating income (loss) include amortization of purchased intangible assets, increase to fair value (step-up) of inventory at acquisition, fair value decrease (step-down) in deferred revenue at acquisition, some inventory reserves, asset impairments, restructuring expenses, stock-based compensation, as well as corporate research and development, sales and marketing, general and administrative, and litigation settlement and loss contingency expenses.

Table of Contents
VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets forth net revenues for our reportable segments and reconciles segment net revenues to total net revenues (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
Segment net revenues:				
Americas	$208,631	$207,375	$399,147	$413,128
EMEA	190,575	172,719	376,876	345,603
ASPAC	67,569	49,654	127,902	100,671
Total segment net revenues	466,775	429,748	903,925	859,402
Net revenues not allocated to segment net revenues:				
Amortization of step-down in deferred revenue at acquisition	(358)	(961)	(1,442)	(2,396)
Other net revenues not allocated to segment net revenues	—	(2,500)	—	(1,972)
Total net revenues	$466,417	$426,287	$902,483	$855,034

The following table sets forth operating income for our reportable segments and reconciles segment operating income to consolidated operating loss (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
Operating income by segment:				
Americas	$49,194	$54,537	$99,636	$117,497
EMEA	52,597	43,035	106,334	94,602
ASPAC	16,101	9,572	27,865	19,398
Total segment operating income	117,892	107,144	233,835	231,497
Items not allocated to segment operating income:				
Net revenues not allocated to segment net revenues	(358)	(3,461)	(1,442)	(4,368)
Amortization of purchased intangible assets	(35,731)	(34,184)	(71,869)	(69,941)
Stock-based compensation expense	(11,877)	(10,030)	(27,609)	(22,388)
Restructuring expense	(5,771)	—	(5,771)	(323)
Litigation settlement and loss contingency expense	(9,000)	(69,000)	(9,000)	(69,000)
Other expenses not allocated to segments	(68,703)	(60,038)	(138,207)	(113,311)
Total operating loss	$(13,548)	$(69,569)	$(20,063)	$(47,834)

Geographic Information

Our net revenues, by country with net revenues over 10% of total net revenues, were as follows (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
United States	$121,300	$117,933	$240,371	$246,491
Brazil	51,496	47,600	90,657	81,518
Other countries	293,621	260,754	571,455	527,025
Total net revenues	$466,417	$426,287	$902,483	$855,034

Net revenues are allocated to countries based on the shipping destination or service delivery location of customer orders.

30

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section should be read in conjunction with our consolidated financial statements and related notes included in our 2013 Annual Report on Form 10-K and the Condensed Consolidated Financial Statements and Notes included in Part I, Item I of this Quarterly Report on Form 10-Q. This section and other parts of this Quarterly Report on Form 10-Q and certain information incorporated by reference herein contain forward-looking statements that involve risks and uncertainties. In some cases, forward-looking statements can be identified by words such as "may," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms, or comparable terminology. Such forward-looking statements are based on current expectations, estimates, and projections about our industry and management's beliefs and assumptions, and do not reflect the potential impact of any mergers, acquisitions, or other business combinations or divestitures that have not been completed. Forward-looking statements are not guarantees of future performance, and our actual results may differ materially from the results expressed or implied in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A, Risk Factors, in our 2013 Annual Report on Form 10-K and in Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q, and elsewhere in these reports, including our disclosures of Critical Accounting Policies and Estimates in Part II, Item 7 in our 2013 Annual Report on Form 10-K and in Part I, Item 2 of this Quarterly Report on Form 10-Q, and our disclosures in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our 2013 Annual Report on Form 10-K and in Part I, Item 3, Quantitative and Qualitative Disclosures About Market Risk of this Quarterly Report on Form 10-Q, as well as in our Condensed Consolidated Financial Statements and Notes thereto. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform such statements to actual results or to changes in expectations. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

In this Quarterly Report on Form 10-Q, each of the terms “VeriFone,” "Company," "us," "we," and "our" refers to VeriFone Systems, Inc. and its consolidated subsidiaries.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is provided in addition to our Condensed Consolidated Financial Statements and accompanying notes to assist readers in understanding our results of operations, financial condition, and cash flows. This section is organized as follows:

Overview: Discussion of our business and overall financial results, and other highlights related to our results of operations for the periods presented.

Results of Operations:

- Consolidated Results of Operations: An analysis and discussion of our financial results comparing our consolidated results of operations for the three and six months ended April 30, 2014 to the three and six months ended April 30, 2013.
- Segment Results of Operations: An analysis and discussion of our financial results comparing the results of operations for each of our three reportable segments, Americas, EMEA, and ASPAC, for the three and six months ended April 30, 2014 to the three and six months ended April 30, 2013.

Financial Outlook: A discussion of our expectations regarding certain trends that may affect our financial condition and results of operations.

Liquidity and Capital Resources: An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition and potential sources of liquidity.

Contractual Obligations and Off-Balance Sheet Arrangements: Disclosures related to our contractual obligations, contingent liabilities, commitments, and off-balance-sheet arrangements, as of April 30, 2014.

Critical Accounting Policies and Estimates: A discussion of the accounting policies and estimates that we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts, as well as recent accounting pronouncements that have had or are expected to have a material impact on our results of operations.

Table of Contents

Overview

Our Business

We are a leading global provider of secure electronic payment solutions and value-added services at the point of sale. We focus on delivering value to our customers at the point of sale where merchant and consumer requirements drive increasingly innovative point of sale payment capabilities, value-added services and expertise that increase merchant revenues and consumer experience solutions that enrich the point of interaction between merchant and consumers. Today we are an industry leader in multi-application payment systems deployments. Key industries in which we operate include financial services, retail, petroleum, restaurant, hospitality, taxi, transportation and healthcare.

We operate in three segments: Americas, EMEA, and ASPAC. Our Americas segment includes our operations in North America, South America, Central America, and the Caribbean. Our EMEA segment is comprised of our operations in Europe, the Middle East, and Africa. Our ASPAC segment consists of our operations in Asia, Australia, New Zealand, and other Asia Pacific Rim countries. We determine our operating segments based on discrete financial information used by our Chief Executive Officer, who is our chief operating decision maker, to assess performance, allocate resources, and make decisions regarding VeriFone's operations. Our Chief Executive Officer is evaluating using global product line financial information to manage the business in the future. If our Chief Executive Officer is provided different financial information to assess performance, allocate resources and make decisions regarding VeriFone's operations, we will reassess our operating segment presentation.

Our Sources of Revenue

Sales of our point of sale electronic payment devices and systems continue to be a significant source of revenues. Our terminal solutions are differentiated based on our unique operating systems and security and encryption capabilities, as well as flexibility to support a variety of payment types, deployment options and integrated value-added capabilities, such as for media at the point of sale. Our architecture enables multiple value-added applications, including third-party applications, such as gift card and loyalty card programs, healthcare insurance eligibility, and time and attendance tracking, and allows these services to reside on the same system. For terminal solutions, security continues to be an important factor for our clients. We also see increased demand in our markets for integrated mobile point of sale solutions and, in the U.S., we see increasing demand for EMV capable terminal solutions.

Services are an important part of our business strategy. We are focused on offering full-service Payment-as-a-Service solutions and other managed services, such as gateways, encryption, tokenization, and end-to-end terminal estate management services. We are investing in select markets in order to expand our Payment-as-a-Service offering in new countries. We are also focused on commerce enablement solutions, using our consumer-facing point of sale terminals to offer services complementary to our payment solutions that facilitate commerce between merchants and consumers. These commerce enablement solutions include our VNET media platform deployed at gas dispensers and in taxis, PAYMedia/LIFT retail services that enable basket-level targeting of media content at convenience stores, and other digital media solutions that utilize media-enabled equipment to display digital content at the POS. We also offer a broad range of traditional services, including professional services related to customized application development, equipment repair and maintenance, helpdesk support and software post-contract support, installation and deployment, and training.

Table of Contents

Timing of Revenue

The timing of our customer orders may cause our revenue to vary from period to period. Specifically, revenues recognized in our fiscal quarters can vary significantly when larger customers or our distributors hold back orders due to regulatory, certification or budget concerns that impact their business or purchase decisions. In addition, revenues can be back-end weighted when we receive sales orders and deliver a higher proportion of our System solutions toward the end of our fiscal quarters. This variability and back-end weighting of orders may adversely affect our results of operations in a number of ways, and could negatively impact revenues and profits. First, the product mix of orders may not align with manufacturing forecasts, which could result in a shortage of the components needed for production. Second, existing manufacturing capacity may not be sufficient to deliver the desired volume of orders in a concentrated time when they are received. Third, back-end weighted demand could negatively impact gross margins through higher labor, delivery, and other manufacturing and distribution costs. If, on the other hand, we were to seek to manage the fulfillment of back-end weighted orders through holding increased inventory levels, we would risk higher inventory obsolescence charges if our sales fall short of our expectations.

Because our revenue recognition depends on, among other things, the timing of product shipments, decisions we make about product shipments, particularly toward the end of a fiscal quarter, may impact our reported revenues. The timing of product shipments may depend on a number of factors, including price discussions with our customers, operating costs, including costs of air shipments if required, the delivery date requested by customers, and our operating capacity to fill orders and ship products, as well as our own long and short-term business planning and supply chain management. These factors may affect timing of shipments and consequently revenues recognized for a particular period.

Table of Contents

Significant Matters

Transformation Initiatives

During December 2013 we launched transformation initiatives that focus on, among other things, improving our cost structure world-wide. As part of these initiatives, during April 2014 our management approved a restructuring plan under which we will reduce headcount and close facilities. This plan is estimated to be complete by March 2015 and cost approximately $6.5 million, including approximately $5.4 million for employee involuntary termination benefits and approximately $1.1 million related to facility exits.

On June 1, 2014, our management approved a second restructuring plan under which we will reduce headcount, close additional facilities and consolidate data centers. We expect to incur charges totaling approximately $17.0 million under this restructuring plan, including approximately $15.0 million related to employee involuntary termination benefits and approximately $2.0 million related to facility exits and data center consolidations.

We estimate that these plans will result in a net headcount reduction of approximately 500 employees and approximately $35 million of annualized run rate savings by the end of fiscal year 2014. Much of this savings will be reinvested into growth initiatives as part of our transformation program.

Charges under both restructuring plans are expected to be incurred during fiscal years 2014 and 2015, and the majority of the cash payments are expected to be made by the end of fiscal year 2015.

2011 Credit Agreement

On December 24, 2013, we paid in full the $48.4 million remaining outstanding balance of the term B loan under our 2011 Credit Agreement. This payment was partially funded through $47.0 million of additional borrowings under the revolving loan that is part of the same credit agreement. During the three months ended April 30, 2014, we made $35.0 million of additional voluntary pre-payments on our revolving loan facility. Key terms of the 2011 Credit Agreement are described in Note 9, Financings, in the Notes to Consolidated Financial Statements of our 2013 Annual Report on Form 10-K.

Litigation Contingencies and Settlement

We entered into an agreement in principle on April 25, 2014 and a confidential settlement agreement on May 27, 2014, to settle the pending action captioned, Creative Mobile Technologies, LLC v. VeriFone Systems, Inc. et al. for a total consideration of $9.0 million. On June 4, 2014, the parties jointly filed with the court a stipulation of dismissal with prejudice to dismiss the action. On June 5, 2014, the court issued an order dismissing the case with prejudice.

On November 5, 2013, we paid $61.2 million into an escrow account to fund the uninsured portion of the settlement pursuant to the preliminary court approval dated October 15, 2013 in the pending securities class action captioned, In re VeriFone Holdings, Inc. Securities Litigation. This amount was funded from cash on hand and available credit under the revolving loan under the 2011 Credit Agreement. Our insurance carriers paid the remaining $33.8 million settlement amount into that escrow account. On February 25, 2014, the court in such class action issued a final order approving the settlement. One of the objectors to the settlement filed a notice of appeal to the court’s February 25, 2014 judgment and orders, and subsequently filed a motion for voluntary dismissal of the appeal with prejudice. On June 2, 2014, the U.S. Court of Appeals for the Ninth Circuit issued an order, dismissing the appeal with prejudice.

For further information on litigation settlements and loss contingencies, see Note 9, Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Table of Contents

Financial Results Highlights

Overall

- Our consolidated total net revenues for the three months ended April 30, 2014 were $466.4 million, compared to $426.3 million for the three months ended April 30, 2013, up 9.4% year over year.

- Services net revenues for the three months ended April 30, 2014 were $175.7 million, compared to $149.7 million for the three months ended April 30, 2013, up 17.3% year over year.

- Net cash provided by operating activities for the six months ended April 30, 2014 totaled $88.4 million.

Segment Revenues

The following chart summarizes our total net revenues by segment for the three months ended April 30, 2014 and 2013 (in millions), as well as our System solutions and Services net revenues in each segment as a percentage of total net revenues for that segment in each period.

Table of Contents

Results of Operations

Consolidated Results of Operations

Three Months Ended April 30, 2014 compared to April 30, 2013

	Three Months Ended April 30,			
	2014	% of Net revenues (1)	2013	% of Net revenues (1)
	(in thousands, except percentages)			
Net revenues:				
System solutions	$290,734	62.3%	$276,560	64.9%
Services	175,683	37.7%	149,727	35.1%
Total net revenues	466,417	100.0%	426,287	100.0%
Gross margin:				
System solutions	103,163	35.5%	95,688	34.6%
Services	72,111	41.0%	58,618	39.1%
Total gross margin	175,274	37.6%	154,306	36.2%
Operating expenses:				
Research and development	49,999	10.7%	41,581	9.8%
Sales and marketing	56,417	12.1%	46,496	10.9%
General and administrative	48,749	10.5%	43,676	10.2%
Litigation settlement and loss contingency expense	9,000	1.9%	69,000	16.2%
Amortization of purchased intangible assets	24,657	5.3%	23,122	5.4%
Total operating expenses	188,822	40.5%	223,875	52.5%
Operating loss	(13,548)	(2.9)%	(69,569)	(16.3)%
Interest, net	(9,490)	(2.0)%	(11,249)	(2.6)%
Other income (expense), net	(1,183)	(0.3)%	2,306	0.5%
Loss before income taxes	(24,221)	(5.2)%	(78,512)	(18.4)%
Income tax benefit	(658)	(0.1)%	(21,483)	(5.0)%
Consolidated net loss	$(23,563)	(5.1)%	$(57,029)	(13.4)%

(1) System solutions and Services gross margin as a percentage of total net revenues is computed as a percentage of the corresponding System solutions and Services net revenues.

System solutions net revenues for the three months ended April 30, 2014 were $290.7 million, compared to $276.6 million for the three months ended April 30, 2013, up $14.2 million or 5.1%, primarily due to an increase in our EMEA and ASPAC segments. We continued to experience competition and pricing pressures globally, as well as changes in customer demand related to factors such as the timing of customer technology refreshes, the availability of products with desired functionality and the timing of product certifications. See further discussion under Segment Results of Operations below.

Services net revenues for the three months ended April 30, 2014 were $175.7 million, compared to $149.7 million for the three months ended April 30, 2013, up $26.0 million or 17.3%, as a result of continued expansion of our Services offerings globally. Of this increase, $10.6 million was due to our fiscal year 2013 acquisitions. See further discussion under Segment Results of Operations below.

Total gross margin for the three months ended April 30, 2014 was $175.3 million, or 37.6% of total net revenues, compared to $154.3 million, or 36.2% of total net revenues, for the three months ended April 30, 2013, up $21.0 million or 1.4 percentage points. Gross margin in dollars increased primarily due to the increase in total net revenues. Gross margin as a percentage of total net revenues increased primarily because increased Services net revenues had relatively higher margins.

Table of Contents

Research and development for the three months ended April 30, 2014 was $50.0 million compared to $41.6 million for the three months ended April 30, 2013, up $8.4 million or 20.2%, primarily due to an increase in personnel and outside contractor expenses as we invested in additional resources to focus on platform development efforts and shorten our product development life-cycle and time to market.

Sales and marketing for the three months ended April 30, 2014 was $56.4 million, compared to $46.5 million for the three months ended April 30, 2013, up $9.9 million or 21.3%, primarily due to additional personnel expenses associated mainly with the expansion of our Services offerings into new geographies, such as personnel related expenses related to our fiscal year 2013 acquisitions. The increase includes $2.6 million of charges related to employee involuntary termination benefits under our restructuring plans.

General and administrative for the three months ended April 30, 2014 was $48.7 million compared to $43.7 million for the three months ended April 30, 2013, up $5.1 million or 11.6%, primarily due to professional service fees and other costs related to our transformation initiatives. The increase includes $0.9 million of charges related to employee involuntary termination benefits and $1.1 million of charges related to facility exits under our transformation restructuring plans.

Litigation settlement and loss contingency expense for the three months ended April 30, 2014 was $9.0 million due to an accrual related to the agreement in principle in the pending action captioned, Creative Mobile Technologies, LLC v. VeriFone Systems, Inc. et al. during April 2014. Litigation settlement and loss contingency expense for the three months ended April 30, 2013 was $69.0 million primarily due to accruals related to the pending securities class action captioned, In re VeriFone Holdings, Inc. Securities Litigation, and the related Israel class action. See Note 9, Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for disclosures related to our legal proceedings.

Amortization of purchased intangible assets for the three months ended April 30, 2014 and 2013 were $24.7 million and $23.1 million, respectively, up $1.5 million or 6.6%, primarily due to additional amortization during the three months ended April 30, 2014 related to acquisitions in fiscal year 2013.

Interest, net for the three months ended April 30, 2014 was $9.5 million compared to $11.2 million for the three months ended April 30, 2013, down $1.8 million or 15.6%, primarily due to lower loan balances in fiscal year 2014.

Income tax benefit for the three months ended April 30, 2014 was $0.7 million compared to $21.5 million for the three months ended April 30, 2013, a $20.8 million decrease. The decrease is primarily due to a $21.3 million discrete tax benefit during the three months ended April 30, 2013 related to the Litigation settlement and loss contingency expense in that period.

Table of Contents

Six Months Ended April 30, 2014 compared to April 30, 2013

	Six Months Ended April 30,			
	2014	% of Net revenues (1)	2013	% of Net revenues (1)
	(in thousands, except percentages)			
Net revenues:				
System solutions	$551,900	61.2%	$558,268	65.3%
Services	350,583	38.8%	296,766	34.7%
Total net revenues	902,483	100.0%	855,034	100.0%
Gross margin:				
System solutions	196,821	35.7%	203,153	36.4%
Services	148,670	42.4%	123,115	41.5%
Total gross margin	345,491	38.3%	326,268	38.2%
Operating expenses:				
Research and development	100,531	11.1%	81,383	9.5%
Sales and marketing	107,028	11.9%	92,244	10.8%
General and administrative	99,663	11.0%	83,657	9.8%
Litigation settlement and loss contingency expense	9,000	1.0%	69,000	8.1%
Amortization of purchased intangible assets	49,332	5.5%	47,818	5.6%
Total operating expenses	365,554	40.5%	374,102	43.8%
Operating loss	(20,063)	(2.2)%	(47,834)	(5.6)%
Interest, net	(20,879)	(2.3)%	(22,751)	(2.7)%
Other income (expense), net	(6,310)	(0.7)%	6,246	0.7%
Loss before income taxes	(47,252)	(5.2)%	(64,339)	(7.5)%
Income tax benefit	(7,592)	(0.8)%	(19,020)	(2.2)%
Consolidated net loss	$(39,660)	(4.4)%	$(45,319)	(5.3)%

(1) System solutions and Services gross margin as a percentage of total net revenues is computed as a percentage of the corresponding System solutions and Services net revenues.

System solutions net revenues for the six months ended April 30, 2014 were $551.9 million, compared to $558.3 million for the six months ended April 30, 2013, down $6.4 million or 1.1%, primarily because a decrease in the Americas segment due to the timing of purchase decisions by some of our large North American distributors and larger customers in Latin America was partially offset by increased customer demand in our EMEA and ASPAC segments. See further discussion under Segment Results of Operations below.

Services net revenues for the six months ended April 30, 2014 were $350.6 million, compared to $296.8 million for the six months ended April 30, 2013, up $53.8 million or 18.1%, primarily due to continued expansion of our Services offerings globally. Of this increase, $21.4 million was due to our fiscal year 2013 acquisitions. See further discussion under Segment Results of Operations below.

Total gross margin for the six months ended April 30, 2014 was $345.5 million, or 38.3% of total net revenues, compared to $326.3 million, or 38.2% of total net revenues, for the six months ended April 30, 2013, up $19.2 million or 0.1 percentage point. Gross margin increased primarily due to the increase in total net revenues.

38

Research and development for the six months ended April 30, 2014 was $100.5 million compared to $81.4 million for the six months ended April 30, 2013, up $19.1 million or 23.5%, primarily due to an increase in personnel and outside contractor expenses as we invested in additional resources to focus on platform development efforts and shorten our product development life-cycle and time to market.

Sales and marketing for the six months ended April 30, 2014 was $107.0 million, compared to $92.2 million for the six months ended April 30, 2013, up $14.8 million or 16.0% primarily due to additional personnel related expenses associated mainly with the expansion of our Services offerings into new geographies, such as personnel related expenses related to our fiscal year 2013 acquisitions.

General and administrative for the six months ended April 30, 2014 was $99.7 million compared to $83.7 million for the six months ended April 30, 2013, up $16.0 million or 19.1%, primarily due to a $5.5 million increase in professional service fees related to our transformation initiatives and a $11.5 million increase in personnel related expenses attributable mainly to senior executive management changes and retention efforts, including costs of new hires, separation pay and additional stock based compensation, as well as some additional personnel related expenses associated with our fiscal year 2013 acquisitions.

Litigation settlement and loss contingency expense for the six months ended April 30, 2014 was $9.0 million due to an accrual related to the settlement in the pending action captioned, Creative Mobile Technologies, LLC v. VeriFone Systems, Inc. et al. during April 2014. Litigation settlement and loss contingency expense for the six months ended April 30, 2013 was $69.0 million primarily due to accruals related to the pending securities class action captioned, In re VeriFone Holdings, Inc. Securities Litigation, and the related Israel class action. See Note 9, Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for disclosures related to our legal proceedings.

Amortization of purchased intangible assets for the six months ended April 30, 2014 and 2013 were $49.3 million and $47.8 million, respectively, up $1.5 million or 3.1%, primarily due to additional amortization during the six months ended April 30, 2014 related to new acquisitions in fiscal year 2013.

Interest, net for the six months ended April 30, 2014 was $20.9 million compared to $22.8 million for the six months ended April 30, 2013, down $1.9 million or 8.2%, primarily due to lower loan balances in fiscal year 2014, which were partially offset by accelerated amortization of debt issuance costs as a result of the prepayment of the term B loan during the first quarter of fiscal year 2014.

Other income (expense), net for the six months ended April 30, 2014 was a net other expense of $6.3 million compared to a net other income of $6.2 million for the six months ended April 30, 2013, a change of $12.6 million. The Other expense, net, incurred during the six months ended April 30, 2014 is primarily related to an additional $3.3 million accrual associated with certain Brazilian federal tax assessments that we enrolled in the Brazilian Federal Tax Amnesty Program during December 2013. See further discussion in Note 9, Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q. The Other income, net, during the six months ended April 30, 2013 is primarily related to the gain on the divestiture of certain assets and business operations related to our SAIL mobile payment product.

Income tax benefit for the six months ended April 30, 2014 was $7.6 million compared to $19.0 million for the six months ended April 30, 2013, down $11.4 million. The decrease is primarily due to a $21.3 million discrete tax benefit during the three months ended April 30, 2013 related to the Litigation settlement and loss contingency expense in that period, which was partially offset by a $10.7 million discrete tax expense related to an increase in uncertain tax positions in the six months ended April 30, 2013, neither of which recurred in the six months ended April 30, 2014.

39

Table of Contents

Segment Results of Operations

Net revenues and operating income of each segment reflect net revenues and expenses that are directly attributable to that segment. Net revenues and expenses not allocated to segment net revenues and segment operating income include amortization of purchased intangible assets, increase to fair value (step-up) of inventory at acquisition, fair value decrease (step-down) in deferred revenue at acquisition, some inventory reserves, asset impairments, restructuring expenses, stock-based compensation, as well as corporate research and development, sales and marketing, general and administrative, and litigation settlement and loss contingency expenses.

Americas Net Revenues and Operating Income

Our Americas segment includes our operations in North America, South America, Central America, and the Caribbean. Americas customers are diverse, and include traditional and specialty merchants, financial institutions, payment processors, and distributors, among others. Americas net revenues in some markets are dependent upon a limited number of customers, and the timing of purchase decisions and size of orders from those customers can significantly impact Americas net revenues from period to period. For example, our net revenues can increase in periods when larger financial institutions or tier 1 retailers undertake an upgrade or other change, and decrease in periods when such projects are completed. In addition, the timing of when our customers choose to adopt new technology is influenced by factors such as the timing or expected timing of new standards and regulations, and the timing of our new product releases and certifications of those products. Our business transactions in Americas are denominated predominately in U.S. dollars and Brazilian reais.

Three Months Ended April 30, 2014 compared to April 30, 2013

	Three Months Ended April 30,				
	2014	% of Net revenues		2013	% of Net revenues	
	(in thousands, except percentages)				
Net revenues:					
System solutions	$141,138	67.6	%	$144,740	69.8	%
Services	67,493	32.4	%	62,635	30.2	%
Total net revenues	$208,631	100.0	%	$207,375	100.0	%
Operating income	$49,194	23.6	%	$54,537	26.3	%

System solutions net revenues for the three months ended April 30, 2014 were $141.1 million compared to $144.7 million for the three months ended April 30, 2013, down $3.6 million or 2.5%, primarily due to the timing of demand by some of our large customers. During the three months ended April 30, 2014, one large retail customer purchased $6.4 million more than it did in the three months ended April 30, 2013, as it rolled out next generation terminals, and a large North American distributor purchased $9.2 million less as it worked with its customers to deploy existing terminal inventories prior to the PCI standard changes in April 2014. Systems solutions net revenues during the three months ended April 30, 2014 were also negatively impacted by pricing pressures, primarily in Brazil. Foreign currency fluctuations had a $9.7 million unfavorable impact on System solutions net revenues in Latin America, primarily due to a decrease in the value of the Brazilian reais as compared to the U.S. dollar year over year.

Services net revenues for the three months ended April 30, 2014 were $67.5 million compared to $62.6 million for the three months ended April 30, 2013, up $4.9 million or 7.8%, primarily due to growth of our taxi solutions business.

Operating income for the three months ended April 30, 2014 was $49.2 million or 23.6% of total net revenues, compared to $54.5 million or 26.3% of total net revenues for the three months ended April 30, 2013, down $5.3

million and 2.7 percentage points, primarily due to pricing pressures, primarily in Brazil, as well as changes in product and customer mix throughout the region.

Table of Contents

Six Months Ended April 30, 2014 compared to April 30, 2013

	Six Months Ended April 30,					
	2014	% of Net revenues		2013	% of Net revenues	
	(in thousands, except percentages)					
Net revenues:						
System solutions	$262,195	65.7	%	$288,067	69.7	%
Services	136,952	34.3	%	125,061	30.3	%
Total net revenues	$399,147	100.0	%	$413,128	100.0	%
Operating income	$99,636	25.0	%	$117,497	28.4	%

System solutions net revenues for the six months ended April 30, 2014 were $262.2 million compared to $288.1 million for the six months ended April 30, 2013, down $25.9 million or 9.0%, primarily due to the timing of customer demand and technology refreshes by some of our large customers in fiscal year 2013 that did not recur in fiscal year 2014. System solutions net revenues in North America declined $15.2 million, partially as a result of lower purchases by some of our large North American distributors as they worked with their customers to deploy existing terminal inventories prior to the PCI standard changes in April 2014. System solutions net revenues also declined $10.6 million in Latin America, primarily driven by the net impact of the timing of demand from some of our large customers in that region.

Services net revenues for the six months ended April 30, 2014 were $137.0 million compared to $125.1 million for the six months ended April 30, 2013, up $11.9 million or 9.5%, primarily due to growth in our taxi solutions business and our continued expansion of our other Services offerings across all Americas markets.

Foreign currency fluctuations had a $17.1 million unfavorable impact on total net revenues in Latin America, primarily due to a decrease in the value of the Brazilian reais as compared to the U.S. dollar year over year.

Operating income for the six months ended April 30, 2014 was $99.6 million or 25.0% of total net revenues, compared to $117.5 million or 28.4% of total net revenues for the six months ended April 30, 2013, down $17.9 million and 3.4 percentage points, primarily due to the decline in total net revenues, pricing pressures, primarily in Brazil, as well as changes in product and customer mix throughout the region.

Table of Contents

EMEA Net Revenues and Operating Income

Our EMEA segment is comprised of our operations in Europe, the Middle East, and Africa. Our EMEA customers include financial institutions, retailers, distributors, and individual merchants. Net revenues in this segment are primarily influenced by market-wide factors such as standards and regulations, competition, and the timing of our new product releases and certifications of those products and, to a lesser extent, the timing of customer orders. In addition, in emerging markets such as the Middle East, Africa, and parts of Eastern Europe, net revenues are dependent on the adoption by such markets of our products and solutions, competitive pressures, and the timing of local electronic payments initiatives that may create demand for our products and solutions. Our business transactions in EMEA are denominated predominately in U.S. dollars, Euro, British pounds, and Swedish krona.

Three Months Ended April 30, 2014 compared to April 30, 2013

	Three Months Ended April 30,					
	2014	% of Net revenues		2013	% of Net revenues	
	(in thousands, except percentages)					
Net revenues:						
System solutions	$100,086	52.5	%	$94,565	54.8	%
Services	90,489	47.5	%	78,154	45.2	%
Total net revenues	$190,575	100.0	%	$172,719	100.0	%
Operating income	$52,597	27.6	%	$43,035	24.9	%

System solutions net revenues for the three months ended April 30, 2014 were $100.1 million compared to $94.6 million for the three months ended April 30, 2013, up $5.5 million or 5.8%. System solutions net revenues increased primarily due to the timing of demand by some of our large customers and distributors throughout the region. During the three months ended April 30, 2014, two of our large distributors in EMEA purchased $7.0 million more than they did in the three months ended April 30, 2013 due to technology roll outs by their customers.

Services net revenues for the three months ended April 30, 2014 were $90.5 million compared to $78.2 million for the three months ended April 30, 2013, up $12.3 million or 15.7%, which is primarily due to our continued expansion of services offerings, including our Payment-as-a-Service offering, throughout the segment and to a broader customer base.

Operating income for the three months ended April 30, 2014 was $52.6 million or 27.6% of total net revenues, compared to $43.0 million, or 24.9% of total net revenues, for the three months ended April 30, 2013, up $9.6 million and 2.7 percentage points. The increase in dollars is primarily related to the increase in total net revenues. The increase in operating income as a percentage of total net revenues is primarily due to growth in Services net revenues that had higher margins.

Table of Contents

Six Months Ended April 30, 2014 compared to April 30, 2013

	Six Months Ended April 30,					
	2014	% of Net revenues		2013	% of Net revenues	
	(in thousands, except percentages)					
Net revenues:						
System solutions	$197,750	52.5	%	$190,425	55.1	%
Services	179,126	47.5	%	155,178	44.9	%
Total net revenues	$376,876	100.0	%	$345,603	100.0	%
Operating income	$106,334	28.2	%	$94,602	27.4	%

System solutions net revenues for the six months ended April 30, 2014 were $197.8 million compared to $190.4 million for the six months ended April 30, 2013, up $7.3 million or 3.8%. System solutions net revenues increased primarily due to the timing of demand by some of our large customers and distributors across the region. During the six months ended April 30, 2014, System solutions net revenues from three large customers increased $16.6 million. This increase was offset by a $11.2 million decrease as a result of lower order volume from a large distributor.

Services net revenues for the six months ended April 30, 2014 were $179.1 million compared to $155.2 million for the six months ended April 30, 2013, up $23.9 million or 15.4%, which is primarily due to our continued expansion of services offerings, including our Payment-as-a-Service offering, throughout the segment and to a broader customer base.

Foreign currency fluctuations had a $4.8 million favorable impact on total net revenues in EMEA, primarily due to an increase in the value of the Euro as compared to the U.S. dollar year over year.

Operating income for the six months ended April 30, 2014 was $106.3 million or 28.2% of total net revenues, compared to $94.6 million, or 27.4% of total net revenues, for the six months ended April 30, 2013, up $11.7 million and 0.8 percentage points. The increase in operating income in dollars was primarily due to an increase in total net revenues and changes in product mix. The increase in operating income as a percentage of total net revenues is primarily due to growth in Services net revenues that had relatively higher margins.

Table of Contents

ASPAC Net Revenues and Operating Income

Our ASPAC segment consists of our operations in Asia, Australia, New Zealand, and other Asia Pacific Rim countries. Our ASPAC customers are comprised primarily of financial institutions, distributors, and individual merchants. Our ASPAC business is relatively concentrated in terms of customer base and, as a result, our net revenues may vary significantly from period to period. ASPAC net revenues are impacted by standards and regulations, the timing of our new product releases and certifications of those products in the various regulatory environments, as well as increasing competitive pressure. ASPAC business transactions are denominated predominately in Australian dollars, U.S. dollars, and Chinese renminbi.

Three Months Ended April 30, 2014 compared to April 30, 2013

Three Months Ended April 30,

Rowan Companies, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Rowan estimates that the plans will make the following annual payments for pension and other benefits based upon existing benefit formulas and including amounts attributable to future employee service (in millions):

Year Ended December 31,	Pension Benefits	Other Benefits
2009	$ 23.1	$ 4.4
2010	24.4	4.7
2011	26.0	5.2
2012	27.8	5.4
2013	29.3	5.8
2014-2017	177.1	35.3

Rowan currently expects to contribute approximately $47.0 million in 2009 for its pension and other benefit plans.

Rowan has cash bonus and profit sharing plans covering approximately 640 employees. At December 31, 2008, the Company had accrued approximately $18.5 million under such plans, most of which it expects to pay to eligible employees in 2009. At December 31, 2007, the Company had accrued approximately $15.1 million of bonus and profit sharing awards, which was paid to eligible employees in 2008.

Rowan also sponsors defined contribution plans covering substantially all employees. Rowan contributed to the plans about $9.5 million in 2008,

$5.2 million in 2007, and $4.6 million in 2006.

NOTE 7. INCOME TAXES

The detail of income tax provisions for continuing operations is presented below (in thousands):

	Year Ended December 31, 2008	2007	2006
Current:			
Federal	$ 148,801	$ 171,556	$ 69,447
Foreign	24,823	24,705	11,936
State	(594)	3,617	1,008
Total current provision	173,030	199,878	82,391
Deferred	53,433	55,408	93,986
Total	$ 226,463	$ 255,286	$ 176,377

Table of Contents

Rowan Companies, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Rowan s provision for income taxes differs from that determined by applying the federal income tax rate (statutory rate) to income from continuing operations before income taxes, as follows (in thousands):

	Year Ended December 31,		
	2008	2007	2006
Statutory rate	35%	35%	35%
Tax at statutory rate	$ 228,932	$ 258,680	$ 172,674
Increase (decrease) due to:			
State tax expense	(882)	2,083	(89)
Domestic production activities	(6,984)	(5,489)	(2,400)
Research and development tax credit	(318)	(818)	(1,318)
Nondeductible environmental charge			3,150
Foreign companies operations	(292)	(146)	(534)
Goodwill	4,762		
Other net	1,245	976	4,894
Total provision	$ 226,463	$ 255,286	$ 176,377

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities at December 31, 2008 and 2007, were as follows (in thousands):

	December 31,			
	2008		2007	
	Current	Non-Current	Current	Non-Current
Deferred tax assets:				
Accrued employee benefit plan costs	$ 14,790	$ 104,552	$ 13,753	$ 57,244
Inventory	22,372			
Rig relocation operations net	9,804		14,080	
Other	10,166	11,108	699	3,967
Net deferred tax assets	57,132	115,660	28,532	61,211
Deferred tax liabilities:				
Property, plant and equipment		537,808		468,727
Other	6,230	4,700	5,572	5,415
	6,230	542,508	5,572	474,142
Deferred tax asset (liability) net	$ 50,902	$ (426,848)	$ 22,960	$ (412,931)

Management has determined that no valuation allowances were necessary at December 31, 2008 and 2007, as anticipated future tax benefits relating to all deferred income tax assets are expected to be fully realized when measured against a more likely than not standard.

Undistributed earnings of Rowan s foreign subsidiaries in the amount of approximately $44.7 million could potentially be subjected to additional income taxes of approximately $5.1 million. The Company has not provided any deferred income taxes on such undistributed foreign earnings because it considers such earnings to be permanently invested abroad.

Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), clarified accounting for income taxes by defining the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The Company s adoption of FIN 48 effective

Rowan Companies, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

January 1, 2007, yielded a $1.6 million decrease in Retained earnings and a $5.5 million increase in Other liabilities as of that date.

At December 31, 2008 and 2007, Rowan had $3.6 and $3.4 million, respectively, of net unrecognized tax benefits, all of which would reduce the Company s income tax provision if recognized. The Company does not expect to recognize significant increases or decreases in unrecognized tax benefits during the next 12 months.

The following table highlights the changes in the Company s gross unrecognized tax benefits during 2008 and 2007 (in millions):

	2008	2007
Gross unrecognized tax benefits beginning of year	$ 5.0	$ 5.5
Gross increases tax positions in prior period	2.3	
Gross decreases tax positions in prior period		(0.5)
Gross increases current period tax positions..... Settlements		
Lapse of statute of limitations		
Gross Unrecognized Tax Benefit end of year	$ 7.3	$ 5.0

Interest and penalties relating to income taxes are included in current income tax expense. Accrued interest and penalties were both $0.3 million at December 31, 2007. At December 31, 2008, accrued interest was $0.8 million and penalties were $0.3 million. To the extent accrued interest and penalties relating to uncertain tax positions are not actually assessed, such accruals will be reversed and the reversals will reduce the Company s overall income tax provision.

Rowan s U.S. federal tax return for 2006 is currently under audit by the Internal Revenue Service (IRS), and 2002 and later years remain subject to examination. Various state tax returns for 2003 and subsequent years remain open for examination. In the Company s foreign tax jurisdictions, returns for 2005 and subsequent years remain open for examination. During 2007, the IRS completed an examination of a foreign subsidiary s 2004 U.S. Federal Income Tax Return resulting in no adjustment. Rowan is undergoing other routine tax examinations in various foreign, U.S. federal, state and local taxing jurisdictions in which the Company has operated. These examinations cover various tax years and are in various stages of finalization. Rowan believes that any income taxes ultimately assessed by any foreign, U.S. federal, state and local taxing authorities will not materially exceed amounts for which the Company has already provided.

Income from continuing operations before income taxes consisted of $597.1 million, $722.4 million, and $467.2 million of domestic earnings, and $56.9 million, $16.7 million, and $26.2 million of foreign earnings in 2008, 2007, and 2006, respectively.

Income tax payments exceeded refunds by $150.7 million in 2008, $156.9 million in 2007 and $97.7 million in 2006.

NOTE 8. FAIR VALUES OF FINANCIAL INSTRUMENTS

At December 31, 2008, the carrying amounts of Rowan s cash and cash equivalents, receivables and payables approximated their fair values due to the short maturity of such financial instruments. The carrying amount of the Company s floating-rate debt approximated its fair value at December 31, 2008 as such instruments bear short-term, market-based interest rates. The fair value of Rowan s fixed-rate debt at December 31, 2008 was estimated to be approximately $244 million, or a $27 million premium to carrying value, based upon available market information and appropriate valuation methods.

Table of Contents

Rowan Companies, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES

During 1984 and 1985, Rowan sold two cantilever jack-ups, the *Rowan-Halifax* and the *Cecil Provine*, and leased each rig back under operating leases with initial lease periods that expired during 2000. At that time, Rowan exercised its option to extend each lease for a period of seven and one-half years, into 2008.

In September 2005, the *Rowan-Halifax* was lost during Hurricane Rita. The rig was insured for $43.4 million, a value the Company believes satisfied the requirements of the charter agreement, and by a margin sufficient to cover the $6.3 million carrying value of its equipment installed on the rig. However, the owner of the rig claimed that the rig should have been insured for its fair market value and sought recovery from Rowan for compensation above the insured value. Thus, the Company assumed no insurance proceeds related to the *Rowan-Halifax* and recorded a charge during 2005 for the full carrying value of its equipment. On November 3, 2005, the Company filed a declaratory judgment action in the 215th Judicial District Court of Harris County, Texas. The owner filed a similar declaratory judgment action, claiming a value of approximately $83 million for the rig. The owner s motion for summary judgment was granted on January 25, 2007 which, unless overturned on appeal, would make Rowan liable to the owner for the approximately $50 million difference between the owner s claim and the insurance coverage, including interest and costs to date. The Company continues to believe that its interpretation of the charter agreement is correct and is vigorously pursuing an appeal to overturn the summary judgment ruling. The Company does not believe, therefore, that it is probable that Rowan has incurred a loss, nor one that is estimable, and has made no accrual for such at December 31, 2008.

On July 7, 2008, following the conclusion of the operating lease agreement covering the *Cecil Provine*, Rowan purchased the rig for $119 million in cash.

The Company has other operating leases covering offices and computer equipment. Net rental expense under all operating leases was $10.9 million in 2008, $15.4 million in 2007, and $14.2 million in 2006.

At December 31, 2008, the future minimum payments to be made under noncancelable operating leases were as follows (in millions):

2009	$ 5.8
2010	3.4
2011	1.4
2012	0.6
2013	0.1
Later years	2.0
Total	$ 13.3

Rowan periodically employs letters of credit or other bank-issued guarantees in the normal course of its businesses, and was contingently liable for performance under such agreements to the extent of approximately $46 million at December 31, 2008.

During 2005, Rowan lost three additional offshore rigs and incurred significant damage on another rig as a result of Hurricanes Katrina and Rita. We also lost another offshore rig during Hurricane Ike in 2008. Since 2005, the Company has been working to locate the lost or damaged rigs, salvage related equipment, remove debris, wreckage and pollutants from the water, mark or clear navigational hazards and clear rights of way. At December 31, 2008, Rowan had incurred $206.5 million of costs related to such efforts, of which $153.3 million had been reimbursed through insurance, leaving $53.2 million included in Receivables. The Company expects to incur additional costs in the near term to fulfill its obligations to remove wreckage and debris in amounts that will depend on the extent and nature of work ultimately required and the duration thereof. The Company believes that it has adequate insurance coverage and will be reimbursed for costs incurred and to be incurred.

Rowan Companies, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Rowan has ongoing environmental responsibilities related primarily to its manufacturing operations and facilities. During 2006, the Company recorded a $7.8 million charge for the costs incurred to collect and dispose of a radioactive material that was released while processing scrap at its Longview, Texas steel mill. The measurement of remediation costs is subject to uncertainties, including the evolving nature of environmental regulations and the extent of any agreements to mitigate remediation costs.

During 2004, Rowan learned that the Environmental and Natural Resources Division, Environmental Crimes Section of the U.S. Department of Justice (DOJ) had begun conducting a criminal investigation of environmental matters involving several of the Company s offshore drilling rigs, including a rig known as the *Rowan-Midland*, which at various times operated in the Gulf of Mexico. In 2007, the Company entered into a plea agreement with the DOJ, as amended, under which the Company agreed to pay fines and community service payments totaling $9 million and be subject to unsupervised probation for a period of three years. During the period of unsupervised probation, the Company must ensure that it commits no further criminal violations of federal, state, or local laws or regulations and must also continue to implement its comprehensive Environmental Management System Plan. Subsequent to the conduct at issue, the Company sold the *Rowan-Midland* to a third party.

The Environmental Protection Agency has approved a compliance agreement with Rowan which, among other things, contains a certification that the conditions giving rise to the violations to which the Company entered guilty pleas have been corrected. The Company believes that if it fully complies with the terms of the compliance agreement, it will not be suspended or debarred from entering into or participating in contracts with the U.S. Government or any of its agencies.

On January 3, 2008, a civil lawsuit styled *State of Louisiana, ex. rel. Charles C. Foti, Jr. , Attorney General vs. Rowan Companies, Inc.* was filed in the Eastern District Court of Texas, Marshall Division, seeking damages, civil penalties and costs and expenses for alleged commission of maritime torts and violations of environmental and other laws and regulations involving the *Rowan-Midland* and other facilities in areas in or near Louisiana. Subsequently, the case was transferred to U.S. District Court, Southern District of Texas, Houston Division. The Company intends to vigorously defend its position in this case but cannot estimate any potential liability at this time.

In June 2007, Rowan received a subpoena for documents from the U.S. District Court in the Eastern District of Louisiana relating to a grand jury hearing. The agency requesting the information is the U.S. Department of the Interior, Office of Inspector General Investigations. The documents requested include all records relating to use of the Company s entertainment facilities and entertainment expenses for a former employee of the Minerals Management Service, U.S. Department of Interior and other records relating to items of value provided to any official or employee of the U.S. Government. The Company fully cooperated with the subpoena and has received no further requests.

The construction of Rowan s fourth *Tarzan Class* jack-up rig, the *J. P. Bussell*, was originally subcontracted to an outside Gulf of Mexico shipyard, Signal International LLC (Signal), and scheduled for delivery in the third quarter of 2007 at a total cost of approximately $145 million. As a result of various problems encountered on the project, the completion of the rig was more than one year behind schedule and its final cost was approximately 40% over the original estimate. Accordingly, Rowan has recently declared Signal in breach of contract and initiated court proceedings styled *Rowan Companies, Inc. and LeTourneau Technologies, Inc. vs. Signal International LLC in the 269th Judicial District Court of Harris County, Texas* to relocate the rig to the Company s Sabine Pass, Texas facility for completion by its Drilling Products and Systems segment and to recover the cost to complete the rig over and above the agreed contract price, plus interest. Signal filed a separate counterclaim against Rowan styled *Signal International LLC vs. LeTourneau, Inc.* in the U.S. District Court, Southern District of Texas, Houston Division, alleging breach of contract and claiming unspecified damages for cost overruns. That case has been administratively stayed in favor of the State Court proceeding filed by the Company. Rowan exercised its right to take over the rig construction pursuant to the terms of the construction contract, and Signal turned the rig over to the Company in March 2008. Rowan expects that Signal will claim damages for amounts owed and additional costs incurred, totaling in excess of $20 million. The Company intends to vigorously defend its rights under the contract. The

Rowan Companies, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company does not believe that it is probable that Rowan has incurred a loss, nor one that is estimable, and has made no accrual for such at December 31, 2008.

Rowan is involved in various other legal proceedings incidental to its businesses and is vigorously defending its position in all such matters. The Company believes that there are no other known contingencies, claims or lawsuits that could have a material adverse effect on its financial position, results of operations or cash flows.

NOTE 10. SEGMENTS OF BUSINESS

Rowan has three principal operating segments: the contract drilling of oil and gas wells, both onshore and offshore (Drilling), and two manufacturing segments. The Drilling Products and Systems segment provides equipment, parts and services for the drilling industry through two business groups: Offshore Products features jack-up rigs, rig kits and related components and parts; Drilling and Power Systems includes mud pumps, drawworks, top drives, rotary tables, other rig equipment, variable-speed motors, drives and other electrical components featuring AC, DC and Switch Reluctance technologies. The Mining, Forestry and Steel Products segment includes large-wheeled mining and timber equipment and related parts and carbon and alloy steel and steel plate.

Pursuant to Statement of Financial Accounting Standards No. 131, Rowan s reportable segments reflect an aggregation of separately managed, strategic business units for which financial information is separately prepared and monitored based upon qualitative and quantitative factors. The Company evaluates segment performance based upon income from operations. The accounting policies of each segment are as described in Rowan s summary of significant accounting policies within Note 1.

Drilling services are provided in domestic and foreign areas, and Rowan classifies its drilling rigs as domestic or foreign based upon the rig s operating location. Accordingly, drilling rigs operating in or offshore the United States are considered domestic assets and rigs operating in other areas are deemed foreign assets. At December 31, 2008, ten offshore rigs and 30 land rigs were located in domestic areas and 12 offshore rigs were located in foreign areas. Manufacturing operations are primarily conducted in Longview and Houston, Texas and Vicksburg, Mississippi, though products are shipped throughout the United States and to many foreign locations.

Rowan s assets are ascribed to a segment based upon their direct use and are identified by operating segment as follows (in thousands):

	December 31,		
	2008	**2007**	**2006**
Consolidated assets:			
Drilling	$ 3,714,289	$ 3,140,456	$ 2,871,640
Manufacturing:			
Drilling Products and Systems	583,055	499,225	391,346
Mining, Forestry and Steel Products	251,548	235,624	172,412
Total manufacturing	834,603	734,849	563,758

Total consolidated assets	$ 4,548,892	$ 3,875,305	$ 3,435,398

Table of Contents

Rowan Companies, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information regarding revenues and profitability by operating segment is as follows (in thousands):

	Year Ended December 31, 2008	2007	2006
Revenues:			
Drilling services	$ 1,451,623	$ 1,382,571	$ 1,067,448
Manufacturing:			
Drilling Products and Systems	876,349	498,620	241,020
Mining, Forestry and Steel Products	267,657	213,830	202,266
Eliminations	(382,893)		
Total manufacturing	761,113	712,450	443,286
Consolidated revenues	$ 2,212,736	$ 2,095,021	$ 1,510,734
Income from operations:			
Drilling services	$ 666,803	$ 661,789	$ 447,706
Eliminations	3,339		
Total drilling	670,142	661,789	447,706
Manufacturing:			
Drilling Products and Systems	30,595	42,968	23,486
Mining, Forestry and Steel Products	32,569	29,116	14,502
Eliminations	(75,183)		
Total manufacturing	(12,019)	72,084	37,988
Consolidated income from operations	$ 658,123	$ 733,873	$ 485,694

Effective January 1, 2008, products and services provided by Rowan s Drilling Products and Systems segment to its Drilling segment were recorded as sales based upon negotiated arm s-length terms. Such products and services reflected terms and conditions and rates of compensation which approximated those that were customarily included in third party contracts for similar items. Prior to that date, such transactions were recorded as cost transfers. During 2007 and 2006, Rowan s Drilling Products and Systems segment provided approximately $263 million and $230 million, respectively, of products and services to the Drilling segment at cost. Certain administrative costs are allocated between segments generally based upon revenues.

Foreign-source revenues were as follows (in thousands):

	Year Ended December 31,		
	2008	2007	2006
Middle East	$ 486,265	$ 400,422	$ 115,182
Europe	166,486	249,608	121,457
West Africa	117,466		
Australia	69,144	68,272	22,373
Trinidad	41,522	79,233	21,230
Canada		(1,186)	58,587
Other	639		
Total foreign-source revenues	$ 881,522	$ 796,349	$ 338,829

Table of Contents

Rowan Companies, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2008 and 2007, one drilling customer, Saudi Aramco, accounted for 15% and 13%, respectively of the Company s consolidated revenues. During 2006, no customer accounted for more than 10% of consolidated revenues.

Rowan s fixed assets are shown geographically as follows (in thousands):

Property, plant and equipment net:

	December 31,		
	2008	2007	2006
Domestic	$ 2,008,424	$ 1,481,474	$ 1,145,642
Middle East	554,358	399,062	359,495
Europe	371,830	580,963	406,648
West Africa	208,626		
Canada	178	336	193,880
Other foreign	4,112	25,976	27,561
Total property, plant and equipment net	$ 3,147,528	$ 2,487,811	$ 2,133,226

Rowan believes that it has no significant concentrations of credit risk. The Company has not previously experienced any significant credit losses and its drilling segment customers have heretofore primarily been large energy companies and government bodies. However, the recent weakness in business conditions has forced many of our customers to conserve liquidity, and some may experience significant financial difficulty. As a result, our risk of significant credit losses in the future has increased.

Table of Contents

Rowan Companies, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certain other financial information for each of Rowan s principal operating segments is summarized as follows (in thousands):

	Year Ended December 31, 2008	2007	2006
Depreciation and amortization:			
Drilling	$ 125,861	$ 101,802	$ 77,519
Manufacturing:			
Drilling Products and Systems	$ 9,461	$ 11,660	$ 8,156
Mining, Forestry and Steel Products	6,073	5,334	4,296
Total manufacturing	$ 15,534	$ 16,994	$ 12,452
Capital Expenditures:			
Drilling	$ 817,276	$ 436,894	$ 457,493
Manufacturing:			
Drilling Products and Systems	$ 9,632	$ 25,931	$ 25,794
Mining, Forestry and Steel Products	6,238	15,726	25,966
Total manufacturing	$ 15,870	$ 41,657	$ 51,760
Repairs and Maintenance:			
Drilling	$ 108,143	$ 105,936	$ 83,636
Manufacturing:			
Drilling Products and Systems	$ 14,458	$ 15,779	$ 11,566
Mining, Forestry and Steel Products	13,602	12,373	7,056
Total manufacturing	$ 28,060	$ 28,152	$ 18,622

NOTE 11. RELATED PARTY TRANSACTIONS

A Rowan director serves as a Managing Director with an investment bank that provided services to the Company during 2008 for which it was paid $4.1 million. Another Rowan director serves as Of Counsel to a law firm that represents Rowan on certain matters and to which the Company paid approximately $1.6 million, $0.3 million and $0.1 million for legal fees and expenses in 2008, 2007 and 2006, respectively. In each case, the director s compensation from his employer was not tied to amounts received from the Company. Rowan believes that the fees reflected market rates and the engagement of such firms was approved by the Company s Board of Directors.

NOTE 12. ASSET DISPOSITIONS

In October 2005, Rowan agreed to sell its semi-submersible rig, the *Rowan-Midland*, for approximately $60 million in cash. Payment for the rig occurred over a 15-month period ending in January 2007, at which point the title to the rig was transferred to the buyer. The Company retained ownership of much of the drilling equipment on the rig, which was sold in 2006 and 2007, and continued to provide (through February 2007) a number of operating personnel under a separate services agreement. The transaction was accounted for as a sales-type lease with the expected gain on the sale and imputed interest income of approximately $46 million deferred until the net book value of the rig had been recovered. During 2007, the Company received all remaining payments totaling $23.4 million and recognized such amount as additional gain on the sale.

Rowan Companies, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On September 13, 2008, the jack-up rig *Rowan-Anchorage* was lost during Hurricane Ike. The rig was insured for $60 million and subject to a $17.5 million deductible. During the fourth quarter of 2008, the Company received the full $42.5 million of insurance proceeds and recognized a $37.1 million gain.

NOTE 13. MATERIAL CHARGES AND OTHER OPERATING EXPENSES

Rowan s fourth quarter 2008 Drilling operations included $24.6 million of material charges and other operating expenses, which consisted of the following:

$11.8 million representing the estimated unrecoverable cost of amounts expended on the Company s fourth *240C* rig which was cancelled in January 2009,

$8.5 million related to accrued and unpaid severance payments in connection with the Company s plan, which was initiated during the fourth quarter of 2008 and is expected to be completed during the first quarter of 2009, including the impact of accelerated equity awards, primarily resulting from retirement of the Company s Chief Executive Officer effective December 31, 2008,

$2.8 million of primarily professional service fees previously paid and deferred in connection with the suspended LTI monetization process, and

$1.5 million impairment charge related to goodwill resulting from the Company s impairment evaluation during the fourth quarter of 2008.

Rowan s fourth quarter 2008 Manufacturing operations included $86.6 million of material charges and other operating expenses, which consisted of the following:

$62.4 million valuation charge to increase the Company s reserve for excess, obsolete and slow moving inventory due to a decline in the near-term manufacturing outlook,

$12.1 million impairment charge related to goodwill resulting from the Company s impairment evaluation during the fourth quarter of 2008,

$9.9 million for previously deferred professional service fees paid and to be paid in connection with the suspended LTI monetization process, and

$2.2 million related to accrued and unpaid severance payments in connection with the Company s plan, which was initiated during the fourth quarter of 2008 and is expected to be completed during the first quarter of 2009.

During the 2004 2007 period, the Environmental and Natural Resources Division, Environmental Crimes Section of the DOJ conducted a criminal investigation of environmental matters involving several of the Company s offshore drilling rigs, including a rig known as the *Rowan-Midland*, which at various times operated in the Gulf of Mexico. In 2007, the Company entered into a plea agreement with the DOJ, as amended, under which the Company agreed to pay fines and community service payments totaling $9 million and be subject to unsupervised probation for a period of three years. In anticipation of such payments, the Company recognized a $9 million charge to its fourth quarter 2006 operations.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Rowan Companies, Inc.
Houston, Texas

We have audited the accompanying consolidated balance sheets of Rowan Companies, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive income, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2009 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
February 27, 2009

Rowan Companies, Inc.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING PURSUANT TO SECTION 404 OF THE SARBANES-OXLEY ACT OF 2002

The management of Rowan is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. Our internal controls were designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation and presentation of consolidated financial statements in accordance with accounting principles generally accepted in the United States, as well as to safeguard assets from unauthorized use or disposition.

Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to assess the effectiveness of our internal controls relative to a suitable framework. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed a formalized, organization-wide framework that embodies five interrelated components the control environment, risk assessment, control activities, information and communication and monitoring, as they relate to three internal control objectives operating effectiveness and efficiency, financial reporting reliability and compliance with laws and regulations.

Our assessment included an evaluation of the design of our internal control over financial reporting relative to COSO and testing of the operational effectiveness of our internal control over financial reporting. Based upon our assessment, we have concluded that our internal controls over financial reporting were effective as of December 31, 2008.

The registered public accounting firm Deloitte & Touche LLP has audited Rowan s consolidated financial statements included in our 2008 Annual Report on Form 10-K and has issued an attestation report on the Company s internal control over financial reporting.

/s/ W. MATT RALLS	/s/ W. H. WELLS
W. Matt Ralls President and Chief Executive Officer	W. H. Wells Vice President, Finance and Chief Financial Officer
February 27, 2009	February 27, 2009

82

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Rowan Companies, Inc.
Houston, Texas

We have audited the internal control over financial reporting of Rowan Companies, Inc. and subsidiaries (the Company) as of December 31, 2008 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated February 27, 2009 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
February 27, 2009

Table of Contents

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following unaudited information for the quarters ended March 31, June 30, September 30 and December 31, 2007 and 2008 includes, in the Company s opinion, all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation of such amounts (in thousands except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007:				
Revenues	$ 462,254	$ 507,004	$ 502,201	$ 623,562
Income from operations	131,999	194,896	198,093	208,885
Income from continuing operations	86,353	128,124	130,849	138,474
Net income	86,353	128,124	130,849	138,474
Per share amounts:				
Income from continuing operations Basic	.78	1.16	1.18	1.24
Income from continuing operations Diluted	.77	1.14	1.16	1.23
Net income Basic	.78	1.16	1.18	1.24
Net income Diluted	.77	1.14	1.16	1.23
2008:				
Revenues	$ 485,489	$ 587,142	$ 527,058	$ 613,047
Income from operations	147,671	181,760	172,176	156,516
Income from continuing operations	98,625	120,608	114,114	94,281
Net income	98,625	120,608	114,114	94,281
Per share amounts:				
Income from continuing operations Basic	.88	1.07	1.01	.83
Income from continuing operations Diluted	.88	1.06	1.00	.83
Net income Basic	.88	1.07	1.01	.83
Net income Diluted	.88	1.06	1.00	.83

The sum of the per share amounts for the quarters may not equal the per share amounts for the full year since the quarterly and full year per share computations are made independently.

The amounts shown in the table above for the fourth quarter of 2008 include material charges and other operating expenses. See Note 13 of the Notes to Consolidated Financial Statements on page 80 on this Form 10-K for further information.

Table of Contents

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

None

ITEM 9A. *CONTROLS AND PROCEDURES*

The Company s management has evaluated, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company s disclosure controls and procedures, as of the end of the period covered by this report, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company s Chief Executive Officer, along with the Company s Chief Financial Officer, concluded that the Company s disclosure controls and procedures were effective as of December 31, 2008.

Our management is responsible for establishing and maintaining internal control over financial reporting (ICFR). Our internal control system was designed to provide reasonable assurance to the Company s management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations, and therefore can only provide reasonable assurance with respect to financial statement preparation and presentation.

Our management s assessment is that the Company did maintain effective ICFR as of December 31, 2008 within the context of the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and that the Company did not have a material change in ICFR during the fourth fiscal quarter of 2008.

Management s report on the Company s internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 is set forth on page 82 of this Form 10-K.

ITEM 9B. *OTHER INFORMATION*

Not applicable

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Information concerning our directors will appear in our Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A on or before March 30, 2009, under the caption Election of Directors. Such information is incorporated herein by reference.

Information concerning our executive officers appears in PART I, ITEM 4A, EXECUTIVE OFFICERS OF THE REGISTRANT, beginning on page 24 of this Form 10-K.

Information concerning our Audit Committee will appear in our Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A on or before March 30, 2009, under the caption Committees of the Board of Directors. Such information is incorporated herein by reference.

Information concerning compliance with Section 16(a) of the Securities Exchange Act will appear in our Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A on or before March 30, 2009, under the caption Additional Information Section 16(a) Beneficial Ownership Reporting Compliance. Such information is incorporated herein by reference.

ITEM 11. ***EXECUTIVE COMPENSATION***

Information concerning director and executive compensation will appear in our Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A on or before March 30, 2009, under the captions Director Compensation and Attendance, Compensation Discussion & Analysis, Compensation Committee Report, and Executive Compensation. Such information is incorporated herein by reference.

Table of Contents

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

Information concerning the security ownership of management will appear in our Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A on or before March 30, 2009, under the caption Security Ownership of Certain Beneficial Owners and Management. Such information is incorporated herein by reference.

The business address of all directors is the principal executive offices of the Company as set forth on the cover page of this Form 10-K.

The following table provides information about our common stock that may be issued upon the exercise of options and rights or the conversion of debentures under all of our existing equity compensation plans as of December 31, 2008.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Available for Future Issuance
Equity compensation plans approved by security holders	2,122,986(a)	$ 22.34(a)	1,785,509(b)
Equity compensation plans not approved by security holders			
Total	2,122,986	$ 22.34	1,785,509

(a) Includes the following equity compensation plans: the Restated 1988 Nonqualified Stock Option Plan, as amended, had options for 1,721,875 shares of common stock outstanding at December 31, 2008 with a weighted average exercise price of $21.64 per share; the 1998 Nonemployee Directors Stock Option Plan had options for 86,000 shares of common stock outstanding at December 31, 2008 with a weighted average exercise price of $22.80 per share; the 1998 Convertible Debenture Incentive Plan, as amended, had $1.0 million of employee debentures outstanding at December 31, 2008, convertible into 35,009 shares of common stock at a weighted average conversion price of $28.25 per share and the 2005 Long-Term Incentive Plan (LTIP) had options for 280,102 shares of common stock outstanding at December 31, 2008 with a weighted average exercise price of $25.80 per share.

(b) Amount reflects shares of common stock available for issuance under the LTIP. Amount (1) includes the issuance of 111,029 restricted stock units to our non-employee directors, of which 102,139 remain outstanding, and (2) assumes the issuance of 258,809 shares in connection with outstanding performance awards, under which up to 517,618 shares collectively may be issued as follows, depending upon the Company s total shareholder return and/or return on investment over the three-year periods then ended: from 0 to 198,786 shares in April

2009, from 0 to 148,802 shares in May 2010 and from 0 to 170,030 shares in April 2011.

ITEM 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS***

Information concerning director and executive related party transactions will appear in our Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A on or before March 30, 2009, within the section Corporate Governance and under the captions Director Independence and Related Party Transaction Policy . Such information is incorporated herein by reference.

ITEM 14. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

Information concerning principal account fees and services will appear in our Proxy Statement for the 2009 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A on or before March 30, 2009, in the last paragraph under the caption Audit Committee Report. Such information is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

(a)1. *Financial Statements*

See Part II, Item 8. Financial Statements and Supplementary Data beginning on page 51 of this Form 10-K.

2. *Financial Statement Schedules*

Financial Statement Schedules I, II, III, IV, and V are not included in this Form 10-K because such schedules are not required or the required information is not significant.

3. *Exhibits:*

Unless otherwise indicated below as being incorporated by reference to another filing of the Company with the Securities and Exchange Commission, each of the following exhibits is filed herewith:

3a	Restated Certificate of Incorporation of the Company, dated February 17, 1984 (incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-84369 on Form S-8) and the Certificates of Designation for the Company s Series A Preferred Stock (and Certificate of Correction related thereto) (incorporated by reference to Exhibit 4.8 to Registration Statement No. 333-84369 on Form S-8), Series B Preferred Stock (incorporated by reference to Exhibit 4d to Form 10-K for the fiscal year ended December 31, 1999), Series D Preferred Stock (incorporated by reference to Exhibit 4.11 to Registration Statement No. 333-82804 on Form S-3 filed on February 14, 2002), and Series E Preferred Stock (incorporated by reference to Exhibit 4.12 to Registration Statement No. 333-82804 on Form S-3 filed on February 14, 2002).
3b	Bylaws amended as of January 22, 2009, incorporated by reference to Form 8-K dated as of January 22, 2009 (File No. 1-5491).
4a	Certificate of Change of Address of Registered Office and of Registered Agent dated July 25, 1984, incorporated by reference to Exhibit 4.4 to Registration Statement No. 333-84369 on Form S-8 (File No. 1-5491).
4b	Certificate of Amendment of Certificate of Incorporation dated April 24, 1987, incorporated by reference to Exhibit 4.5 to Registration Statement No. 333-84369 on Form S-8 (File No. 1-5491).
4c	Certificate of Designation of the Series A Junior Preferred Stock dated March 2, 1992, incorporated by reference to Exhibit 4.2 to Registration Statement on Form 8-A/A filed on February 12, 2002 (File No. 1-5491).
4f	Certificate of Designation of the Series C Preferred Stock dated July 28, 2000, incorporated by reference to Exhibit 4.10 to Registration Statement No. 333-44874 on Form S-8 (File No. 1-5491).
4i	Amended and Restated Rights Agreement, dated as of January 24, 2002, between Rowan and Computershare Trust Co. Inc. as Rights Agent, incorporated by reference to Exhibit 4.2 to Registration Statement on Form 8-A/A filed on March 21, 2003 (File No. 1-5491).
4j	Amendment to the Amended and Restated Rights Agreement, dated September 29, 2008 between the Company and Wells Fargo Bank, National Association.
4k	Specimen Common Stock certificate, incorporated by reference to Exhibit 4k to Form 10-K for the fiscal year ended December 31, 2001 (File No. 1-5491).

4l	Form of Promissory Note date April 27, 2000 between purchasers of Series C Floating Rate Subordinated Convertible Debentures due 2010 and Rowan, incorporated by reference to Exhibit 4n to Form 10-K for the fiscal year ended December 31, 2000 (File No. 1-5491).
10a	Restated 1988 Nonqualified Stock Option Plan, incorporated by reference to Appendix C to the Notice of Annual Meeting and Proxy Statement dated March 20, 2002 (File No. 1-5491) and Form of Stock Option Agreement related thereto, incorporated by reference to Exhibit 10c to Form 10-K for the fiscal year ended December 31, 2004 (File No. 1-5491).
10b	1998 Nonemployee Director Stock Option Plan, incorporated by reference to Exhibit 10b of Form 10-Q for the fiscal quarter ended March 31, 1998 (File No. 1-5491) and Form of Stock Option Agreement related thereto, incorporated by reference to Exhibit 10c to Form 10-K for the fiscal year ended December 31, 2004 (File No. 1-5491).

87

10c	1998 Convertible Debenture Incentive Plan, incorporated by reference to Appendix B to the Notice of Annual Meeting and Proxy Statement dated March 20, 2002 (File No. 1-5491) and Form of Debenture related thereto, incorporated by reference to Exhibit 10c to Form 10-K for the fiscal year ended December 31, 2004 (File No. 1-5491).
10d	Pension Restoration Plan, incorporated by reference to Exhibit 10h to Form 10-K for the fiscal year ended December 31, 1992 (File No. 1-5491).
10e	Pension Restoration Plan of LeTourneau, Inc., a wholly owned subsidiary of the Company, incorporated by reference to Exhibit 10j to Form 10-K for the fiscal year ended December 31, 1994 (File No. 1-5491).
10f	Participation Agreement dated December 1, 1984 between Rowan and Textron Financial Corporation et al. and Bareboat Charter dated December 1, 1984 between Rowan and Textron Financial Corporation et al., incorporated by reference to Exhibit 10c to Form 10-K for the fiscal year ended December 31, 1985 (File No. 1-5491).
10g	Participation Agreement dated December 1, 1985 between Rowan and Eaton Leasing Corporation et. al. and Bareboat Charter dated December 1, 1985 between Rowan and Eaton Leasing Corporation et. al., incorporated by reference to Exhibit 10d to Form 10-K for the fiscal year ended December 31, 1985 (File No. 1-5491).
10h	Election and acceptance letters with respect to the exercise of the Fixed Rate Renewal Option set forth in the Bareboat Charter dated December 1, 1984 between Rowan and Textron Financial Corporation et al, incorporated by reference to Exhibit 10j to Form 10-K for the fiscal year ended December 31, 1999 (File No. 1-5491).
10i	Election and acceptance letters with respect to the exercise of the Fixed Rate Renewal Option set forth in the Bareboat Charter dated December 1, 1985 between Rowan and Eaton Leasing Corporation et. al, incorporated by reference to Exhibit 10k to Form 10-K for the fiscal year ended December 31, 1999 (File No. 1-5491).
10j	Commitment to Guarantee Obligations dated December 17, 1996 and First Preferred Ship Mortgage between Rowan and the Maritime Administration of the U.S. Department of Transportation (relating to *Gorilla V*), incorporated by reference to Exhibit 10t to Form 10-K for fiscal year ended December 31, 1996 (File No. 1-5491).
10k	Amendment No. 1 dated June 30, 1997 to Commitment to Guarantee Obligations between Rowan and the Maritime Administration of the U.S. Department of Transportation (relating to *Gorilla V*), incorporated by reference to Exhibit 10p to 10-K for the fiscal year ended December 31, 1997 (File No. 1-5491).
10l	Amendment No. 2 dated July 1, 1998 to Commitment to Guarantee Obligations between Rowan and the Maritime Administration of the U.S. Department of Transportation (relating to *Gorilla V*), incorporated by reference to Exhibit 10o to Form 10-K for the fiscal year ended December 31, 1998 (File No. 1-5491).
10m	Credit Agreement and Trust Indenture both dated December 17, 1996 between Rowan and Citibank, N.A. (relating to *Gorilla V*), incorporated by reference to Exhibit 10u to Form 10-K for the fiscal year ended December 31, 1996 (File No. 1-5491).
10n	Amendment No. 1 to the Credit Agreement and Supplement No. 1 to Trust Indenture both dated July 1, 1997 between Rowan and Citibank, N.A. (relating to *Gorilla V*), incorporated by reference to Exhibit 10r to Form 10-K for the fiscal year ended December 31, 1997 (File No. 1-5491).
10o	Supplement No. 2 dated July 1, 1998 to Trust Indenture between Rowan and Citibank, N.A. (relating to *Gorilla V*), incorporated by reference to Exhibit 10r to Form 10-K for the fiscal year ended December 31, 1998 (File No. 1-5491).
10p	Commitment to Guarantee Obligations dated September 29, 1998 and First Preferred Ship Mortgage between Rowan and the Maritime Administration of the U.S. Department of Transportation (relating to *Gorilla VI*), incorporated by reference to Exhibit 10a to Form 10-Q for fiscal quarter ended September 30, 1998 (File No. 1-5491).
10q	

	Credit Agreement and Trust Indenture both dated September 29, 1998 between Rowan and Citibank, N.A. (relating to *Gorilla VI*), incorporated by reference to Exhibit 10b to Form 10-Q for the fiscal quarter ended September 30, 1998 (File No. 1-5491).
10r	Amendment No. 1 dated March 15, 2001 to Commitment to Guarantee Obligations between Rowan and the Maritime Administration of the U.S. Department of Transportation (relating to *Gorilla VI*), incorporated by reference to Exhibit 10v to Form 10-K for the fiscal year ended December 31, 2000 (File No. 1-5491).

10s	Supplement No. 1 dated March 15, 2001 to Trust Indenture between Rowan and Citibank, N.A. (relating to *Gorilla VI*), incorporated by reference to Exhibit 10v to Form 10-K for the fiscal year ended December 31, 2000 (File No. 1-5491).
10t	Commitment to Guarantee Obligations dated October 29, 1999 and First Preferred Ship Mortgage between Rowan and the Maritime Administration of the U.S. Department of Transportation (relating to *Gorilla VII*), incorporated by reference to Exhibit 10v to Form 10-K for the fiscal year ended December 31, 1999 (File No. 1-5491).
10u	Credit Agreement and Trust Indenture both dated October 29, 1999 between Rowan and Citibank, N.A. (relating to *Gorilla VII*), incorporated by reference to Exhibit 10w to Form 10-K for the fiscal year ended December 31, 1999 (File No. 1-5491).
10v	Amendment No. 1 dated June 30, 2003 to the Commitment to Guarantee Obligations between Rowan and the Maritime Administration of the U.S. Department of Transportation (relating to *Gorilla VII*), incorporated by reference to Exhibit 10x to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
10w	Supplement No. 1 dated June 30, 2003 to Trust Indenture between Rowan and Citibank, N.A. (relating to *Gorilla VII*), incorporated by reference to Exhibit 10y to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
10x	Commitment to Guarantee Obligations dated May 23, 2001 and First Preferred Ship Mortgage between Rowan and the Maritime Administration of the U.S. Department of Transportation (relating to the *Bob Palmer*, formerly *Gorilla VIII*), incorporated by reference to Exhibit 10y to Form 10-K for the fiscal year ended December 31, 2001 (File No. 1-5491).
10y	Credit Agreement and Trust Indenture both dated May 23, 2001 between Rowan and Citibank, N.A. (relating to the *Bob Palmer*, formerly *Gorilla VIII*), incorporated by reference to Exhibit 10z to Form 10-K for the fiscal year ended December 31, 2001 (File No. 1-5491).
10z	Commitment to Guarantee Obligations dated May 28, 2003 and First Preferred Ship Mortgage between Rowan and the Maritime Administration of the U.S. Department of Transportation (relating to the *Scooter Yeargain*), incorporated by reference to Exhibit 10bb to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
10aa	Credit Agreement and Trust Indenture both dated May 28, 2003 between Rowan and Citibank, N.A. (relating to the *Scooter Yeargain*), incorporated by reference to Exhibit 10cc to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
10bb	Amendment No. 1 dated June 15, 2005 to the Commitment to Guarantee Obligations between Rowan and the Maritime Administration of the U.S. Department of Transportation (relating to the *Scooter Yeargain*), incorporated by reference to Exhibit 10a to Form 10-Q for the quarterly period ended June 30, 2005 (File No. 1-5491).
10cc	Supplement No. 1 dated June 15, 2005 to Trust Indenture between Rowan and Citibank, N.A. (relating to the *Scooter Yeargain*), incorporated by reference to Exhibit 10b to Form 10-Q for the quarterly period ended June 30, 2005 (File No. 1-5491).
10dd	Commitment to Guarantee Obligations dated May 28, 2003 and First Preferred Ship Mortgage between Rowan and the Maritime Administration of the U.S. Department of Transportation, incorporated by reference to Exhibit 10dd to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
10ee	Credit Agreement and Trust Indenture both dated May 28, 2003 between Rowan and Citibank, N.A. (relating to the *Bob Keller*, formerly Tarzan II), incorporated by reference to Exhibit 10ee to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
10ff	Amendment No. 1 dated March 28, 2005 to Credit Agreement between Rowan and Citibank, N.A. (relating to the *Bob Keller*, formerly Tarzan II), incorporated by reference to Exhibit 10a to Form 10-Q for the quarterly period ended March 31, 2005 (File No. 1-5491).
10gg	

	Amendment No. 2 dated May 4, 2005 to Credit Agreement between Rowan and Citibank, N.A. (relating to the *Bob Keller*, formerly Tarzan II), incorporated by reference to Exhibit 10b to Form 10-Q for the quarterly period ended March 31, 2005 (File No. 1-5491).
10hh	Rowan Companies, Inc. Short-Term Incentive Plans, incorporated by reference to Exhibit 10.1 to Form 8-K filed May 4, 2006 (File No. 1-5491).

10ii	Memorandum Agreement dated January 26, 2006 between Rowan and C. R. Palmer, incorporated by reference to Exhibit 10jj to Form 10-K for fiscal year ended December 31, 2005 (File No. 1-5491).
10jj	Rowan Companies, Inc. 2005 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 8-K filed May 10, 2005 (File No. 1-5491) and Form of Non-Employee Director 2005 Restricted Stock Unit Grant, Form of Non-Employee Director 2006 Restricted Stock Unit Grant, Form of 2005 Restricted Stock Grant Agreement, Form of 2005 Nonqualified Stock Option Agreement, Form of 2005 Performance Share Award Agreement related thereto, each incorporated by reference to Exhibits 10c, 10d, 10e, 10f and 10g, respectively, to Form 10-Q for the quarterly period ended June 30, 2005 (File No. 1-5491).
10kk	Change in Control Agreement and Change in Control Supplement for the Rowan Companies, Inc. Restated 1988 Nonqualified Stock Option Plan and the 2005 Rowan Companies, Inc. Long-Term Incentive Plan, incorporated by reference to Exhibits 10.1 and 10.2 to Form 8-K filed December 20, 2007 (File 1-5491).
10ll	Credit Agreement dated as of June 23, 2008 among Rowan Companies, Inc., as Borrower (Rowan), the Lenders Party thereto, as Lenders, Wells Fargo Bank, NA, as Administrative Agent, Issuing Lender and Swingline Lender, Bayerische Hypo-Und Vereinsbank AG, as Syndication Agent, and Amegy Bank NA, as Documentation Agent, incorporated by reference to Form 8-K filed June 25, 2008 ((File 1-5491).
14	Code of Business Conduct for Senior Financial Officers of the Company, incorporated by reference to Exhibit 14 to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
21	Subsidiaries of the Registrant as of February 27, 2009.
23	Consent of Independent Registered Public Accounting Firm.
24	Powers of Attorney pursuant to which names were affixed to this Form 10-K for the fiscal year ended December 31, 2008.
31a	Rule 13a-14(a)/15d-14(a) Certification (Section 302 of the Sarbanes-Oxley Act of 2002).
31b	Rule 13a-14(a)/15d-14(a) Certification (Section 302 of the Sarbanes-Oxley Act of 2002).
32	Section 1350 Certifications (furnished under Section 906 of the Sarbanes-Oxley Act of 2002).
99	Annual CEO Certification to the New York Stock Exchange.

* Only portions specifically incorporated herein are deemed to be filed.

EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS

Compensatory plans in which Rowan s directors and executive officers participate are listed as follows:

Restated 1988 Nonqualified Stock Option Plan, incorporated by reference to Appendix C to the Notice of Annual Meeting and Proxy Statement dated March 20, 2002 (File No. 1-5491).

1998 Nonemployee Director Stock Option Plan, incorporated by reference to Exhibit 10b of Form 10-Q for the fiscal quarter ended March 31, 1998 (File No. 1-5491).

1998 Convertible Debenture Incentive Plan, incorporated by reference to Appendix B to the Notice of Annual Meeting and Proxy Statement dated March 20, 2002 (File No. 1-5491).

Pension Restoration Plan, incorporated by reference to Exhibit 10i to Form 10-K for the fiscal year ended December 31, 1992 (File 1-5491).

Pension Restoration Plan of LeTourneau, Inc., a wholly owned subsidiary of the Company, incorporated by reference to Exhibit 10j to Form 10-K for the fiscal year ended December 31, 1994 (File No. 1-5491).

Profit Sharing Plan incorporated by reference to Exhibit 10.1 to Form 8-K filed May 4, 2006 (File No. 1-5491).

Bonus Plan incorporated by reference to Exhibit 10.1 to Form 8-K filed May 4, 2006 (File No. 1-5491).

2005 Long-Term Incentive Plan incorporated by reference to Exhibit 10.1 to Form 8-K filed May 10, 2005 (File No. 1-5491).

Change in Control Agreement and Change in Control Supplement for the Rowan Companies, Inc. Restated 1988 Nonqualified Stock Option Plan and the 2005 Rowan Companies, Inc. Long-Term Incentive Plan incorporated by reference to Exhibits 10.1 and 10.2 to Form 8-K filed December 20, 2007 (File 1-5491).

Rowan agrees to furnish to the Commission upon request a copy of all instruments defining the rights of holders of long-term debt of the Company and its subsidiaries.

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into Registrant s Registration Statements on Form S-8 Nos. 2-58700, as amended by Post-Effective Amendment No. 4 (filed June 11, 1980), 33-33755, as amended by Amendment No. 1 (filed March 29, 1990), 33-61444 (filed April 23, 1993), 33-51103 (filed November 18, 1993), 33-51105 (filed November 18, 1993), 33-51109 (filed November 18, 1993), 333-25041 (filed April 11, 1997), 333-25125 (filed April 14, 1997), 333-84369 (filed August 3, 1999), 333-84405 (filed August 3, 1999) and 333-101914 (filed December 17, 2002):

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the act and will be governed by the final adjudication of such issue.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROWAN COMPANIES, INC.

By: /s/ W. MATT RALLS

(W. Matt Ralls
President and Chief Executive Officer)

Date: March 2, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ W. MATT RALLS (W. Matt Ralls)	President, Chief Executive Officer and Director	March 2, 2009
/s/ W. H. WELLS (W. H. Wells)	Principal Financial Officer	March 2, 2009
/s/ GREGORY M. HATFIELD (Gregory M. Hatfield)	Principal Accounting Officer	March 2, 2009
/s/ *R. G. CROYLE (R. G. Croyle)	Director	March 2, 2009
/s/ *WILLIAM T. FOX III (William T. Fox III)	Director	March 2, 2009
/s/ *SIR GRAHAM HEARNE (Sir Graham Hearne)	Director	March 2, 2009
/s/ *JOHN R. HUFF (John R. Huff)	Director	March 2, 2009

/s/ *ROBERT E. KRAMEK	Director	March 2, 2009
(Robert E. Kramek)		
/s/ *FREDERICK R. LAUSEN	Director	March 2, 2009
(Frederick R. Lausen)		
/s/ *H. E. LENTZ	Chairman of the Board	March 2, 2009
(H. E. Lentz)		

Signature	Title	Date
/s/ *LORD MOYNIHAN	Director	March 2, 2009
(Lord Moynihan)		
/s/ *P. DEXTER PEACOCK	Director	March 2, 2009
(P. Dexter Peacock)		
/s/ *JOHN J. QUICKE	Director	March 2, 2009
(John J. Quicke)		

*By:
/s/ W. MATT RALLS

(W. Matt Ralls, Attorney-in-Fact)

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal year ended:	Commission file number:
December 31, 2008	1-5491

ROWAN COMPANIES, INC.
(Exact name of Registrant as specified in its charter)

EXHIBITS

Table of Contents

EXHIBIT INDEX

Footnote Reference	Exhibit Number	Exhibit Description
(1)	3a	Restated Certificate of Incorporation of the Company, dated February 17, 1984 (incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-84369 on Form S-8) and the Certificates of Designation for the Company s Series A Preferred Stock (and Certificate of Correction related thereto) (incorporated by reference to Exhibit 4.8 to Registration Statement No. 333-84369 on Form S-8), Series B Preferred Stock (incorporated by reference to Exhibit 4d to Form 10-K for the fiscal year ended December 31, 1999), Series D Preferred Stock (incorporated by reference to Exhibit 4.11 to Registration Statement No. 333-82804 on Form S-3 filed on February 14, 2002), and Series E Preferred Stock (incorporated by reference to Exhibit 4.12 to Registration Statement No. 333-82804 on Form S-3 filed on February 14, 2002).
(1)	3b	Bylaws amended as of January 22, 2009, incorporated by reference to Form 8-K dated as of January 22, 2009 (File No. 1-5491).
(1)	4a	Certificate of Change of Address of Registered Office and of Registered Agent dated July 25, 1984, incorporated by reference to Exhibit 4.4 to Registration Statement No. 333-84369 on Form S-8 (File No. 1-5491).
(1)	4b	Certificate of Amendment of Certificate of Incorporation dated April 24, 1987, incorporated by reference to Exhibit 4.5 to Registration Statement No. 333-84369 on Form S-8 (File No. 1-5491).
(1)	4c	Certificate of Designation of the Company s Series A Junior Preferred Stock dated March 2, 1992 incorporated by reference to Exhibit 4.2 to Registration Statement No. 333-84369 on Form 8A/A filed on February 12, 2002 (File No. 1-5491).
(1)	4f	Certificate of Designation of the Series C Preferred Stock dated July 28, 2000, incorporated by reference to Exhibit 4.10 to Registration Statement No. 333-44874 on Form S-8 (File No. 1-5491).
(1)	4i	Amended and Restated Rights Agreement, dated January 24, 2002, between the Company and Citibank, N.A. as Rights Agent incorporated by reference to Exhibit 4.1 to Registration Statement on Form 8-A/A filed on February 12, 2002 (File No. 1-5491).
(2)	4j	Amendment to the Amended and Restated Rights Agreement, dated September 29, 2008 between the Company and Wells Fargo Bank, National Association.
(1)	4k	Specimen Common Stock certificate, incorporated by reference to Exhibit 4k to Form 10-K for the fiscal year ended December 31, 2001 (File No. 1-5491).
(1)	4l	Form of Promissory Note date April 27, 2000 between purchasers of Series C Floating Rate Subordinated Convertible Debentures due 2010 and Rowan incorporated by reference to Exhibit 4n to Form 10-K for the fiscal year ended December 31, 2000 (File No. 1-5491).
(1)	10a	Restated 1988 Nonqualified Stock Option Plan, incorporated by reference to Appendix C to the Notice of Annual Meeting and Proxy Statement dated March 20, 2002 (File No. 1-5491) and Form of Stock Option Agreement related thereto, incorporated by reference to Exhibit 10c to Form 10-K for the fiscal year ended December 31, 2004 (File No. 1-5491).
(1)	10b	1998 Nonemployee Director Stock Option Plan of the Company incorporated by reference to Exhibit 10b of Form 10-Q for the fiscal quarter ended March 31, 1998 (File No. 1-5491) and Form of Stock Option Agreement related thereto thereto, incorporated by reference to Exhibit 10c to Form 10-K for the fiscal year ended December 31, 2004 (File No. 1-5491).
(1)	10c	

		1998 Convertible Debenture Incentive Plan, incorporated by reference to Appendix B to the Notice of Annual Meeting and Proxy Statement dated March 20, 2002 (File No. 1-5491) and Form of Debenture related thereto, incorporated by reference to Exhibit 10c to Form 10-K for the fiscal year ended December 31, 2004 (File No. 1-5491).
(1)	10d	Pension Restoration Plan of the Company incorporated by reference to Exhibit 10h to Form 10-K for the fiscal year ended December 31, 1992 (File No. 1-5491).
(1)	10e	Pension Restoration Plan of LeTourneau, Inc incorporated by reference to Exhibit 10j to Form 10-K for the fiscal year ended December 31, 1994 (File No. 1-5491).

Table of Contents

Footnote Reference	Exhibit Number	Exhibit Description
(1)	10f	Participation Agreement dated December 1, 1984 between the Company and Textron Financial Corporation et al. and Bareboat Charter dated December 1, 1984 between the Company and Textron Financial Corporation et al. incorporated by reference to Exhibit 10c to Form 10-K for the fiscal year ended December 31, 1985 (File No. 1-5491).
(1)	10g	Participation Agreement dated December 1, 1985 between the Company and Eaton Leasing Corporation et. al. and Bareboat Charter dated December 1, 1985 between the Company and Eaton Leasing Corporation et. al. incorporated by reference to Exhibit 10d to Form 10-K for the fiscal year ended December 31, 1985 (File No. 1-5491).
(1)	10h	Election and acceptance letters with respect to the exercise of the Fixed Rate Renewal Option set forth in the Bareboat Charter dated December 1, 1984 between the Company and Textron Financial Corporation et. al., incorporated by reference to Exhibit 10j to Form 10-K for the fiscal year ended December 31, 1999 (File No. 1-5491).
(1)	10i	Election and acceptance letters with respect to the exercise of the Fixed Rate Renewal Option set forth in the Bareboat Charter dated December 1, 1985 between the Company and Eaton Leasing Corporation et. al., incorporated by reference to Exhibit 10K to Form 10-K for the fiscal year ended December 31, 1999 (File No. 1-5491).
(1)	10j	Commitment to Guarantee Obligations and First Preferred Ship Mortgage both dated December 17, 1996 between the Company and the Maritime Administration of the U.S. Department of Transportation incorporated by reference to Exhibit 10t to Form 10-K for fiscal year ended December 31, 1996 (File No. 1-5491).
(1)	10k	Amendment No. 1 dated June 30, 1997 to Commitment to Guarantee Obligations between the Company and the Maritime Administration of the U.S. Department of Transportation incorporated by reference to Exhibit 10p to Form 10-K for the fiscal year ended December 31, 1997 (File No. 1-5491).
(1)	10l	Amendment No. 2 dated July 1, 1998 to Commitment to Guarantee Obligations between the Company and the Maritime Administration of the U.S. Department of Transportation, incorporated by reference to Exhibit 10o to Form 10-K for the fiscal year ended December 31, 1998 (File No. 1-5491).
(1)	10m	Credit Agreement and Trust Indenture both dated December 17, 1996 between the Company and Citibank, N.A. incorporated by reference to Exhibit 10u to Form 10-K for the fiscal year ended December 31, 1996 (File No. 1-5491).
(1)	10n	Amendment No. 1 to the Credit Agreement and Supplement No. 1 to Trust Indenture both dated July 1, 1997 between the Company and Citibank, N.A. incorporated by reference to Exhibit 10r to Form 10-K for the fiscal year ended December 31, 1997 (File No. 1-5491).
(1)	10o	Supplement No. 2 dated July 1, 1998 to Trust Indenture between the Company and Citibank, N.A, incorporated by reference to Exhibit 10r to Form 10-K for the fiscal year ended December 31, 1998 (File No. 1-5491).
(1)	10p	Commitment to Guarantee Obligations and First Preferred Ship Mortgage both dated September 29, 1998 between the Company and the Maritime Administration of the U.S. Department of Transportation incorporated by reference to Exhibit 10a to Form 10-Q for fiscal quarter ended September 30, 1998 (File No. 1-5491).
(1)	10q	Credit Agreement and Trust Indenture both dated September 29, 1998 between the Company and Citibank, N.A. incorporated by reference to Exhibit 10b to Form 10-Q for the fiscal quarter ended September 30, 1998 (File No. 1-5491).
(1)	10r	

		Amendment No. 1 dated March 15, 2001 to Commitment to Guarantee Obligations between Rowan and the Maritime Administration of the U.S. Department of Transportation incorporated by reference to Exhibit 10v to Form 10-K for the fiscal year ended December 31, 2000 (File No. 1-5491).
(1)	10s	Supplement No. 1 dated March 15, 2001 to Trust Indenture between Rowan and Citibank, N.A. incorporated by reference to Exhibit 10w to Form 10-K for the fiscal year ended December 31, 2000 (File No. 1-5491).

Table of Contents

Footnote Reference	Exhibit Number	Exhibit Description
(1)	10t	Commitment to Guarantee Obligations dated October 29, 1999 and First Preferred Ship Mortgage between the Company and the Maritime Administration of the U.S. Department of Transportation, incorporated by reference to Exhibit 10v to Form 10-K for the fiscal year ended December 31, 1999 (File No. 1-5491).
(1)	10u	Credit Agreement and Trust Indenture both dated October 29, 1999 between the Company and Citibank, N.A., incorporated by reference to Exhibit 10w to Form 10-K for the fiscal year ended December 31, 1999 (File No. 1-5491).
(1)	10v	Amendment No. 1 dated June 30, 2003 to the Commitment to Guarantee Obligations between Rowan and Citibank, N.A., incorporated by reference to Exhibit 10x to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
(1)	10w	Supplement No. 1 dated June 30, 2003 to Trust Indenture between Rowan and Citibank, N.A., incorporated by reference to Exhibit 10y to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
(1)	10x	Commitment to Guarantee Obligations dated May 23, 2001 and First Preferred Ship Mortgage between Rowan and the Maritime Administration of the U.S. Department of Transportation, incorporated by reference to Exhibit 10y to Form 10-K for the fiscal year ended December 31, 2001 (File No. 1-5491).
(1)	10y	Credit Agreement and Trust Indenture both dated May 23, 2001 between Rowan and Citibank, N.A., incorporated by reference to Exhibit 10z to Form 10-K for the fiscal year ended December 31, 2001 (File No. 1-5491).
(1)	10z	Commitment to Guarantee Obligations dated May 28, 2003 and First Preferred Ship Mortgage between Rowan and the Maritime Administration of the U.S. Department of Transportation, incorporated by reference to Exhibit 10bb to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
(1)	10aa	Credit Agreement and Trust Indenture both dated May 28, 2003 between Rowan and Citibank, N.A., incorporated by reference to Exhibit 10cc to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
(1)	10bb	Amendment No. 1 dated June 15, 2005 to the Commitment to Guarantee Obligations between Rowan and the Maritime Administration of the U.S. Department of Transportation, incorporated by reference to Exhibit 10a to Form 10-Q for the quarterly period ended June 30, 2005 (File No. 1-5491).
(1)	10cc	Supplement No. 1 dated June 15, 2005 to Trust Indenture between Rowan and Citibank, N.A., incorporated by reference to Exhibit 10b to Form 10-Q for the quarterly period ended June 30, 2005 (File No. 1-5491).
(1)	10dd	Commitment to Guarantee Obligations dated May 28, 2003 and First Preferred Ship Mortgage between Rowan and the Maritime Administration of the U.S. Department of Transportation , incorporated by reference to Exhibit 10dd to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
(1)	10ee	Credit Agreement and Trust Indenture both dated May 28, 2003 between Rowan and Citibank, N.A., incorporated by reference to Exhibit 10ee to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
(1)	10ff	Amendment No. 1 dated March 28, 2005 to Credit Agreement between Rowan and Citibank, N.A., incorporated by reference to Exhibit 10a to Form 10-Q for the quarterly period ended March 31, 2005 (File No. 1-5491).
(1)	10gg	

		Amendment No. 2 dated May 4, 2005 to Credit Agreement between Rowan and Citibank, N.A., incorporated by reference to Exhibit 10b to Form 10-Q for the quarterly period ended March 31, 2005 (File No. 1-5491).
(1)	10hh	Rowan Companies, Inc. Short-Term Incentive Plans, incorporated by reference to Exhibit 10.1 to Form 8-K filed May 4, 2006 (File No. 1-5491).

97

Table of Contents

Footnote Reference	Exhibit Number	Exhibit Description
(1)	10ii	Memorandum Agreement dated January 26, 2006 between Rowan and C. R. Palmer incorporated by reference to Exhibit 10jj to Form 10-K for fiscal year ended December 31, 2005 (File No. 1-5491).
(1)	10jj	Rowan Companies, Inc. 2005 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 8-K filed May 10, 2005 (File No. 1-5491) and Form of Non-Employee Director 2005 Restricted Stock Unit Grant, Form of Non-Employee Director 2006 Restricted Stock Unit Grant, Form of 2005 Restricted Stock Grant Agreement, Form of 2005 Nonqualified Stock Option Agreement, Form of 2005 Performance Share Award Agreement related thereto, each incorporated by reference to Exhibits 10c, 10d, 10e, 10f and 10g, respectively, to Form 10-Q for the quarterly period ended June 30, 2005 (File No. 1-5491).
(1)	10kk	Change in Control Agreement and Change in Control Supplement for the Rowan Companies, Inc. Restated 1988 Nonqualified Stock Option Plan and the 2005 Rowan Companies, Inc. Long-Term Incentive Plan, incorporated by reference to Exhibits 10.1 and 10.2 to Form 8-K filed December 20, 2007 (File 1-5491).
(1)	10ll	Credit Agreement dated as of June 23, 2008 among Rowan Companies, Inc., as Borrower (Rowan), the Lenders Party thereto, as Lenders, Wells Fargo Bank, NA, as Administrative Agent, Issuing Lender and Swingline Lender, Bayerische Hypo-Und Vereinsbank AG, as Syndication Agent, and Amegy Bank NA, as Documentation Agent, incorporated by reference to Form 8-K filed June 25, 2008 ((File 1-5491).
(1)	14	Code of Business Conduct for Senior Financial Officers of the Company, incorporated by reference to Exhibit 14 to Form 10-K for the fiscal year ended December 31, 2003 (File No. 1-5491).
(2)	21	Subsidiaries of the Registrant as of February 27, 2009
(2)	23	Consent of Independent Registered Public Accounting Firm
(2)	24	Powers of Attorney pursuant to which names were affixed to this Form 10-K for the fiscal year ended December 31, 2008
(2)	31a	Rule 13a-14(a)/15d-14(a) Certification (Section 302 of the Sarbanes-Oxley Act of 2002).
(2)	31b	Rule 13a-14(a)/15d-14(a) Certification (Section 302 of the Sarbanes-Oxley Act of 2002).
(2)	32	Section 1350 Certifications (Section 906 of the Sarbanes-Oxley Act of 2002).
(2)	99	Annual CEO Certification to the New York Stock Exchange.

(1) Incorporated herein by reference to another filing of the Company with the Securities and Exchange Commission.

(2) Included herein.