

VeriFone Holdings, Inc.  
Form 424B4  
September 20, 2005

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Filed pursuant to Rule 424(b)(4)  
Registration Nos. 333-127998 and 333-128429

**PROSPECTUS**

**13,078,248 Shares**

**COMMON STOCK**

We are selling 2,500,000 shares of common stock and the selling stockholders, including certain members of our management, are selling 10,578,248 shares of common stock. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

Our common stock is listed on the New York Stock Exchange under the symbol "PAY". The last reported sale price of the common stock on September 19, 2005 was \$20.78 per share.

The underwriters have an option to purchase up to a maximum of 1,961,737 additional shares from the selling stockholders, to cover over-allotment of shares.

**Investing in our common stock involves risks. See "Risk Factors" beginning on page 9.**

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	Price to Public	Underwriting Discounts and Commissions	Proceeds to VeriFone Holdings, Inc.	Proceeds to Selling Stockholders
Per Share	\$ 20.78	\$ 0.8832	\$ 19.8968	\$ 19.8968
Total	\$ 271,765,993	\$ 11,550,709	\$ 49,742,000	\$ 210,473,284

Delivery of the shares of common stock will be made on or about September 23, 2005.

**JPMorgan**

**Lehman Brothers**

**Credit Suisse First Boston**

**Goldman, Sachs & Co.**

**Wachovia Securities**

**SunTrust Robinson Humphrey**

Prospectus dated September 19, 2005.



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**ABOUT THIS PROSPECTUS**

You should rely only on the information contained in this prospectus. We have not, and the selling stockholders and the underwriters have not, authorized anyone to provide you with information that is different from that contained in this prospectus. We are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

Except as otherwise indicated, market data and industry statistics used throughout this prospectus are based on independent industry publications and other publicly available information. Although we believe that these data and statistics are reasonable and sound, they have been prepared on the basis of underlying data to which we do not have access, and which we cannot independently verify.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information in this prospectus is current only as of its date.

**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus. Before making an investment decision, you should read the entire prospectus carefully, including the section entitled "Risk Factors," our financial statements and the related notes included elsewhere in this prospectus.*

**VeriFone**

We are a leading global provider of technology that enables electronic payment transactions and value-added services at the point of sale. Since 1981, we have designed and marketed system solutions that facilitate the long-term shift toward electronic payment transactions and away from cash and checks. We have one of the leading electronic payment solutions brands and are one of the largest providers of electronic payment systems worldwide. Our net revenues grew organically by 14.8% and 15.0%, respectively, in the years ended October 31, 2003 and 2004, in each case as compared with the prior year, reaching \$390.1 million in the year ended October 31, 2004. Our net revenues grew by 26.1% to \$354.9 million for the nine months ended July 31, 2005 as compared to the nine months ended July 31, 2004.

Our system solutions consist of point of sale electronic payment devices that run our proprietary and third party operating systems, security and encryption software and certified payment software as well as third party, value-added applications. Our system solutions are able to process a wide range of payment types including signature and PIN-based debit cards, credit cards, contactless / radio frequency identification, or RFID, cards, smart cards, pre-paid gift and other stored-value cards, electronic bill payment, check authorization and conversion, signature capture and electronic benefits transfer, or EBT. Our proprietary architecture was the first to enable multiple value-added applications, such as gift card and loyalty card programs, healthcare insurance eligibility and time and attendance tracking, to reside on the same system without requiring recertification upon the addition of new applications. Today we are an industry leader in multi-application payment systems deployments.

Our customers are primarily global financial institutions, payment processors, petroleum companies, large retailers, government organizations and healthcare companies, as well as independent sales organizations, or ISOs. They choose our system solutions for their robust functionality, ability to be compatible with previously deployed VeriFone system solutions, intuitive user interface and modular design. The functionality of our system solutions includes transaction security, connectivity, compliance with certification standards, as well as the flexibility to execute a variety of payment and non-payment applications on a single system solution.

We believe that we benefit from a number of competitive advantages gained through our 24-year history and success in our industry. These advantages include our globally trusted brand name, large installed base, history of significant involvement in the development of industry standards, global operating scale, customizable platform and investment in research and development. We believe that these advantages position us well to capitalize on key industry trends.

**Industry Opportunity**

We believe the industry trends of increasing intelligence at the point of sale, the global shift toward electronic payment transactions and away from cash and checks and increasing focus on security and interoperability will drive growth in demand for electronic payment systems.

***Increasing Intelligence at the Point of Sale***

Advances in microprocessing technology, storage capacity and software are enabling increasing complexity and functionality of electronic payment systems at the point of sale;

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Development of value-added applications such as gift card and loyalty card programs, health care insurance eligibility and time and attendance tracking is driving demand for electronic payment systems that support multiple applications;

Broadening use of wireline and wireless internet protocol, or IP, networks is opening new markets for electronic payment systems; and

Greater competition among card associations, card issuers and payment processors is driving innovation at the point of sale, including the incorporation of new technologies such as contactless / RFID and biometrics.

### ***Global Shift Toward Electronic Payment Transactions and Away from Cash and Checks***

Increased consumer adoption of electronic payments is driving greater usage of debit and credit card-based payments, especially PIN-based debit;

Advances in wireless data networking are enabling greater usage of electronic payment systems, particularly in emerging markets such as Russia, India and China; and

Government initiatives to increase VAT and sales tax collection are promoting the distribution of electronic payment systems in emerging markets.

### ***Increasing Focus on Security and Interoperability***

Evolving card association and other industry standards are leading to replacement of existing electronic payment systems; and

Evolving country-specific security standards are requiring additional customization of electronic payment systems.

## **Competitive Strengths**

We believe that we benefit from a number of competitive advantages gained through our 24-year history and success in our industry. These include:

*Trusted Brand Name.* The VeriFone brand has a strong global reputation for quality, reliability and data security. We believe that financial institutions, payment processors and merchants trust our system solutions to handle critical financial transactions in a secure and user-friendly operating environment.

*Large Installed Base.* We believe that we have a larger installed base of electronic payment systems than any of our competitors. We believe that customers typically purchase electronic payment systems from the incumbent provider in order to reduce risk and to avoid the costs of implementing a new electronic payment system from a different provider. In addition, our large installed base of electronic payment systems makes our proprietary operating systems a preferred choice for third party developers of value-added applications seeking broad distribution of their applications.

*Global Scale.* We are one of the largest worldwide providers of electronic payment system solutions for use at the point of sale. We have developed a global network of 26 sales and marketing offices and 22 development centers. We believe that our scale and broad geographic coverage enable us to market and distribute our products more effectively and in more markets than most of our competitors, and to provide our customers with innovative, comprehensive and customized system solutions.

*Leading Research and Development Initiatives and Technology Innovation.* We are a leading innovator of technology that enables electronic payment transactions and value-added services at the point of sale. In the year ended October 31, 2004, we launched 20 new system solutions and 195



custom solutions. Our core operating environment is a secure, multi-tasking and multi-application proprietary operating system with a consistent and intuitive user interface that allows payment processors or financial institutions to directly or remotely deliver predominantly third party value-added applications without having to recertify existing payment applications. This dramatically reduces the time and cost for our customers to deploy additional functionality to their systems. We believe this capability is a distinguishing feature of our architecture. The modular configuration of our electronic payment systems offers our customers flexibility to support a variety of connectivity options, including wireline and wireless IP technologies. In addition, our modular software development environment enables our system solutions to be customized to meet our customers' specific needs through internally developed or third party applications.

*Broad Set of Industry Certifications.* Our system solutions are certified by major payment processors, card associations and international card standards organizations. The knowledge of certification processes that we have gained over our history and through our participation in international standards organizations enables us to manage the lengthy and expensive certification process effectively. As a result, we believe that we are able to bring innovative products to market faster than our competitors.

*Proven Track Record of Execution.* Our senior management team has increased net revenues by 14.8% and 15.0% over the past two fiscal years, respectively, from \$295.6 million in the year ended October 31, 2002 to \$390.1 million in the year ended October 31, 2004, while significantly increasing profitability, working capital efficiency and operating cash flow.

### **Growth Strategy**

Our objective is to enhance our position as a leading provider of technology that enables electronic payment transactions and value-added services at the point of sale. The key elements of our strategy are to:

*Increase Market Share in North America and Europe.* We intend to continue to seek opportunities to expand our market share in North America and Europe by leveraging our brand, scale, technology and distribution channels. We plan to capitalize on industry trends, including our customers' increasing focus on security, growing prevalence of PIN-based debit, evolving communication technologies and greater availability of value-added services at the point of sale. Furthermore, we intend to continue to penetrate key sales channels and further strengthen our relationships with ISOs in North America.

*Further Penetrate Attractive Vertical Markets.* We plan to continue to increase the functionality of our system solutions to address the specific needs of key vertical markets. We currently provide system solutions that are customized for the needs of our financial services, petroleum company, retail, government and healthcare customers. We intend to continue to focus on these attractive vertical markets, as well as increase our penetration of new markets such as quick service restaurants, or QSRs.

*Capitalize on High Growth Opportunities in Emerging Markets.* We seek to establish a leading position in emerging, high growth electronic payment markets in Eastern Europe, Asia and Latin America. In order to do so, we intend to continue to invest in additional sales and marketing and research and development resources targeted towards these regions. We have already achieved a leading position in Russia, Poland and Mexico and intend to grow our presence further in additional markets, such as China, India and Brazil, where demand for electronic payment systems is growing rapidly.

*Pursue Selective, Strategic Acquisitions.* We may augment our organic growth by acquiring businesses, product lines or technologies. Our acquisition strategy is intended to broaden our suite

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of electronic payment solutions, expand our presence in selected geographies, broaden our customer base and increase our penetration of distribution channels and vertical markets.

### **Company History**

VeriFone, Inc., our principal operating subsidiary, was incorporated in 1981. Shortly afterward, we introduced the first check verification and credit authorization device ever utilized by merchants in a commercial setting. In 1984, we introduced the first mass market electronic payment system intended to replace manual credit card authorization devices for small merchants. VeriFone, Inc. became a publicly traded company in 1990 and was acquired by Hewlett-Packard Company in 1997. Hewlett-Packard operated VeriFone, Inc. as a division until July 2001, when it sold VeriFone, Inc. to Gores Technology Group, LLC, a privately held acquisition and management firm, in a transaction led by our Chief Executive Officer, Douglas G. Bergeron. In July 2002, Mr. Bergeron and certain investment funds affiliated with GTCR Golder Rauner, L.L.C., or GTCR, a private equity firm, led a recapitalization in which VeriFone Holdings, Inc. was organized as the indirect owner of all the stock of VeriFone, Inc., and the GTCR-affiliated funds became our majority stockholders. VeriFone Holdings, Inc. completed its initial public offering on May 4, 2005. Upon the completion of our initial public offering, the GTCR-affiliated funds ceased to be our majority stockholders, although such funds continue to hold a significant portion of our common stock.



**THE OFFERING**

Common stock offered by us	2,500,000 shares
Common stock offered by the selling stockholders	10,578,248 shares
Common stock to be outstanding after this offering	67,589,904 shares

Use of proceeds

We will receive estimated net proceeds from our sale of common stock in the offering of approximately \$48.7 million at the public offering price of \$20.78 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We anticipate that we will use the net proceeds received by us from this offering for general corporate purposes, including potential acquisitions of companies and technologies that complement our business, although we have no such agreements for any such acquisitions at this time.

We will not receive any of the proceeds from sales of common stock by the selling stockholders in the offering, including certain members of our management.

Risk factors

Please read "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.

New York Stock Exchange trading symbol "PAY"

The number of shares of common stock to be outstanding after this offering is based on shares outstanding as of August 30, 2005 and excludes:

3,552,945 shares subject to outstanding options at a weighted average exercise price of \$8.13 per share; and

1,209,410 additional shares available for future grants under our existing stock option plans.

Except as otherwise indicated, all information in this prospectus assumes:

the effect of a three-for-two split of all common stock outstanding on April 30, 2003; and

that the underwriters do not exercise their over-allotment option.

## SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data should be read together with our consolidated financial statements and the related notes included elsewhere in this prospectus and the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary consolidated historical financial data set forth below are not necessarily indicative of the results of future operations.

	Predecessor (1)			Successor (2)				
	Years ended October 31,		Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31,		Nine months ended July 31,	
	2000	2001			2003	2004	2004	2005
(in thousands, except per share data)								
<b>Consolidated Statement of Operations Data:</b>								
Net revenues	\$ 338,541	\$ 349,187	\$ 184,356	\$ 111,237	\$ 339,331	\$ 390,088	\$ 281,469	\$ 354,877
Cost of net revenues (3):								
Cost of net revenues excluding amortization of purchased core and developed technology assets	266,723	258,891	125,542	80,479	200,291	231,892	164,887	208,463
Amortization of purchased core and developed technology assets				4,679	14,148	9,745	7,726	5,255
Total cost of net revenues	266,723	258,891	125,542	85,158	214,439	241,637	172,613	213,718
Gross profit	71,818	90,296	58,814	26,079	124,892	148,451	108,856	141,159
Operating expenses (3):								
Research and development	66,480	47,352	20,037	10,322	28,193	33,703	24,255	30,351
Sales and marketing	73,566	57,331	26,848	13,925	40,024	44,002	32,246	38,310
General and administrative	33,074	30,578	26,093	10,342	25,039	25,503	19,026	21,607
Amortization of purchased intangible assets				3,399	10,200	10,200	7,650	3,808
In-process research and development				17,934				
Total operating expenses	173,120	135,261	72,978	55,922	103,456	113,408	83,177	94,076
Operating income (loss)	(101,302)	(44,965)	(14,164)	(29,843)	21,436	35,043	25,679	47,083
Interest expense	(11,064)	(2,630)	(2,407)	(3,794)	(12,456)	(12,597)	(8,523)	(11,758)
Other income (expense), net	(3,118)	7,031	1,694	(4,904)	3,557	(11,869)	(11,815)	(6,313)
Income (loss) before income taxes	(115,484)	(40,564)	(14,877)	(38,541)	12,537	10,577	5,341	29,012
Provision (benefit) for income taxes	9,230	23,196	4,593	(4,509)	12,296	4,971	2,510	7,833
Net income (loss)	(124,714)	(63,760)	(19,470)	(34,032)	241	5,606	2,831	21,179
Accrued dividends and accretion on preferred stock				5,218	6,916	4,959	4,959	
Net income (loss) attributable to common stockholders	\$ (124,714)	\$ (63,760)	\$ (19,470)	\$ (39,250)	\$ (6,675)	\$ 647	\$ (2,128)	\$ 21,179
Net income (loss) per common share diluted (4)			\$ (2.13)	\$ (0.81)	\$ (0.14)	\$ 0.01	\$ (0.04)	\$ 0.36

As of July 31, 2005

	Actual	As adjusted (5)
(in thousands)		
<b>Consolidated Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 20,091	\$ 68,833
Total assets	247,905	296,647
Long-term debt and capital leases, including current portion	183,324	183,324
Total stockholders' equity (deficit)	(35,779)	12,963

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Predecessor	Successor					
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31,		Nine months ended July 31,	
			2003	2004	2004	2005
(in thousands)						

**Other Data:**

EBITDA, as adjusted (6)	\$ (12,174)	\$ 2,770	\$ 49,854	\$ 57,247	\$ 41,716	\$ 59,970
Net cash provided by (used in) operating activities	(9,233)	8,078	9,772	33,217	21,737	25,634
Capital expenditures (7)		664	4,151	5,273	3,855	3,475

- (1) Predecessor company was owned by Hewlett-Packard Company until acquired on July 20, 2001 by an entity affiliated with Gores Technology Group, LLC. Financial information presented reflects adjustment of assets and liabilities to then-fair value at July 20, 2001, which became the basis for amounts included in results of operations from July 20, 2001 until June 30, 2002.
- (2) On July 1, 2002, VeriFone was recapitalized whereby certain investment funds affiliated with GTCR became the majority stakeholders while the existing equity investor, an entity affiliated with Gores Technology Group, LLC, retained an ownership interest in the company. Financial information presented reflects adjustment of assets and liabilities to fair value as of July 1, 2002, which became the basis for amounts included in results of operations starting July 1, 2002.
- (3) We adopted the fair value recognition and measurement provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*, effective May 1, 2005 using the modified-prospective transition method. For periods prior to May 1, 2005 we followed the intrinsic value recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25. For further information see Note 2 to the consolidated financial statements elsewhere in this prospectus. The portion of stock-based compensation allocated to each category of expenses for each period is presented below.

	Predecessor	Successor					
		Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31,		Nine months ended July 31,	
				2003	2004	2004	2005
(in thousands)							
Cost of net revenues System Solutions	\$	\$	\$	\$	\$	\$ 73	
Research and development						185	
Sales and marketing						355	
General and administrative		17	81	400	66	302	
	\$	\$ 17	\$ 81	\$ 400	\$ 66	\$ 915	

- (4) Net income (loss) per common share data is not presented for the years ended October 31, 2000 and 2001 because our predecessor did not have a formal capital structure prior to July 20, 2001.
- (5) As adjusted to give effect to this offering at the public offering price of \$20.78 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

(6)

We define earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, as the sum of (1) net income (excluding extraordinary items of gain or loss and any gain or loss from discontinued operations), (2) interest expense, (3) taxes, (4) depreciation, amortization, goodwill impairment and other non-recurring charges, (5) non-cash charges, including non-cash stock-based compensation expense and purchase accounting items and (6) management fees to our principal stockholder. EBITDA, as adjusted, is a primary component of the financial covenants to which we are subject under our credit agreement. If we fail to maintain required levels of EBITDA, as adjusted, we could have a default under our credit agreement, potentially resulting in an acceleration of all of our outstanding indebtedness. In addition, our management uses EBITDA, as adjusted, as a primary measure to review and assess our operating performance and to compare our current results with those for prior periods as well as with the results of other companies in our industry. These competitors may, due to differences in capital structure and investment history, have interest, tax, depreciation, amortization and other non-cash expenses that differ significantly from ours. The term EBITDA, as adjusted, is not defined under U.S. generally accepted accounting principles, or U.S. GAAP, and EBITDA, as adjusted, is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. When assessing our operating performance you should not consider this data in isolation or as a substitute for our net income calculated in accordance with U.S. GAAP. Our EBITDA, as adjusted, has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for net income or other consolidated income statement data prepared in accordance with U.S. GAAP. Some of these limitations are:

it does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

it does not reflect changes in, or cash requirements for, our working capital needs;

it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

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it does not reflect income taxes or the cash requirements for any tax payments;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, as adjusted, does not reflect any cash requirements for such replacements;

restructuring and impairment charges, as well as losses from discontinued operations, reflect costs associated with strategic decisions about resource allocations made in prior periods; we may incur similar charges and losses in the future; and

other companies may calculate EBITDA and EBITDA, as adjusted, differently than we do, limiting its usefulness as a comparative measure.

A reconciliation of net income (loss), the most directly comparable U.S. GAAP measure, to EBITDA, as adjusted, for each period indicated is as follows.

	Predecessor		Successor			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31,		Nine months ended July 31,	
			2003	2004	2004	2005
			(in thousands)			
U.S. GAAP net income (loss)	\$ (19,470)	\$ (34,032)	\$ 241	\$ 5,606	\$ 2,831	\$ 21,179
Provision (benefit) for income taxes	4,593	(4,509)	12,296	4,971	2,510	7,833
Interest expense	2,407	3,794	12,456	12,597	8,523	11,758
Depreciation and amortization of equipment and improvements		337	1,333	2,451	1,673	2,292
Amortization of capitalized software			108	698	333	780
In-process research and development		17,934				
Amortization of purchased intangible assets		8,078	24,348	19,945	15,376	9,063
Amortization of step-up in inventories on acquisition		10,087				
Amortization of step-up in deferred revenue on acquisition		981	1,561	519	407	495
Stock-based compensation		17	81	400	66	915
Management fees to majority stockholder	2,045	83	250	250	187	125
Gain on sale of assets	(1,749)					
Refund of foreign unclaimed pension benefits			(2,820)			
Loss on debt extinguishment and debt repricing fee (a)				9,810	9,810	5,530
<b>EBITDA, as adjusted</b>	<b>\$ (12,174)</b>	<b>\$ 2,770</b>	<b>\$ 49,854</b>	<b>\$ 57,247</b>	<b>\$ 41,716</b>	<b>\$ 59,970</b>
Supplemental information:						
Foreign currency transaction losses (gains)	(185)	5,198	(1,246)	(252)	873	(523)
Foreign currency contract losses			1,145	2,425	1,142	1,037

(a)

For the year ended October 31, 2004 and nine months ended July 31, 2004, consists of a \$1.4 million cash payment for early retirement fees and \$8.4 million of non-cash write offs of the unamortized amounts of debt issuance costs and debt discount associated with our June 2004 recapitalization; for the nine months ended July 31, 2005, consists of a \$2.2 million cash payment for early retirement fees, \$2.9 million for non-cash write-offs of the unamortized amounts of debt issuance costs associated with our prepayments on our Senior Secured Credit Facility and \$0.5 million debt repricing fee.

(7) Includes purchase of equipment and improvements, software development costs capitalized and purchase of other assets.

## RISK FACTORS

*The purchase of our common stock involves significant investment risks. You should consider the following risks carefully before making a decision to invest in our common stock. There may also be risks of which we are currently unaware, or that we currently regard as immaterial based on the information available to us that later prove to be material. These risks may adversely affect our business, financial condition, and operating results. As a result, the trading price of our common stock could decline, and you could lose some or all of your investment.*

### Risks Related to Our Business

***We depend upon third parties to manufacture our products and to supply the components necessary to manufacture our products.***

We do not manufacture the physical devices that we design which form part of our system solutions; rather, we arrange for a limited number of third parties to manufacture these devices for us. Similarly, components such as application-specific integrated circuits, or ASICs, payment processors, wireless modules, modems and printer mechanisms that are necessary to manufacture and assemble our devices are sourced either directly by us or on our behalf by our contract manufacturers from a variety of component suppliers. We generally do not have long-term agreements with our manufacturers or component suppliers. If our suppliers become unwilling or unable to provide us with adequate supplies of parts or products when we need them, or if they increase their prices, we might not be able to find alternative sources in a timely manner and could be faced with a critical shortage. This could harm our relationships with our customers and cause our revenues to decline. Even if we are able to secure alternative sources in a timely manner, our costs could increase. We expect that in the year ending October 31, 2005, over half of our component spending will be for components we source from a single supplier or a small number of suppliers.

Periodically, constraints in the supply of certain components cause short-term production disruptions or adversely affect our operating results, either because we seek to fill customer orders with less than normal lead times or because of supply/demand imbalances in the component marketplace. In 2004, certain Synchronous Random Access Memory, or SRAM, components were in short supply in the marketplace, and our requirements exceeded the available supply from our vendor. To cover this shortage, we procured these components in the spot market at prices in excess of our historical purchase price, which had a negative impact on our gross profit for the year ended October 31, 2004 which we estimate at approximately \$2.0 million.

***We depend on a limited number of customers, including distributors and resellers, for sales of a large percentage of our system solutions. If we do not effectively manage our relationships with them, our net revenues and operating results will suffer.***

We sell a significant portion of our solutions through third parties such as independent distributors, independent sales organizations, or ISOs, value-added resellers and payment processors. We depend on their active marketing and sales efforts. These third parties also provide after-sales support and related services to end user customers. When we introduce new applications and solutions, they also provide critical support for developing and porting the custom software applications to run on our various electronic payment systems and, internationally, in obtaining requisite certifications in the markets in which they are active. Accordingly, the pace at which we are able to introduce new solutions in markets in which these parties are active depends on the resources they dedicate to these tasks. Moreover, our arrangements with these third parties typically do not prevent them from selling products of other companies, including our competitors, and they may elect to market our competitors' products and services in preference to our system solutions. If one or more of our major resellers terminates or otherwise adversely changes its relationship with us, we may be unsuccessful in replacing it. The loss of one of our major resellers could impair our ability to sell our solutions and result in lower revenues and income. It

could also be time consuming and expensive to replicate, either directly or through other resellers, the certifications and the custom applications owned by these third parties.

A significant percentage of our net revenues is attributable to a limited number of customers, including distributors and ISOs. In the nine months ended July 31, 2005, our ten largest customers accounted for approximately 33.0% of our net revenues and sales to First Data Corporation and its affiliates represented 12.3% of our net revenues in that period. Our sales of system solutions to First Data and its affiliates include sales to its TASQ Technology division, which distributes payment devices to ISOs and financial institutions such as Wells Fargo & Company and Chase Merchant Services. If any of our large customers significantly reduces or delays purchases from us or if we are required to sell products to them at reduced prices or on other terms less favorable to us, our revenues and income could be materially adversely affected.

***A significant portion of our net revenues is generated outside of the U.S. and we intend to continue to expand our operations internationally. Our results of operations could suffer if we are unable to manage our international expansion and operations effectively.***

During the nine months ended July 31, 2005, 42.3% of our net revenues was generated outside of the U.S. Part of our strategy is to expand our penetration in existing foreign markets and to enter new foreign markets. Our ability to penetrate some international markets may be limited due to different technical standards, protocols or product requirements. Expansion of our International business will require significant management attention and financial resources. Our International net revenues will depend on our continued success in the following areas:

securing commercial relationships to help establish our presence in international markets;

hiring and training personnel capable of marketing, installing and integrating our solutions, supporting customers and managing operations in foreign countries;

localizing our solutions to target the specific needs and preferences of foreign customers, which may differ from our traditional customer base in the United States;

building our brand name and awareness of our services among foreign customers; and

implementing new systems, procedures and controls to monitor our operations in new markets.

In addition, we are subject to risks associated with operating in foreign countries, including:

multiple, changing and often inconsistent enforcement of laws and regulations;

satisfying local regulatory or industry imposed security or other certification requirements;

competition from existing market participants that may have a longer history in and greater familiarity with the foreign markets we enter;

tariffs and trade barriers;

laws and business practices that favor local competitors;

fluctuations in currency exchange rates;



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extended payment terms and the ability to collect account receivables;

imposition of limitations on conversion of foreign currencies into U.S. dollars or remittance of dividends and other payments by foreign subsidiaries; and

changes in a specific country's or region's political or economic conditions.

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If we fail to address the challenges and risks associated with international expansion, we may encounter difficulties implementing our strategy, which could impede our growth or harm our operating results.

***Our quarterly operating results may fluctuate significantly as a result of factors outside of our control, which could cause the market price of our common stock to decline.***

We expect our revenues and operating results to vary from quarter to quarter. As a consequence, our operating results in any single quarter may fall below the expectations of securities analysts and investors, which could cause the price of our common stock to decline. Factors that may affect our operating results include:

the type, timing and size of orders and shipments;

demand for and acceptance of our new product offerings;

delays in the implementation and delivery of our products and services, which may impact the timing of our recognition of revenue;

variations in product mix and cost during any period;

development of new relationships and maintenance and enhancement of existing relationships with customers and strategic partners;

component supplies, manufacturing or distribution difficulties;

deferral of customer contracts in anticipation of product or service enhancements;

timing of commencement, implementation or completion of major implementations projects;

the relative mix of North America and International net revenues;

fluctuations in currency exchange rates;

the fixed nature of many of our expenses; and

industry and economic conditions, including competitive pressures and inventory obsolescence.

In particular, differences in relative growth rates between our businesses in North America and internationally may have a significant effect on our operating results, particularly our reported gross profit percentage, in any individual quarter, with International sales carrying lower margins.

In addition, we have in the past and may continue to experience periodic variations in sales to our key vertical and international markets. These periodic variations occur throughout the year and may lead to fluctuations in our quarterly operating results depending on the impact of any given market during that quarter and could lead to volatility in our stock price.

***Our North American and International operations are not equally profitable, which may promote volatility in our earnings and may adversely impact future growth in our earnings.***

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Our International sales tend to carry lower prices and therefore have lower gross margins than our sales in North America. As a result, if we successfully expand our International sales, any improvement in our results of operations will likely not be as favorable as an expansion of similar magnitude in the U.S. and Canada. In addition, it is impossible to predict for any future period our proportion of revenues that will result from International sales versus sales in North America. Variations in this proportion from period to period may lead to volatility in our results of operations which, in turn, may depress the trading price of our common stock.

***Fluctuations in currency exchange rates may adversely affect our results of operations.***

A substantial part of our business consists of sales made to customers outside the United States. A portion of the net revenues we receive from such sales is denominated in currencies other than the U.S. dollar. Additionally, portions of our cost of net revenues and our other operating expenses are incurred by our International operations and denominated in local currencies. While fluctuations in the value of these net revenues, costs and expenses as measured in U.S. dollars have not materially affected our results of operations historically, we cannot assure you that adverse currency exchange rate fluctuations will not have a material impact in the future. In addition, our balance sheet reflects non-U.S. dollar denominated assets and liabilities, primarily inter-company balances, which can be adversely affected by fluctuations in currency exchange rates. In certain periods, we have not hedged our exposure to these fluctuations. For example, in the period from July 1, 2002 to October 31, 2002, we recorded net foreign currency transaction losses of \$5.2 million primarily due to the exchange rate change of the Brazilian real. More recently, we have entered into foreign currency forward contracts and other arrangements intended to hedge our exposure to adverse fluctuations in exchange rates. Nevertheless, these hedging arrangements may not always be effective, particularly in the event of imprecise forecasts of non-U.S. denominated assets and liabilities. Accordingly, if there is an adverse movement in exchange rates, we might suffer significant losses. For instance, in the year ended October 31, 2004, we incurred foreign currency contract losses of \$2.2 million net of foreign currency transaction gains primarily as a result of our hedging activities.

***Security is vital to our customers and end users and therefore breaches in the security of our solutions could adversely affect our reputation and results of operations.***

Protection against fraud is of key importance to the purchasers and end users of our solutions. We incorporate security features, such as encryption software and secure hardware, into our solutions to protect against fraud in electronic payment transactions and to ensure the privacy and integrity of consumer data. Our solutions may be vulnerable to breaches in security due to defects in the security mechanisms, the operating system and applications or the hardware platform. Security vulnerabilities could jeopardize the security of information transmitted or stored using our solutions. In general, liability associated with security breaches of a certified electronic payment system belongs to the institution that acquires the financial transaction. However, if the security of our solutions is compromised, our reputation and marketplace acceptance of our solutions will be adversely affected, which would cause our business to suffer, and we may become subject to damage claims. We have not experienced any material security breaches affecting our business.

***Our solutions may have defects that could result in sales delays, delays in our collection of receivables and claims against us.***

We offer complex solutions that are susceptible to undetected hardware and software errors or failures. Solutions may experience failures when first introduced, as new versions are released or at any time during their lifecycle. Any product recall as a result of errors or failures could result in the loss of or delay in market acceptance of our solutions and adversely affect our business and reputation. Any significant returns or warranty claims could result in significant additional costs to us and could adversely affect our results of operations. Our customers may also run third-party software applications on our electronic payment systems. Errors in third-party applications could adversely affect the performance of our solutions.

The existence of defects and delays in correcting them could result in negative consequences, including the following: harm to our brand; delays in shipping solutions; loss of market acceptance for our solutions; additional warranty expenses; diversion of resources from product development; and loss of credibility with distributors and customers. Correcting defects can be time consuming and in some circumstances extremely difficult. Software errors may take several months to correct, and hardware defects may take even longer to correct. As an example, beginning in 2001 we experienced a problem in

which the ink cartridge in a product sold to a particular customer leaked ink and had to be replaced with a different cartridge. By the time we reached a settlement agreement to resolve this issue with that customer in the three months ended January 31, 2005, we had incurred aggregate costs and reserves of approximately \$10.2 million in respect of cartridge replacement, extended warranty costs and customer rebates.

***We may accumulate excess or obsolete inventory that could result in unanticipated price reductions and write-downs and adversely affect our financial condition.***

In formulating our solutions, we have focused our efforts on providing to our customers solutions with higher levels of functionality, which requires us to develop and incorporate cutting edge and evolving technologies. This approach tends to increase the risk of obsolescence for products and components we hold in inventory and may compound the difficulties posed by other factors that affect our inventory levels, including the following:

the need to maintain significant inventory of components that are in limited supply;

buying components in bulk for the best pricing;

responding to the unpredictable demand for products;

cancellation of customer orders; and

responding to customer requests for quick delivery schedules.

As a result of these factors, we regularly run the risk of maintaining excess inventory levels. This risk may be enhanced to the extent we increase inventory levels in response to expected customer requirements. The accumulation of excess or obsolete inventory may result in price reductions and inventory write-downs, which could adversely affect our business and financial condition. For example, in late 2002 we developed our first wireless product line but the market for wireless products developed more slowly than we anticipated. By the time this market developed to a point at which we could sell our built up inventory, we needed to upgrade some of the wireless technology in their products, at a cost of \$1.4 million. We also incurred an increased obsolescence cost of \$0.5 million in respect of some accessories. In addition, we have incurred an obsolescence cost of \$4.3 million in the nine months ended July 31, 2005, primarily as a result of the shift to the new Vx Solutions, our latest generation of system solutions, employing a 32-bit ARM9 System-on-Chip running our Verix operating system which provides a consistent user interface and secure multi-application platform across several payment systems.

***Our proprietary technology is difficult to protect and unauthorized use of our proprietary technology by third parties may impair our ability to compete effectively.***

We may not be able to protect our proprietary technology, which could enable competitors to develop services that compete with our own. We rely on copyright, trademark and trade secret laws, as well as confidentiality, licensing and other contractual arrangements to establish and protect the proprietary aspects of our solutions. We do not own any patents that protect important aspects of our current solutions. The laws of some countries in which we sell our solutions and services may not protect software and intellectual property rights to the same extent as the laws in the United States. If we are unable to prevent misappropriation of our technology, competitors may be able to use and adapt our technology. Our failure to protect our technology could diminish our competitive advantage and cause us to lose customers to competitors.

***Our business may suffer if we are sued for infringing the intellectual property rights of third parties, or if we are unable to obtain rights to third party intellectual property on which we depend.***

Third parties have in the past asserted and may in the future assert claims that we are infringing their proprietary rights. Such infringement claims may cause us to incur significant costs in defending those

claims. We may be required to discontinue using and selling any infringing technology and services, to expend resources to develop non-infringing technology or to purchase licenses or pay royalties for other technology. Similarly, we depend on our ability to license intellectual property from third parties. These or other third parties may become unwilling to license to us on acceptable terms intellectual property that is necessary to our business. In either case, we may be unable to acquire licenses for other technology on reasonable commercial terms or at all. As a result, we may find that we are unable to continue to offer the solutions and services upon which our business depends.

We have received, and have currently pending, third-party claims and may receive additional notices of such claims of infringement in the future. To date, such activities have not had a material adverse effect on our business and we have either prevailed in all litigation, obtained a license on commercially acceptable terms or otherwise been able to modify any affected products or technology. However, there can be no assurance that we will continue to prevail in any such actions or that any license required under any such patent or other intellectual property would be made available on commercially acceptable terms, if at all. See "Business Legal Proceedings."

***We depend on a limited number of key members of senior management who would be difficult to replace. If we lose the services of these individuals or are unable to attract new talent, our business will be adversely affected.***

We depend upon the ability and experience of a number of our key members of senior management who have substantial experience with our operations, the rapidly changing electronic payment transaction industry and the selected markets in which we offer our solutions. The loss of the services of one or a combination of our senior executives or key managers could have a material adverse effect on our results of operations. Our success also depends on our ability to continue to attract, manage and retain other qualified middle management and technical and clerical personnel as we grow. We may not be able to continue to attract or retain such personnel in the future.

***We intend to make acquisitions and strategic investments, which will involve numerous risks. We may not be able to address these risks without substantial expense, delay or other operational or financial problems.***

Although we have a limited history of making acquisitions or strategic investments, a part of our strategy will be to acquire or make investments in related businesses, technologies or products in the future. Acquisitions or investments involve various risks, such as:

the difficulty of integrating the technologies, operations and personnel of the acquired business, technology or product;

the potential disruption of our ongoing business, including the diversion of management attention;

the possible inability to obtain the desired financial and strategic benefits from the acquisition or investment;

loss of customers;

assumption of unanticipated liabilities;

the loss of key employees of an acquired business; and

the possibility of our entering markets in which we have limited prior experience.

Future acquisitions and investments could also result in substantial cash expenditures, potentially dilutive issuance of our equity securities, our incurring of additional debt and contingent liabilities, and amortization expenses related to other intangible assets that could adversely affect our business, operating results and financial condition. We depend on the retention and performance of existing management and employees of acquired businesses for the day-to-day management and future operating results of these businesses.

*Shipments of electronic payment systems may be delayed by factors outside of our control, which can harm our reputation and our relationships with our customers.*

The shipment of payment systems requires us or our manufacturers, distributors or other agents to obtain customs or other government certifications and approvals, and, on occasion, to submit to physical inspection of our systems in transit. Failure to satisfy these requirements, and the very process of trying to satisfy them, can lead to lengthy delays in the delivery of our solutions to our direct or indirect customers. Delays and unreliable delivery by us may harm our reputation in the industry and our relationships with our customers.

*Force majeure events, such as terrorist attacks, other acts of violence or war, political instability and health epidemics may adversely affect us.*

Terrorist attacks, war, and international political instability, along with health epidemics may disrupt our ability to generate revenues. Such events may negatively affect our ability to maintain sales revenue and to develop new business relationships. Because a substantial and growing part of our revenues is derived from sales and services to customers outside of the United States and we have our electronic payment systems manufactured outside the U.S., terrorist attacks, war and international political instability anywhere may decrease international demand for our products and inhibit customer development opportunities abroad, disrupt our supply chain and impair our ability to deliver our electronic payment systems, which could materially adversely affect our net revenues or results of operations. Any of these events may also disrupt global financial markets and precipitate a decline in the price of our common stock.

### **Risks Related to Our Industry**

*Our markets are highly competitive and subject to price erosion.*

The markets for our system solutions and services are highly competitive, and we have been subject to price pressures. Competition from manufacturers, distributors or providers of products similar to or competitive with our system solutions or services could result in price reductions, reduced margins and a loss of market share or could render our solutions obsolete.

We expect to continue to experience significant and increasing levels of competition in the future. We compete with suppliers of cash registers that provide built in electronic payment capabilities and producers of software that facilitates electronic payment over the internet, as well as other manufacturers or distributors of electronic payment systems. We must also compete with smaller companies that have been able to develop strong local or regional customer bases. In certain foreign countries, some competitors are more established, benefit from greater name recognition and have greater resources within those countries than we do.

*If we do not continually enhance our existing solutions and develop and market new solutions and enhancements, our net revenues and income will be adversely affected.*

The market for electronic payment systems is characterized by:

rapid technological change;

frequent product introductions and enhancements;

evolving industry and government performance and security standards; and

changes in customer and end-user requirements.

Because of these factors, we must continually enhance our existing solutions and develop and market new solutions.

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We cannot be sure that we will successfully complete the development and introduction of new solutions or enhancements or that our new solutions will be accepted in the marketplace. We may also fail to develop and deploy new solutions and enhancements on a timely basis. In either case, we may lose market share to our competitors, and our net revenues and income could suffer.

***We must adhere to industry and government regulations and standards and therefore sales will suffer if we cannot comply with them.***

Our system solutions must meet industry standards imposed by EMVCo, Visa, MasterCard and other credit card associations and standard setting organizations. New standards are continually being adopted or proposed as a result of worldwide anti-fraud initiatives, the increasing need for system compatibility and technology developments such as wireless and wireline IP communication. Our solutions also must comply with government regulations, including those imposed by telecommunications authorities and independent standards groups worldwide regarding emissions, radiation and connections with telecommunications and radio networks. We cannot be sure that we will be able to design our solutions to comply with future standards or regulations on a timely basis, if at all. Compliance with these standards could increase the cost of developing or producing our solutions. If we are unable to comply with new industry standards, or we cannot obtain or retain necessary regulatory approval or certifications in a timely fashion, or if compliance increases the cost of our solutions, our results of operations may be adversely affected.

### **Risks Related to Our Capital Structure**

***Our secured credit facility contains restrictive and financial covenants and, if we are unable to comply with these covenants, we will be in default. A default could result in the acceleration of our outstanding indebtedness, which would have an adverse effect on our business and stock price.***

In June 2004, our principal operating subsidiary, VeriFone, Inc., and another subsidiary entered into a secured credit facility under which, as of July 31, 2005, VeriFone, Inc. had outstanding indebtedness, excluding capital leases, of approximately \$183.0 million.

Our secured credit facility contains customary covenants that require our subsidiaries to maintain certain specified financial ratios and restrict their ability to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations, or undertake various other corporate activities. Our business is conducted through subsidiaries of VeriFone Holdings, Inc., the issuer of the common stock to be sold in this offering. Therefore, as a practical matter, these covenants restrict our ability to engage in or benefit from such activities. In addition, we have, in order to secure repayment of our secured credit facility, pledged substantially all of our assets and properties. This pledge may reduce our operating flexibility because it restricts our ability to dispose of these assets or engage in other transactions that may be beneficial to us.

If we are unable to comply with any of these covenants, we will be in default, which could result in the acceleration of our outstanding indebtedness. If acceleration occurred, we would not be able to repay our debt and it is unlikely that we would be able to borrow sufficient additional funds to refinance our debt. Even if new financing is made available to us, it may not be available on acceptable terms.

***We have negative stockholders' equity, which could limit our ability to obtain additional financing.***

As of July 31, 2005, we had negative stockholders' equity of \$35.8 million, due in part to a \$97.4 million dividend paid on June 30, 2004, partially offset by capital received in our initial public offering which we completed on May 4, 2005. This may make lenders and other potential investors less likely to provide us with additional debt or equity financing. If we require additional financing, there is no guarantee that we can obtain it on acceptable terms, or at all. If we are unable to obtain additional, needed financing, our financial condition and results of operations may be adversely affected.



***If we are unable to improve and maintain the quality of our internal controls, any weaknesses could materially and adversely affect our ability to provide timely and accurate information about us, which could harm our reputation and share price.***

On several occasions since our separation from Hewlett-Packard, our independent registered public accounting firm has identified deficiencies in our internal controls which rose to the level of "reportable conditions," which means that these were matters that in our auditors' judgment could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of our management in our financial statements. We have worked diligently to correct these deficiencies. We are not aware of, nor did our independent registered public accounting firm inform us of, any matters involving internal controls that we consider to be reportable conditions relating to the year ended October 31, 2004 or the nine months ended July 31, 2005. Nevertheless, we cannot be certain that the measures we have taken will ensure that we will maintain adequate controls over our financial processes and reporting in the future. Any failure to maintain adequate controls or to adequately implement required new or improved controls could harm our operating results or cause us to fail to meet our reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could adversely affect the trading price of our common stock.

***GTCR has substantial influence over our operations, which will limit your ability to influence corporate activities and may adversely affect the market price of our common stock.***

Upon completion of this offering, GTCR will own or control shares representing, in the aggregate, an approximately 36.9% voting interest in us, or 35.0% if the underwriters exercise their over-allotment option in full, and will have three of the seven members on our board of directors. Accordingly, GTCR may exercise substantial influence over our operations and business strategy. In addition, GTCR will have substantial influence over the outcome of votes on all matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions.

GTCR may also exercise control, with respect to mergers or other business combinations that involve a change in control of us, under a stockholders agreement among us, GTCR and certain other stockholders. Subject to specified conditions, that agreement requires the stockholders who are parties to it to consent to a sale of VeriFone Holdings, Inc. to a non-affiliate of GTCR if the sale is approved by the holders of a majority of the shares subject to the agreement. This provision is described in more detail under the caption "Certain Relationships and Related Party Transactions Agreements Related to Our 2000 Acquisition Stockholders Agreement" elsewhere in this prospectus. So long as the shares subject to the stockholders agreement represent a majority of the voting power of our capital stock, this right gives GTCR the practical ability to sell us in its sole discretion, because GTCR currently controls a majority of the shares subject to the stockholders agreement, and will continue to do so upon completion of this offering. Following the completion of the offering, a majority of the voting power of our capital stock will remain subject to the stockholders agreement.

GTCR's ownership or control may have the effect of delaying or preventing a change in control of us or discouraging others from making tender offers for our shares, which could prevent stockholders from receiving a premium for their shares. These actions may be taken even if other stockholders oppose them.

***Our Chief Executive Officer owns a significant stake in us and may be difficult to remove.***

Our Chief Executive Officer, Douglas Bergeron, upon completion of this offering, will beneficially own shares representing, in the aggregate, approximately a 7.0% voting interest in us, or 6.5% if the underwriters exercise their over-allotment option in full. Moreover, Mr. Bergeron and several senior managers have a long professional history together at SunGard Data Systems Inc. Mr. Bergeron's significant ownership stake in us and his history with other senior management may also make it difficult for the board of directors to remove Mr. Bergeron or other members of senior management.

***Conflicts of interest may arise because some of our directors are principals of our significant stockholder.***

Three principals of GTCR serve on our board of directors, which currently has seven members. GTCR and its affiliates may invest in entities that directly or indirectly compete with us or companies in which they currently invest may begin competing with us. As a result of these relationships, when conflicts between the interests of GTCR and the interests of our other stockholders arise, these directors may not be disinterested. Although our directors and officers have a duty of loyalty to us, under Delaware law and our amended and restated certificate of incorporation that was adopted in connection with the closing of our initial public offering on May 4, 2005, transactions that we enter into in which a director or officer that is a representative of GTCR has a conflict of interest are generally permissible so long as (1) the material facts relating to the director's or officer's relationship or interest as to the transaction are disclosed to our board of directors and a majority of our disinterested directors approves the transaction, (2) the material facts relating to the director's or officer's relationship or interest as to the transaction are disclosed to our stockholders and a majority of our disinterested stockholders approves the transaction, or (3) the transaction is otherwise fair to us. GTCR's representatives will not be required to offer to us any transaction opportunity of which they become aware and could take any such opportunity for themselves or offer it to other companies in which they have an investment, unless such opportunity is expressly offered to them solely in their capacity as a director of us.

***We have incurred and will continue to incur increased costs as a public company.***

We completed our initial public offering on May 4, 2005. As a public company, we are required to comply with various accounting and legal requirements as well as undertake additional corporate and administrative tasks as a result of which we incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the New York Stock Exchange, have required changes in corporate governance practices of public companies. These new rules and regulations have increased our legal and financial compliance costs and have made some activities more time consuming and costly. For example, as a result of being a public company, we have created additional board committees and have adopted or will be required to adopt policies regarding internal control over financial reporting and disclosure controls and procedures. In addition, we have incurred and will continue to incur additional costs associated with our public company reporting requirements.

***Future sales of our common stock, or the perception in the public markets that these sales may occur, could depress our stock price.***

Sales of substantial amounts of our common stock, or the possibility of such sales, may adversely affect the market price of our common stock. These sales may also make it more difficult for us to raise capital through the issuance of equity securities at a time and at a price we deem appropriate.

As of August 30, 2005, after giving effect to this offering, there were 67,589,904 shares of our common stock outstanding. Of these shares, 30,788,248 shares of common stock, including 13,078,248 shares of common stock sold in the offering, will be freely transferable without restriction or further registration under the Securities Act of 1933 immediately following this offering. An additional 4,625 shares will be freely tradeable beginning on October 27, 2005, following the termination of the lock-up agreement entered into by the holders of those shares with the underwriters of our initial public offering. The remaining 36,797,031 shares of common stock available for future sale will be "restricted securities" within the meaning of Rule 144 under the Securities Act and will be eligible for resale subject to the volume, manner of sale, holding period and other limitations of Rule 144, after the expiration of any applicable lock-up arrangements. In addition to outstanding shares eligible for sale, additional shares of our common stock will be issuable under currently outstanding stock options. We have granted GTCR and other stockholders the right to require us to register shares of our common stock. These stockholders will be permitted to register shares that represent a majority of our common stock pursuant to the rights that we have granted to them. Accordingly, the sale of shares subject to registration rights may have a negative

impact on the market price for our common stock. Shares held by certain of our stockholders, representing an aggregate of 36,273,683 shares of our common stock upon the completion of this offering, are subject to lock-up agreements and may not be sold to the public during the 90-day period following the date of this prospectus without the prior written consent of J.P. Morgan Securities Inc. and Lehman Brothers Inc. See "Underwriting."

We expect that certain of our officers may enter into Rule 10b5-1 trading plans with respect to their anticipated sales of our common stock shortly after the completion of this offering. Sales under these plans may not begin prior to the expiration of the lock-up restrictions described in the previous paragraph, unless earlier consented to by J.P. Morgan Securities Inc. and Lehman Brothers Inc.

***Some provisions of our certificate of incorporation and bylaws may delay or prevent transactions that many stockholders may favor.***

Some provisions of our amended and restated certificate of incorporation and amended and restated bylaws that became effective upon the completion of our initial public offering on May 4, 2005, may have the effect of delaying, discouraging, or preventing a merger or acquisition that our stockholders may consider favorable, including transactions in which stockholders might receive a premium for their shares. These provisions include:

authorization of the issuance of "blank check" preferred stock without the need for action by stockholders;

the removal of directors or amendment of our organizational documents only by the affirmative vote of the holders of two-thirds of the shares of our capital stock entitled to vote;

provision that any vacancy on the board of directors, however occurring, including a vacancy resulting from an enlargement of the board, may only be filled by vote of the directors then in office;

inability of stockholders to call special meetings of stockholders; and

advance notice requirements for board nominations and proposing matters to be acted on by stockholders at stockholder meetings.

See "Description of Our Capital Stock Anti-Takeover Effects of Provisions of Our Amended and Restated Certificate of Incorporation and Bylaws" for a discussion of these provisions.

***Our common stock has only been publicly traded since April 29, 2005 and we expect that the price of our common stock will fluctuate substantially.***

There has only been a public market for our common stock since April 29, 2005. Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuations in our stock price may include, among other things:

actual or anticipated variations in quarterly operating results;

changes in financial estimates by us or by any securities analysts who might cover our stock, or our failure to meet the estimates made by securities analysts;

changes in the market valuations of other companies operating in our industry;

announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;

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additions or departures of key personnel; and

sales of our common stock, including sales of our common stock by our directors and officers or by GTCR or our other principal stockholders.

### **FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms or comparable terminology.

Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined in "Risk Factors." These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements.

These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include those listed under "Risk Factors" and elsewhere in this prospectus. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform such statements to actual results or to changes in expectations.

### **DIVIDEND POLICY**

Other than a special dividend to our common stockholders of approximately \$97.4 million paid in June 2004 and \$17.1 million in respect of accrued dividends paid to the holders of our Class A redeemable convertible preferred stock as part of the redemption of all our outstanding Class A redeemable convertible preferred stock, we have not declared or paid cash dividends on our capital stock in our most recent two full fiscal years. We do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain any future earnings to finance our operations and growth. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent on earnings, financial condition, operating results, capital requirements, any contractual restrictions and other factors that our board of directors deems relevant. In addition, our secured credit facility contains limitations on the ability of our principal operating subsidiary, VeriFone, Inc., to declare and pay cash dividends. Because we conduct our business through our subsidiaries, as a practical matter these restrictions similarly limit our ability to pay dividends on our common stock.

### **USE OF PROCEEDS**

Our net proceeds from the sale of 2,500,000 shares of common stock in this offering are estimated to be approximately \$48.7 million, based on the public offering price of \$20.78 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any of the proceeds from shares of common stock sold by our selling stockholders, including certain members of our management.

We expect to use the net proceeds to be received by us in this offering for general corporate purposes, including potential acquisitions of companies and technologies that complement our business, although we have no such agreements for any such acquisitions at this time.

**CAPITALIZATION**

The following table sets forth our cash and cash equivalents, short-term debt and capitalization as of July 31, 2005:

on an actual basis; and

on an as adjusted basis, reflecting the sale of 2,500,000 shares of common stock by us in this offering at the public offering price of \$20.78 per share, after deducting the underwriting discounts and commissions, and estimated offering expenses payable by us.

You should read this table in conjunction with the sections of this prospectus entitled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our financial statements and related notes.

	As of July 31, 2005	
	Actual	As adjusted
(in thousands, except per share data)		
Cash and cash equivalents	\$ 20,091	\$ 68,833
Short-term debt, excluding capital leases:		
Current portion of Term B loan	\$ 1,849	\$ 1,849
Long-term debt, excluding capital leases:		
Revolver		
Term B loan	181,169	181,169
Total long-term debt, excluding capital leases	181,169	181,169
Stockholders' equity (deficit):		
Common stock, par value \$0.01 per share; 100,000 shares authorized and 65,089 shares issued and outstanding actual; 67,589 shares issued and outstanding as adjusted	651	676
Additional paid-in capital	78,090	126,807
Accumulated deficit	(115,039)	(115,039)
Other comprehensive income	519	519
Total stockholders' equity (deficit)	(35,779)	12,963
Total capitalization	\$ 145,390	\$ 194,132

The number of shares of common stock shown as issued and outstanding in the table above excludes:

3,434,245 shares subject to outstanding options at a weighted average exercise price of \$7.65 per share; and

1,328,770 additional shares available for future grants under our existing stock option plans.

**MARKET PRICE OF COMMON STOCK**

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Our common stock has been traded on the New York Stock Exchange under the symbol "PAY" since April 29, 2005. The following table sets forth for the periods indicated the high and low sale prices per share of our common stock as reported by the New York Stock Exchange:

<b>Fiscal Year 2005</b>	<b>High</b>	<b>Low</b>
Second Quarter (commencing April 29, 2005)	\$ 11.30	\$ 10.50
Third Quarter	\$ 22.33	\$ 10.80
Fourth Quarter (through September 19, 2005)	\$ 22.15	\$ 17.99

On September 19, 2005, the closing price of our common stock, as reported on the New York Stock Exchange, was \$20.78 per share. As of August 30, 2005, we had approximately 75 stockholders of record.

## SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth certain of our historical financial data. We have derived the selected historical financial data as of July 31, 2005 and for the nine months ended July 31, 2004 and 2005 from our unaudited consolidated financial statements and the related notes included elsewhere in this prospectus. We have derived the selected historical consolidated financial data as of October 31, 2004 and 2003 and for the years ended October 31, 2004 and 2003 and the period from July 1, 2002 to October 31, 2002 from our audited consolidated financial statements and the related notes included elsewhere in this prospectus. We have derived the selected historical consolidated financial data for the period from November 1, 2001 to June 30, 2002 from the audited consolidated financial statements and related notes of our predecessor, which are included elsewhere in this prospectus. We have derived the selected historical consolidated financial data as of October 31, 2002 from our audited consolidated financial statements which are not included in this prospectus. We have derived the selected historical consolidated financial data as of October 31, 2001 and 2000 and for the years ended October 31, 2001 and 2000 from the unaudited consolidated financial statements of our predecessor which are not included in this prospectus. The selected consolidated historical financial data set forth below are not necessarily indicative of the results of future operations and should be read in conjunction with the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the historical consolidated financial statements and accompanying notes included elsewhere in this prospectus.

	Predecessor (1)			Successor (2)				
	Years ended October 31,		Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31,		Nine months ended July 31,	
	2000	2001			2003	2004	2004	2005
(in thousands, except per share data)								
<b>Consolidated Statement of Operations Data:</b>								
Net revenues	\$ 338,541	\$ 349,187	\$ 184,356	\$ 111,237	\$ 339,331	\$ 390,088	\$ 281,469	\$ 354,877
Cost of net revenues (3):								
Cost of net revenues excluding amortization of purchased core and developed technology assets	266,723	258,891	125,542	80,479	200,291	231,892	164,887	208,463
Amortization of purchased core and developed technology assets				4,679	14,148	9,745	7,726	5,255
Total cost of net revenues	266,723	258,891	125,542	85,158	214,439	241,637	172,613	213,718
Gross profit	71,818	90,296	58,814	26,079	124,892	148,451	108,856	141,159
Operating expenses (3):								
Research and development	66,480	47,352	20,037	10,322	28,193	33,703	24,255	30,351
Sales and marketing	73,566	57,331	26,848	13,925	40,024	44,002	32,246	38,310
General and administrative	33,074	30,578	26,093	10,342	25,039	25,503	19,026	21,607
Amortization of purchased intangible assets				3,399	10,200	10,200	7,650	3,808
In-process research and development				17,934				
Total operating expenses	173,120	135,261	72,978	55,922	103,456	113,408	83,177	94,076
Operating income (loss)	(101,302)	(44,965)	(14,164)	(29,843)	21,436	35,043	25,679	47,083
Interest expense	(11,064)	(2,630)	(2,407)	(3,794)	(12,456)	(12,597)	(8,523)	(11,758)
Other income (expense), net	(3,118)	7,031	1,694	(4,904)	3,557	(11,869)	(11,815)	(6,313)
Income (loss) before income taxes	(115,484)	(40,564)	(14,877)	(38,541)	12,537	10,577	5,341	29,012
Provision (benefit) for income taxes	9,230	23,196	4,593	(4,509)	12,296	4,971	2,510	7,833
Net income (loss)	(124,714)	(63,760)	(19,470)	(34,032)	241	5,606	2,831	21,179
Accrued dividends and accretion on preferred stock				5,218	6,916	4,959	4,959	



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	Predecessor (1)			Successor (2)				
Net income (loss) attributable to common stockholders	\$ (124,714)	\$ (63,760)	\$ (19,470)	\$ (39,250)	\$ (6,675)	\$ 647	\$ (2,128)	\$ 21,179
Net income (loss) per common share (4):								
Basic		\$ (2.13)	\$ (0.81)	\$ (0.14)	\$ 0.01	\$ (0.04)	\$ 0.38	
Diluted		\$ (2.13)	\$ (0.81)	\$ (0.14)	\$ 0.01	\$ (0.04)	\$ 0.36	
Weighted-average shares used in computing net income (loss) per common share (4):								
Basic		9,121	48,459	48,869	50,725	50,101	56,285	
Diluted		9,121	48,459	48,869	56,588	50,101	59,630	
Cash dividends per common share (4)	\$	\$	\$	\$	\$ 1.72	\$ 1.72	\$	

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	Predecessor (1)		Successor (2)			
	As of October 31,		As of October 31,			
	2000	2001	2002	2003	2004	July 31, 2005
(in thousands)						
<b>Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 40,015	\$ 20,881	\$ 3,040	\$ 5,877	\$ 12,705	\$ 20,091
Total assets	202,932	127,577	248,852	236,967	245,619	247,905
Long-term debt and capital leases, including current portion		33,934	66,565	62,634	262,187	183,324
Class A redeemable convertible preferred stock			74,294	81,210		
Total stockholders' deficit	(122,285)	(15,921)	(32,659)	(39,141)	(135,387)	(35,779)
	Predecessor (1)		Successor (2)			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31,		Nine months ended July 31,	
			2003	2004	2004	2005
(in thousands)						
<b>Other Data:</b>						
EBITDA, as adjusted (5)	\$ (12,174)	\$ 2,770	\$ 49,854	\$ 57,247	\$ 41,716	\$ 59,970
Net cash provided by (used in) operating activities	\$ (9,233)	\$ 8,078	\$ 9,772	\$ 33,217	\$ 21,737	\$ 25,634
Capital expenditures:						
Purchase of equipment and improvements	\$	\$ 542	\$ 2,196	\$ 2,430	\$ 1,507	\$ 2,166
Software development costs capitalized		122	1,955	2,555	2,348	691
Purchase of other assets				288		618
Total capital expenditures	\$	\$ 664	\$ 4,151	\$ 5,273	\$ 3,855	\$ 3,475
Other income (expense), net:						
Loss on debt extinguishment and debt repricing fee	\$	\$	\$	\$ (9,810)	\$ (9,810)	\$ (5,530)
Refund of foreign unclaimed pension benefits			2,820			
Gain on sale of assets	1,749					
Foreign exchange transaction gains (losses)	185	(5,198)	1,246	252	(873)	523
Foreign currency contract losses			(1,145)	(2,425)	(1,142)	(1,037)
Other	(240)	294	636	114	10	(269)
Total other income (expense)	\$ 1,694	\$ (4,904)	\$ 3,557	\$ (11,869)	\$ (11,815)	\$ (6,313)

(1) Predecessor company was owned by Hewlett-Packard Company until acquired on July 20, 2001 by an entity affiliated with Gores. Financial information presented reflects adjustment of assets and liabilities to then-fair value at July 20, 2001, which became the basis for amounts included in results of operations from July 20, 2001 until June 30, 2002.

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- (2) On July 1, 2002, VeriFone was recapitalized whereby certain investment funds affiliated with GTCR became the majority stakeholders while the existing equity investor, an entity affiliated with Gores retained an ownership interest in the Company. Financial information presented reflects adjustment of assets and liabilities to fair value as of July 1, 2002, which became the basis for amounts included in results of operations starting July 1, 2002.
- (3) We adopted the fair value recognition and measurement provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*, effective May 1, 2005 using the modified-prospective transition method. For periods prior to May 1, 2005 we followed the intrinsic value recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25. For further information see Note 2 to the financial statements

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elsewhere in this prospectus. The portion of stock-based compensation allocated to each category of expenses for each period is presented below.

	Predecessor		Successor			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31,		Nine months ended July 31,	
			2003	2004	2004	2005
(in thousands)						
Cost of net revenues System Solutions	\$	\$	\$	\$	\$	\$ 73
Research and development						185
Sales and marketing						355
General and administrative		17	81	400	66	302
	\$	\$ 17	\$ 81	\$ 400	\$ 66	\$ 915

(4) Net income (loss) per common share and cash dividends per common share data is not presented for the years ended October 31, 2000 and 2001 because our predecessor did not have a formal capital structure prior to July 20, 2001.

(5) We define earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, as the sum of (1) net income (excluding extraordinary items of gain or loss and any gain or loss from discontinued operations), (2) interest expense, (3) taxes, (4) depreciation, amortization, goodwill impairment and other non-recurring charges, (5) non-cash charges, including non-cash stock-based compensation expense and purchase accounting items and (6) management fees to our principal stockholder. EBITDA, as adjusted, is a primary component of the financial covenants to which we are subject under our credit agreement. If we fail to maintain required levels of EBITDA, as adjusted, we could have a default under our credit agreement, potentially resulting in an acceleration of all of our outstanding indebtedness. In addition, our management uses EBITDA, as adjusted, as a primary measure to review and assess our operating performance and to compare our current results with those for prior periods as well as with the results of other companies in our industry. These competitors may, due to differences in capital structure and investment history, have interest, tax, depreciation, amortization and other non-cash expenses that differ significantly from ours. The term EBITDA, as adjusted, is not defined under U.S. generally accepted accounting principles, or U.S. GAAP, and EBITDA, as adjusted, is not a measure of operating income, operating performance or liquidity presented in accordance with U.S. GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income calculated in accordance with U.S. GAAP. Our EBITDA, as adjusted, has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for net income or other consolidated income statement data prepared in accordance with U.S. GAAP. Some of these limitations are:

it does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

it does not reflect changes in, or cash requirements for, our working capital needs;

it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

it does not reflect income taxes or the cash requirements for any tax payments;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, as adjusted, does not reflect any cash requirements for such replacements;

restructuring and impairment charges, as well as losses from discontinued operations, reflect costs associated with strategic decisions about resource allocations made in prior periods; we may incur similar charges and losses in the future; and

other companies may calculate EBITDA and EBITDA, as adjusted, differently than we do, limiting its usefulness as a comparative measure.

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A reconciliation of net income (loss), the most directly comparable U.S. GAAP measure, to EBITDA, as adjusted, for each period indicated is as follows.

	Predecessor		Successor			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Years ended October 31,		Nine months ended July 31,	
			2003	2004	2004	2005
(in thousands)						
U.S. GAAP net income (loss)	\$ (19,470)	\$ (34,032)	\$ 241	\$ 5,606	\$ 2,831	\$ 21,179
Provision (benefit) for income taxes	4,593	(4,509)	12,296	4,971	2,510	7,833
Interest expense	2,407	3,794	12,456	12,597	8,523	11,758
Depreciation and amortization of equipment and improvements		337	1,333	2,451	1,673	2,292
Amortization of capitalized software			108	698	333	780
In-process research and development		17,934				
Amortization of purchased intangible assets		8,078	24,348	19,945	15,376	9,063
Amortization of step-up in inventories on acquisition		10,087				
Amortization of step-up in deferred revenue on acquisition		981	1,561	519	407	495
Stock-based compensation		17	81	400	66	915
Management fees to majority stockholder	2,045	83	250	250	187	125
Gain on sale of assets	(1,749)					
Refund of foreign unclaimed pension benefits			(2,820)			
Loss on debt extinguishment and debt repricing fee(a)				9,810	9,810	5,530
<b>EBITDA, as adjusted</b>	<b>\$ (12,174)</b>	<b>\$ 2,770</b>	<b>\$ 49,854</b>	<b>\$ 57,247</b>	<b>\$ 41,716</b>	<b>\$ 59,970</b>
Supplemental information:						
Foreign currency transaction losses (gains)	(185)	5,198	(1,246)	(252)	873	(523)
Foreign currency contract losses			1,145	2,425	1,142	1,037

(a)

For the year ended October 31, 2004 and nine months ended July 31, 2004, consists of a \$1.4 million cash payment for early retirement fees and \$8.4 million of non-cash write offs of the unamortized amounts of debt issuance costs and debt discount associated with our June 2004 recapitalization; for the nine months ended July 31, 2005, consists of a \$2.2 million cash payment for early retirement fees and \$2.9 million of non-cash write-off of the unamortized amounts of debt issuance costs associated with prepayments on our Senior Secured Credit Facility and \$0.5 million debt repricing fee.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following commentary in conjunction with our consolidated financial statements and related notes, "Selected Consolidated Financial Data" and "Risk Factors" included elsewhere in this prospectus. In this discussion and analysis, "North America" refers to the United States and Canada, and "International" refers to all jurisdictions outside the United States and Canada. This discussion and analysis contains forward-looking statements, which involve risks and uncertainties, including those described under the caption "Risk Factors" and elsewhere in this prospectus. Our actual results may differ materially from those anticipated in these forward-looking statements. We discuss our results for the year ended October 31, 2002 by combining the eight months prior to the acquisition of our predecessor on June 30, 2002 with the four months of post acquisition operations. We believe that presenting these results on a combined basis is the most meaningful way in which we can analyze our results of operations. These combined amounts are for informational purposes only and do not purport to represent what our financial results would have been in the combined period if our 2002 acquisition had occurred at the beginning of the combined period.*

**Overview**

We are a leading global provider of technology that enables electronic payment transactions and value-added services at the point of sale. We have one of the leading electronic payment solutions brands and are one of the largest providers of electronic payment systems worldwide. We believe that we benefit from a number of competitive advantages gained through our 24-year history and success in our industry. These advantages include our globally trusted brand name, large installed base, history of significant involvement in the development of industry standards, global operating scale, customizable platform and investment in research and development. We believe that these advantages position us well to capitalize on the continuing global shift toward electronic payment transactions as well as other long-term industry trends.

**History**

VeriFone, Inc., our principal operating subsidiary, was incorporated in 1981. Shortly afterward, we introduced the first check verification and credit authorization device ever utilized by merchants in a commercial setting. In 1984, we introduced the first mass-market electronic payment system intended to replace manual credit card authorization devices for small merchants. VeriFone, Inc. became a publicly traded company in 1990 and was acquired by Hewlett-Packard Company in 1997. Hewlett-Packard operated VeriFone, Inc. as a division until July 2001, when it sold VeriFone, Inc. to Gores Technology Group in a transaction led by our CEO, Douglas G. Bergeron. In July 2002, Mr. Bergeron and certain investment funds affiliated with GTCR led a recapitalization in which VeriFone Holdings, Inc. was organized as the indirect owner of all the stock of VeriFone, Inc., and the GTCR-affiliated funds became our majority stockholders. We refer to this transaction as our 2002 acquisition.

In our 2002 acquisition, we indirectly acquired all of the outstanding common stock of our predecessor, VeriFone, Inc., from VeriFone Holding Corp., a wholly owned subsidiary of Gores Technology Group. The consideration we paid to acquire our predecessor was cash and 6,882,354 shares of our common stock. As a result, we effectively acquired 88% of the common stock of our predecessor and an affiliate of Gores Technology Group effectively retained a 12% ownership interest. This acquisition was valued at \$164.6 million including transaction costs of \$5.6 million. We accounted for this acquisition under the purchase method, with the total consideration allocated to the fair value of assets acquired and liabilities assumed, including identified purchased intangibles of \$74.6 million. We entered into long-term debt arrangements and issued equity to finance the acquisition. Notes 3, 5 and 7 to our consolidated financial statements provide more information.

The financial statements subsequent to July 1, 2002 included in this prospectus have been prepared using a new basis of accounting resulting from the acquisition of VeriFone, Inc. (predecessor) by VeriFone Holdings, Inc. (successor) which is different from the basis of accounting used to prepare the predecessor's financial statements.

On May 4, 2005, VeriFone Holdings, Inc. completed its initial public offering.

### **Net Revenues**

We generate net revenues through the sale of our electronic payment systems and solutions that enable electronic transactions, which we identify as System Solutions, and, to a lesser extent, warranty and support services and customer specific application development, which we identify as Services.

Our net revenues grew from \$295.6 million in the year ended October 31, 2002, our first full year of operations following our acquisition from Hewlett-Packard, to \$339.3 million in the year ended October 31, 2003 and \$390.1 million in the year ended October 31, 2004. For the nine months ended July 31, 2005, net revenues were \$354.9 million, an increase of 26.1% as compared to the corresponding period of the prior year. These increases resulted from the continuing growth in worldwide demand for electronic payment solutions. Improved data transfer speeds made possible by proliferating wireline and wireless broadband infrastructure development are fueling demand for advanced electronic payment solutions with greater processing speed and memory to run new, more robust value-added applications at the point of sale, as well as growth in consumer-activated system solutions, such as, particularly in the U.S., PIN-based debit solutions. In addition, we have gained market share in certain international markets as the result of our strong brand and extensive certifications, as well as our investments in research and development and in market development. In addition, developing security and interoperability standards, such as EMV internationally, are driving replacement of electronic payment systems, particularly in Europe. We expect that the ongoing need for merchants and financial institutions to meet EMV standards will continue to favorably affect our International sales, particularly in Europe for at least the next two years.

Historically, a significant portion of our net revenues has resulted from purchases made by a limited number of customers, including distributors and ISOs. This customer concentration has diminished over time. In the year ended October 31, 2002, our ten largest customers accounted for approximately 41.6% of our net revenues, which fell to 36.3% in the year ended October 31, 2004, a year in which only one customer accounted for more than 10% of our net revenues. For the nine months ended July 31, 2005, our ten largest customers accounted for approximately 33.0% of our net revenues.

### **Gross Profit**

Gross profit depends primarily on the level of our net revenues, as well as third party contract manufacturing costs, the amortization of core and developed technology and the relative mix of net revenues between our North American and International businesses. We commenced third party outsourcing of our manufacturing processes in July 2001, which enabled us to achieve improvement in gross profit as a percentage of our net revenues beginning in the year ended October 31, 2002. In addition, we amortize the fair value of our core and developed technology related to acquisitions on a straight-line basis over estimated useful lives of 1.5 to five years, depending on the product. Scheduled amortization of the fair value of our core and developed technology is \$1.6 million, \$5.2 million, \$3.2 million, \$0.8 million and \$0.5 million in the three months ending October 31, 2005 and the years ending October 31, 2006, 2007, 2008 and 2009, respectively. Our gross profit as a percentage of net revenues has tended to be higher in North America than internationally. Consequently, differences in relative growth rates between our North American and International segments may have a significant effect on our reported gross profit percentages. In general, we expect our International gross profit percentage will improve as the scale of our international operations grows, as our investments in research and development yield new product

platforms targeted to the international requirements and as we implement plans to increase our proportion of direct sales in international markets over the next several years. However, our International gross profit percentage may decline in certain periods, particularly as we introduce new products and enter into new markets and overall, we anticipate that our International gross profit percentage will remain lower than our gross profit percentage in our North American business for at least the next several years.

### **Operating Expenses**

Our research and development expense includes salaries and other costs related to product development and research activities. Substantially all of these costs are expensed as incurred. The remaining development costs we incur during the software application development stage are capitalized and amortized over the estimated useful life of the developed software, usually three to five years. During the years ended October 31, 2002, 2003 and 2004, our research and development expense as a percentage of net revenues was 10.3%, 8.3% and 8.6%, respectively. During the nine months ended July 31, 2005, our research and development expense as a percentage of net revenues was 8.5% as compared to 8.6% for the corresponding period of the previous year. We expect our research and development expense in the year ending October 31, 2006 to remain in approximately the same range as a percentage of net revenues as we experienced in the three years ended October 31, 2004.

Our sales and marketing expense is primarily for personnel related expenses and marketing programs such as promotional events, trade shows and sales support. During the years ended October 31, 2002, 2003 and 2004, our sales and marketing expense as a percentage of net revenues was 13.8%, 11.8% and 11.4%, respectively. During the nine months ended July 31, 2005, our sales and marketing expenses as a portion of net revenues was 10.8% as compared to 11.5% for the corresponding period of the prior year. We expect our sales and marketing expense in the year ending October 31, 2006 to decrease as a percentage of net revenues from the level in the year ended October 31, 2004 as we gain operating leverage although we may increase sales and marketing expense as we develop more direct sales channels internationally.

Our general and administrative expense includes management and administrative personnel, as well as outside legal, accounting and consulting services. During the years ended October 31, 2002, 2003 and 2004, our general and administrative expense as a percentage of net revenues was 12.3%, 7.4% and 6.5%, respectively. During the nine months ended July 31, 2005 our general and administrative expense as a percentage of net revenues was 6.1% as compared to 6.8% for the corresponding period of the previous year. We expect our general and administrative expense in the year ending October 31, 2006 to increase as we incur additional costs associated with being a publicly traded company, including higher legal, insurance and financial reporting expenses as well as the expense of complying with Section 404 of the Sarbanes-Oxley Act and additional stock compensation costs.

The amortization of purchased intangible assets relates to our acquisitions. We amortize the value assigned to customer relationships on a straight-line basis over an average estimated useful life of up to 5 years. We amortize the value assigned to our trade name on a straight-line basis over an average estimated useful life of five years. Scheduled amortization of purchased intangible assets related to our acquisitions is \$1.2 million, \$4.6 million, \$3.4 million, \$0.8 million, \$0.3 million and \$0.1 million in the three months ending October 31, 2005 and the years ending October 31, 2006, 2007, 2008, 2009 and 2010, respectively.

### **Stock-based Compensation**

Effective May 1, 2005, we early adopted the fair value recognition and measurement provisions of SFAS 123(R), *Share-Based Payment*. SFAS 123(R) is applicable for stock-based awards exchanged for employee services and in certain circumstances for nonemployee directors. We elected to adopt the modified-prospective-transition method, as provided by SFAS 123(R). Accordingly, prior period amounts have not been restated. Under this transitional method, we are required to record compensation expense



for all awards granted after the date of adoption using grant-date fair value estimated in accordance with the provisions of SFAS 123(R) and for the unvested portion of previously granted awards as of May 1, 2005 using the grant-date fair value estimated in accordance with the provisions of SFAS 123.

### **Income Taxes**

We are currently subject to U.S. statutory tax rates approximating 39% on the majority of our income. In light of our growing International operations, we are developing a structure designed to align our taxable income with tax jurisdictions where that income is generated. We expect to implement this structure for the year ending October 31, 2006. Following implementation of our plans, we expect to reduce our average worldwide statutory tax rate to a percentage in the low thirties.

We are currently subject to two tax assessments in Brazil with respect to our Brazilian subsidiary, which are described under the caption "Business Legal Proceedings" elsewhere in this prospectus.

### **Our Operating Segments**

We operate in two segments: (1) North America and (2) International. Net revenues and operating income (loss) of each business segment reflect net revenues generated within the segment, standard cost of System Solutions net revenues, actual cost of services net revenues and expenses that directly benefit only that segment. Corporate net revenues and operating income (loss) reflect amortization of purchased intangible assets, stock-based compensation, in-process research and development expense, and amortization of step ups in the fair value of inventories, equipment and improvements and deferred revenue resulting from acquisitions. Corporate income (loss) also reflects the difference between the actual and standard cost of System Solutions net revenues and shared operating costs that benefit both segments, predominately research and development expenses and supply chain management. We present segment information below within each period-to-period discussion of our results of operation.

## Results of Operations

The following tables set forth, for the periods indicated, certain statements of operations data as reported and as a percentage of total net revenues. For the purposes of this management's discussion and analysis only, our results for the year ended October 31, 2002 discussed below represent the combination of the statement of operations for the eight months prior to the acquisition of our predecessor on July 1, 2002 and the four months of post acquisition operations. The financial data set forth below are not necessarily indicative of the results of future operations and should be read in conjunction with our historical consolidated financial statements and accompanying notes included elsewhere in this prospectus.

	Predecessor (1)	Successor (2)	Combined	Successor (2)			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Year ended October 31, 2002	Years ended October 31,		Nine months ended July 31,	
				2003	2004	2004	2005
(in thousands)							
Net revenues:							
System Solutions	\$ 162,233	\$ 95,762	\$ 257,995	\$ 292,824	\$ 344,639	\$ 248,481	\$ 314,791
Services	22,123	15,475	37,598	46,507	45,449	32,988	40,086
Total net revenues	184,356	111,237	295,593	339,331	390,088	281,469	354,877
Cost of net revenues: (3)							
Cost of System Solutions net revenues excluding amortization of purchased core and developed technology assets	111,333	70,176	181,509	170,647	205,381	145,924	187,509
Amortization of purchased core and developed technology assets		4,679	4,679	14,148	9,745	7,726	5,255
Total cost of System Solutions net revenues	111,333	74,855	186,188	184,795	215,126	153,650	192,764
Services	14,209	10,303	24,512	29,644	26,511	18,963	20,954
Total cost of net revenues	125,542	85,158	210,700	214,439	241,637	172,613	213,718
Gross profit (4)	58,814	26,079	84,893	124,892	148,451	108,856	141,159
Operating expenses (3):							
Research and development	20,037	10,322	30,359	28,193	33,703	24,255	30,351
Sales and marketing	26,848	13,925	40,773	40,024	44,002	32,246	38,310
General and administrative	26,093	10,342	36,435	25,039	25,503	19,026	21,607
Amortization of purchased intangible assets		3,399	3,399	10,200	10,200	7,650	3,808
In-process research and development		17,934	17,934				
Total operating expenses	72,978	55,922	128,900	103,456	113,408	83,177	94,076
Operating income (loss)	(14,164)	(29,843)	(44,007)	21,436	35,043	25,679	47,083
Interest expense	(2,407)	(3,794)	(6,201)	(12,456)	(12,597)	(8,523)	(11,758)
Other income (expense), net	1,694	(4,904)	(3,210)	3,557	(11,869)	(11,815)	(6,313)
Income (loss) before income taxes	(14,877)	(38,541)	(53,418)	12,537	10,577	5,341	29,012
Provision (benefit) for income taxes	4,593	(4,509)	84	12,296	4,971	2,510	7,833
Net income (loss)	(19,470)	(34,032)	(53,502)	241	5,606	2,831	21,179
Accrued dividends and accretion on preferred stock		5,218	5,218	6,916	4,959	4,959	

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	<b>Predecessor (1)</b>	<b>Successor (2)</b>	<b>Combined</b>	<b>Successor (2)</b>			
Net income (loss) attributable to common stockholders	\$ (19,470)	\$ (39,250)	\$ (58,720)	\$ (6,675)	\$ 647	\$ (2,128)	\$ 21,179

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	Predecessor (1)	Successor (2)	Combined	Successor (2)			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Year ended October 31, 2002	Years ended October 31,		Nine months ended July 31,	
				2003	2004	2004	2005
(in thousands)							
<b>Net revenues:</b>							
System Solutions	88.0%	86.1%	87.3%	86.3%	88.3%	88.3%	88.7%
Services	12.0	13.9	12.7	13.7	11.7	11.7	11.3
Total net revenues	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Cost of net revenues (3):</b>							
Cost of System Solutions net revenues excluding amortization of purchased core and developed technology assets	60.4	63.1	61.4	50.3	52.6	51.9	52.8
Amortization of purchased core and developed technology assets		4.2	1.6	4.2	2.5	2.7	1.5
Total cost of System Solutions net revenues	60.4	67.3	63.0	54.5	55.1	54.6	54.3
Services	7.7	9.3	8.3	8.7	6.8	6.7	5.9
Total cost of net revenues	68.1	76.6	71.3	63.2	61.9	61.3	60.2
Gross profit (4)	31.9	23.4	28.7	36.8	38.1	38.7	39.8
<b>Operating expenses (3):</b>							
Research and development	10.9	9.3	10.3	8.3	8.6	8.6	8.5
Sales and marketing	14.6	12.5	13.8	11.8	11.4	11.5	10.8
General and administrative	14.1	9.2	12.3	7.4	6.5	6.8	6.1
Amortization of purchased intangible assets		3.1	1.1	3.0	2.6	2.7	1.1
In-process research and development		16.1	6.1				
Total operating expenses	39.6	50.2	43.6	30.5	29.1	29.6	26.5
Operating income (loss)	(7.7)	(26.8)	(14.9)	6.3	9.0	9.1	13.3
Interest expense	(1.3)	(3.4)	(2.1)	(3.7)	(3.2)	(3.0)	(3.3)
Other income (expense), net	0.9	(4.4)	(1.1)	1.1	(3.1)	(4.2)	(1.8)
Income (loss) before income taxes	(8.1)	(34.6)	(18.1)	3.7	2.7	1.9	8.2
Provision (benefit) for income taxes	2.5	(4.0)		3.6	1.3	0.9	2.2
Net income (loss)	(10.6)	(30.6)	(18.1)	0.1	1.4	1.0	6.0
Accrued dividends and accretion on preferred stock		4.7	1.8	2.1	1.2	1.8	
Net income (loss) attributable to common stockholders	(10.6)%	(35.3)%	(19.9)%	(2.0)%	0.2%	(0.8)%	6.0%

(1)

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Predecessor company was owned by Hewlett-Packard Company until acquired on July 20, 2001 by an entity affiliated with Gores Technology Group, LLC. Financial information presented reflects adjustment of assets and liabilities to then-fair value at July 20, 2001, which became the basis for amounts included in results of operations from July 20, 2001 until June 30, 2002.

(2)

On July 1, 2002, VeriFone was recapitalized whereby certain investment funds affiliated with GTCR became the majority stakeholders while the existing equity investor, an entity affiliated with Gores Technology Group, LLC, retained an ownership interest in the company. Financial information presented reflects adjustment of assets and liabilities to fair value as of July 1, 2002, which became the basis for amounts included in results of operations starting July 1, 2002.

(3)

We adopted the fair value recognition and measurement provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*, effective May 1, 2005 using the modified-prospective transition method. For periods prior to May 1, 2005 we followed the intrinsic value recognition and measurement provisions of Accounting Principles Board Opinion

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No. 25, *Accounting for Stock Issued to Employees*, or APB 25. For further information see Note 2 to the financial statements. The portion of stock-based compensation allocated to each category of expenses for each period is presented below.

	Predecessor	Successor	Combined	Successor			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Year ended October 31, 2002	Years ended October 31,		Nine months ended July 31,	
				2003	2004	2004	2005

(in thousands)

Cost of net revenues System Solutions	\$	\$	\$	\$	\$	\$	\$ 73
Research and development							185
Sales and marketing							355
General and administrative		17	17	81	400	66	302
	\$	\$ 17	\$ 17	\$ 81	\$ 400	\$ 66	\$ 915

(4)

Gross profit for our System Solutions and Services is presented below:

	Predecessor	Successor	Combined	Successor			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Year ended October 31, 2002	Years ended October 31,		Nine months ended July 31,	
				2003	2004	2004	2005

(in thousands)

System Solutions	\$ 50,900	\$ 20,907	\$ 71,807	\$ 108,029	\$ 129,513	\$ 94,831	\$ 122,027
Services	7,914	5,172	13,086	16,863	18,938	14,025	19,132
	\$ 58,814	\$ 26,079	\$ 84,893	\$ 124,892	\$ 148,451	\$ 108,856	\$ 141,159

(5)

Gross profit as a percentage of our System Solutions and our Services net revenues, respectively, is presented below:

	Predecessor	Successor	Combined	Successor			
	Period from November 1, 2001 to June 30, 2002	Period from July 1, 2002 to October 31, 2002	Year ended October 31, 2002	Years ended October 31,		Nine months ended July 31,	
				2003	2004	2004	2005

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	<b>Predecessor</b>	<b>Successor</b>	<b>Combined</b>	<b>Successor</b>			
				(in thousands)			
System Solutions	31.4%	21.8%	27.8%	36.9%	37.6%	38.2%	38.8%
Services	35.8%	33.4%	34.8%	36.3%	41.7%	42.5%	47.7%
			32				

**Nine Months Ended July 31, 2005 Compared to Nine Months Ended July 31, 2004***Net Revenues*

We generate net revenues through the sale of our electronic payment systems and solutions that enable electronic transactions, which we identify as System Solutions, and to a lesser extent, warranty and support services and customer specific application development, which we identify as Services.

Net revenues, which include System Solutions and Services, are summarized in the following table (in thousands, except percentages):

	<b>Nine Months Ended July 31,</b>		<b>Variance In Dollars</b>	<b>Variance In Percent</b>
	<b>2004</b>	<b>2005</b>		
System Solutions	\$ 248,481	\$ 314,791	\$ 66,310	26.7%
Services	32,988	40,086	7,098	21.5%
<b>Total</b>	<b>\$ 281,469</b>	<b>\$ 354,877</b>	<b>\$ 73,408</b>	<b>26.1%</b>

*System Solutions.* The growth in System Solutions net revenues in the nine months ended July 31, 2005, compared with the comparable period in 2004, was primarily due to international growth of \$47.4 million, or 50.9%, to \$140.3 million. Net revenues in Latin America increased by \$19.4 million, or 64.3%, to \$49.7 million as compared to the corresponding period of the previous year. Europe grew net revenues by \$20.4 million, or 45.7%, to \$65.1 million as compared to the corresponding period of the previous year. Net revenues in Asia increased by \$7.4 million, or 40.6%, to \$25.6 million for the nine months ended July 31, 2005 as compared to the corresponding period of the previous year. Strong demand from emerging countries in all geographies, the need for customers to comply with EMV requirements, and availability of the Vx Solutions, our latest generation of System Solutions, were the drivers of growth.

North America System Solutions net revenues for the nine months ended July 31, 2005 grew \$18.9 million, or 12.1%, to \$174.5 million as compared to the corresponding period of the previous year. This increase was primarily attributable to the ongoing replacement of the installed base with System Solutions that have IP communication and PIN-based debit capabilities. Sales to multi-lane retail and petroleum companies and convenience stores were strong in the nine months ended July 31, 2005. QSR net revenues partially benefited from a deployment for a major customer which is nearing completion.

*Services.* Services net revenues growth in the nine months ended July 31, 2005, as compared with the corresponding period of the previous year, was driven by an increase of \$7.9 million in North America, offset by a decline in International services net revenues of \$0.7 million. Of the North American growth, \$1.2 million of the increase was directly attributable to GO Software, which we recently acquired. The primary areas of growth in North America were helpdesk, onsite maintenance, repair, and deployments. Custom application software services decreased both domestically and internationally due to normal fluctuations in demand for these services.



**Gross Profit**

The following table shows the gross profit for System Solutions and Services (in thousands, except percentages):

	Nine Months Ended July 31,			
	Amount		Gross Profit Percentage	
	2004	2005	2004	2005
System Solutions	\$ 94,831	\$ 122,027	38.2%	38.8%
Services	14,025	19,132	42.5%	47.7%
<b>Total</b>	<b>\$ 108,856</b>	<b>\$ 141,159</b>	<b>38.7%</b>	<b>39.8%</b>

System Solutions gross profit percentage for the nine months ended July 31, 2005 increased by 0.6 percentage points over the comparable period in the previous year. Amortization of purchased core and developed technology assets was 1.7% of System Solutions net revenues in the nine months ended July 31, 2005 and 3.1% of System Solutions net revenues in the nine months ended July 31, 2004, as several purchased core and developed technology assets became fully amortized. A more favorable climate for purchasing components as compared to the nine months ended July 31, 2004 resulted in an improvement of 1.1 percentage points. Better management of freight and logistics improved gross profit percentage by 0.6 percentage points. Partially offsetting these improvements were higher inventory obsolescence charges, primarily driven by the product transition to the Vx Solutions, accounting for a 1.7 percentage point decline, and higher warranty charges, accounting for a 0.6 percentage point decline. The negative impact of a higher weighting in international shipments and unfavorable domestic product mix was mostly offset by improved international product mix and margin due to the introduction of the Vx Solutions.

Services gross profit percentage increased by 5.2 percentage points in the nine months ended July 31, 2005 over the comparable period of the prior year. The improvement was due to a more favorable mix of services provided in North America towards helpdesk, onsite maintenance and installation. This improvement was offset in part by a decline in sales of some high margin software applications internationally and losses in certain service contracts in Latin America.

**Research and Development Expense**

Research and development, or R&D, expense for the nine months ended July 31, 2004 and 2005 are summarized in the following table (in thousands, except percentages):

	Nine Months Ended July 31,		Variance In Dollars	Variance In Percent
	2004	2005		
Research and development	\$ 24,255	\$ 30,351	\$ 6,096	25.1%
<i>Percentage of net revenues</i>	8.6%	8.5%		

R&D expense in the nine months ended July 31, 2005, increased compared with the corresponding period in the prior year, primarily due to \$2.5 million of increased R&D spending associated with the introduction of the Vx Solutions in our international markets, and approximately \$1.1 million directly attributable to the GO Software business, which we recently acquired, as well as investments in wireless communication technologies such as WiFi, CDMA and GPRS, and new solutions in multi-lane retail and petroleum vertical businesses.

**Sales and Marketing Expense**

Sales and marketing expense for the nine months ended July 31, 2004 and 2005 are summarized in the following table (in thousands, except percentages):

	Nine Months Ended July 31,		Variance In Dollars	Variance In Percent
	2004	2005		
Sales and marketing	\$ 32,246	\$ 38,310	\$ 6,064	18.8%
<i>Percentage of net revenues</i>	11.5%	10.8%		

Sales and marketing expense in the nine months ended July 31, 2005, increased compared with the comparable period in the prior year, due to a \$3.2 million international investment in personnel and programs to address new sales opportunities and introduce the Vx Solutions, \$1.6 million of expenses to upgrade domestic sales management and increase personnel, \$0.6 million of expenses directly attributable to GO Software, which we recently acquired, and \$0.4 million of stock-based compensation expense.

**General and Administrative Expense**

General and administrative expense for the nine months ended July 31, 2004 and 2005 are summarized in the following table (in thousands, except percentages):

	Nine Months Ended July 31,		Variance In Dollars	Variance In Percent
	2004	2005		
General and administrative	\$ 19,026	\$ 21,607	\$ 2,581	13.6%
<i>Percentage of net revenues</i>	6.8%	6.1%		

General and administrative expense in the nine months ended July 31, 2005 increased, compared with the nine months ended July 31, 2004, due to \$1.2 million of expenses related to the defense and settlement of the claims brought by Verve, \$1.0 million of expenses related to the preparation for the requirements of operating as a public company, \$0.7 million of higher facility expenses, \$0.9 million of expenses to support higher volumes of business domestically and internationally, \$0.4 million of expenses from the inclusion of GO Software, and \$0.2 million of stock compensation expense. Partially offsetting these expense increases were a \$1.6 million one-time credit for the favorable resolution of a payroll tax contingency, \$0.6 million reduction in the bad debt provision and a \$0.3 million net reduction in sales tax assessments.

**Amortization of Purchased Intangible Assets**

For the nine months ended July 31, 2005, amortization of purchased intangible assets decreased \$3.9 million, to \$3.8 million from \$7.7 million for the comparable period in fiscal 2004. The decrease is due to several purchased intangible assets having been fully amortized during the fiscal year ended October 31, 2004, offset in part by the amortization of intangibles relating to the acquisition of GO Software, which was accrued on March 1, 2005.

**Interest Expense**

For the nine months ended July 31, 2005, interest expense increased \$3.3 million to \$11.8 million from \$8.5 million for the comparable period in fiscal 2004. The increase in interest expense was attributable to higher debt balances following our June 2004 recapitalization, partially offset by the repricing of our Term B Loan and the repayment of our Second Lien Loan in May 2005 with a portion of the proceeds that we received from our initial public offering.

***Other Income (Expense), Net***

Other income (expense), net in the nine months ended July 31, 2005 was \$6.3 million and resulted primarily from expensing the unamortized portion of debt issuance costs of \$2.7 million and the prepayment premium of \$2.2 million associated with the repayment of the second lien loan under our secured credit facility. It also included approximately \$0.5 million in fees for repricing our Term B loan, \$0.2 million associated with the write-off of debt issuance costs relating to the \$5.0 million prepayment of our Term B loan, \$0.3 million in costs related to settlement of the claims brought by Verve and \$0.5 million in foreign currency contract and transaction losses. Other income (expense), net in the nine months ended July 31, 2004 was \$11.8 million and resulted primarily from the write-off of \$8.4 million of the unamortized debt discount and prepaid fees on the subordinated debt and an early extinguishment fee of \$1.4 million due to our June 2004 recapitalization.

***Provision for Income Tax***

We recorded a provision for income taxes of \$7.8 million for the nine months ended July 31, 2005 compared to \$2.5 million for the comparable period in fiscal 2004. The increase in the provision was primarily attributable to increases in our pre-tax income, partially offset by a decrease in the effective tax rate. For the nine months ended July 31, 2005 our effective tax rate was 27.0% as compared to 47.0% for the comparable period in 2004. The decline in the effective tax rate is primarily attributable to estimated reductions in the valuation allowance for deferred taxes in fiscal 2005 as compared to an increase in the valuation allowance in fiscal 2004.

As of July 31, 2005 we have recorded \$17.0 million of net deferred tax assets, the realization of which is dependent on future domestic and certain foreign taxable income. Although realization is not assured, management believes that it is more likely than not that these deferred tax assets will be realized. The amount of deferred tax assets considered realizable may increase or decrease in subsequent periods when we reevaluate the underlying basis for our estimates of future domestic and certain foreign taxable income.

We reduced our income tax liability by \$7.6 million in the third quarter of fiscal 2005 due to the favorable resolution of a pre-acquisition income tax contingency and related accrued interest. The reduction in tax liability of \$7.6 million resulted in a reduction of \$6.9 million in goodwill and a benefit to the income tax provision in the amount of \$0.7 million for interest accrued subsequent to July 1, 2002.

***Segment Information***

The following table reconciles segmented net revenues and operating income to totals for the nine months ended July 31, 2004 and 2005. Corporate net revenues and operating income (loss) reflect amortization of purchased intangible assets, stock-based compensation, in-process research and development expense, and amortization of step ups in the fair value of inventories, equipment and improvements and deferred net revenues resulting from acquisitions. Corporate income (loss) also reflects the difference between the actual and standard cost of System Solutions net revenues and shared operating

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costs that benefit both segments, predominately research and development expenses and supply chain management.

	Nine Months Ended July 31,	
	2004	2005
(in thousands)		
<b>Net revenues:</b>		
North America	\$ 183,313	\$ 210,154
International	98,563	145,218
Corporate	(407)	(495)
<b>Total net revenues</b>	<b>\$ 281,469</b>	<b>\$ 354,877</b>
<b>Operating income:</b>		
North America	\$ 62,169	\$ 73,569
International	14,647	25,858
Corporate	(51,137)	(52,344)
<b>Total operating income</b>	<b>\$ 25,679</b>	<b>\$ 47,083</b>

North America operating income increased \$11.4 million, or 18%, to \$73.6 million for the nine months ended July 31, 2005, compared with the comparable period in fiscal 2004. Increased operating income for the nine months ended July 31, 2005 was mainly due to higher net revenues and a higher gross profit percentage as a result of improved profitability in services, which was partially offset by higher operating expenses.

International operating income for the nine months ended July 31, 2005, increased \$11.2 million, or 77%, to \$25.9 million, compared with the comparable period in fiscal 2004. Increased operating income was mainly due to increased net revenues and a higher gross profit percentage as a result of the introduction of the higher margin Vx Solutions, partially offset by higher operating expenses.

### Year Ended October 31, 2004 Compared to Year Ended October 31, 2003

#### *Net Revenues*

Net revenues, which include system solutions and services, are summarized in the following table (in thousands, except percentages):

	Year Ended October 31,		Variance In Dollars	Variance In Percent
	2003	2004		
System Solutions	\$ 292,824	\$ 344,639	\$ 51,815	17.7%
Services	46,507	45,449	(1,058)	(2.3)%
<b>Total</b>	<b>\$ 339,331</b>	<b>\$ 390,088</b>	<b>\$ 50,757</b>	<b>15.0%</b>

*System Solutions.* System Solutions net revenues increased \$51.8 million, or 17.7%, to \$344.6 million in the year ended October 31, 2004, from \$292.8 million in the year ended October 31, 2003. System Solutions net revenues comprised 88.3% of the total net revenues in the year ended October 31, 2004, up from 86.3% in the year ended October 31, 2003. The growth in System Solutions net revenues was primarily due to a \$30.5 million improvement in net revenues from our International business. Net revenues increased by \$22.2 million in Europe, where EMV standards are driving electronic payment system replacement activity and where we increased our market share. We expect our customers' needs to meet EMV standards will continue to favorably impact our International sales, and European sales in particular, for at least the next two years. We also benefited from higher demand for consumer-activated system solutions and increased sales of system solutions that utilize improved communication capabilities



such as wireline and wireless IP, which amounted to \$30.8 million of North American growth and \$23.7 million of international growth. Net revenues increased by \$19.2 million in North America, which experienced strong growth in sales to petroleum companies and QSRs.

*Services.* Services net revenues declined \$1.1 million, or 2.3%, from \$46.5 million in the year ended October 31, 2003 to \$45.4 million in the year ended October 31, 2004. Services net revenues comprised 11.7% of net revenues in the year ended October 31, 2004 as compared to 13.7% in the year ended October 31, 2003. The decline in Services net revenues was driven primarily by a \$1.4 million recognition of net revenues in the year ended October 31, 2003 that had been deferred in the year ended October 31, 2002 because collectibility was not reasonably assured. The decline was partially offset by a \$0.4 million increase in Services net revenues internationally.

### **Gross Profit**

The following table shows the gross profit for system solutions and services (in thousands, except percentages):

	Year Ended October 31,			
	Amount		Gross Profit Percentage	
	2003	2004	2003	2004
System Solutions	\$ 108,029	\$ 129,513	36.9%	37.6%
Services	16,863	18,938	36.3%	41.7%
<b>Total</b>	<b>\$ 124,892</b>	<b>\$ 148,451</b>	<b>36.8%</b>	<b>38.1%</b>

*System Solutions.* Gross profit on System Solutions, including amortization of purchased core and developed technology assets, increased \$21.5 million, or 19.9%, to \$129.5 million in the year ended October 31, 2004, from \$108.0 million in the year ended October 31, 2003. Gross profit on System Solutions represented 37.6% of System Solutions net revenues in the year ended October 31, 2004, up from 36.9% in the year ended October 31, 2003. Amortization of purchased core and developed technology assets was 2.8% of System Solutions net revenues in the year ended October 31, 2004, and 4.8% of System Solutions net revenues in the year ended October 31, 2003 as several purchased core and developed technology assets were fully amortized during the year ended October 31, 2004. The increase in gross profit on System Solutions as a percentage of System Solutions net revenues was largely due to a 2.0 percentage point improvement in gross profit percentage from the reduction in amortization. This was in part offset by a 0.6 percentage points decline from a higher weighting of International net revenues, a higher usage of air freight and a larger volume of spot purchases of components, particularly SRAM components, necessary to respond to increasing customer demand as well as start up and ramping costs associated with the introduction of a new system solution. We also incurred costs to upgrade and sell existing inventory to respond to customer requirements.

*Services.* Gross profit on Services increased \$2.0 million, or 12.3%, to \$18.9 million in the year ended October 31, 2004, from \$16.9 million in the year ended October 31, 2003. Gross profit on Services represented 41.7% of Services net revenues in the year ended October 31, 2004, as compared to 36.3% in the year ended October 31, 2003. The improvement in Services gross profit as a percentage of Services net revenues was attributable to improved project management offset in part by the \$1.4 million recognition of previously deferred net revenues in the year ended October 31, 2003 for which there were no associated costs in the period.

**Research and Development Expense**

R&D expense for the years ended October 31, 2003 and 2004 are summarized in the following table (in thousands, except percentages):

	Year Ended October 31,		Variance In Dollars	Variance In Percent
	2003	2004		
Research and development	\$ 28,193	\$ 33,703	\$ 5,510	19.5%
<i>Percentage of net revenues</i>	<i>8.3%</i>	<i>8.6%</i>		

R&D expense increased in the year ended October 31, 2004 compared to the year ended October 31, 2003, primarily due to application development center spending on the Verix operating system to meet EMV security standards and further develop our wireless offering.

**Sales and Marketing Expense**

Sales and marketing expense for the years ended October 31, 2003 and 2004 are summarized in the following table (in thousands, except percentages):

	Year Ended October 31,		Variance In Dollars	Variance In Percent
	2003	2004		
Sales and marketing	\$ 40,024	\$ 44,002	\$ 3,978	9.9%
<i>Percentage of net revenues</i>	<i>11.8%</i>	<i>11.3%</i>		

Our expense growth occurred primarily in Europe and North America. In Europe, expense increased \$1.9 million, or 48.0%, from \$3.9 million for the year ended October 31, 2003 to \$5.8 million for the year ended October 31, 2004. The growth in Europe was mainly from the expansion of our infrastructure of technical sales support, recruitment of senior sales management and broadening of our sales and marketing efforts in countries such as France and Russia. In North America, expense increased \$1.8 million, or 8.2%, from \$22.2 million for the year ended October 31, 2003 to \$24.0 million for the year ended October 31, 2004. The growth in North America was mainly due to investment in sales support to address opportunities with ISOs and strengthened our senior sales management team.

**General and Administrative Expense**

General and administrative expense for the years ended October 31, 2003 and 2004 are summarized in the following table (in thousands, except percentages):

	Year Ended October 31,		Variance In Dollars	Variance In Percent
	2003	2004		
General and administrative	\$ 25,039	\$ 25,503	\$ 464	1.9%
<i>Percentage of net revenues</i>	<i>7.4%</i>	<i>6.5%</i>		

After factoring in a decrease of \$2.2 million in lower bad debt expense due to improved collections in the year ended October 31, 2004, the remaining \$2.7 million net increase in general and administrative expenses in the year ended October 31, 2004 compared to the year ended October 31, 2003, was primarily due to \$1.1 million in expenses incurred in anticipation of becoming a public company, particularly costs related to Sarbanes-Oxley compliance initiatives.

**Amortization of Purchased Intangible Assets**

Amortization of purchased intangible assets was \$10.2 million in each of the years ended October 31, 2004 and 2003.

***Interest Expense***

Interest expense increased \$0.1 million, to \$12.6 million in the year ended October 31, 2004 from \$12.5 million in the year ended October 31, 2003. The slight increase in interest expense was attributable to a higher debt balance for the last five months of the year ended October 31, 2004 as a result of our June 2004 recapitalization which was almost entirely offset by the lower effective interest cost of our new secured credit facility. We intend to use a portion of the proceeds of this offering to repay the \$72.0 million principal amount of the second lien loan under our secured credit facility, which will further reduce our interest expense.

***Other Income (Expense), Net***

Other income (expense), net decreased \$15.5 million to an expense of \$11.9 million in the year ended October 31, 2004, from income of \$3.6 million in the year ended October 31, 2003. The majority of the other income in the year ended October 31, 2003 was due to a refund of \$2.8 million for foreign unclaimed pension benefits in Taiwan. Of the expense recorded in the year ended October 31, 2004, \$8.4 million was related to the write off of the unamortized debt discount and prepaid fees on the subordinated debt and an early extinguishment fee of \$1.4 million due to our June 2004 recapitalization. In addition, we had a \$2.2 million expense related to net foreign currency contract and transaction losses related to fluctuations in the value of the U.S. dollar as compared with foreign currencies, primarily the Brazilian real, and to a lesser extent the euro, Australian dollar and Mexican peso.

***Provision for Income Tax***

In the year ended October 31, 2004, our income tax provision was \$5.0 million compared to \$12.3 million in the year ended October 31, 2003. Our effective rate of tax also decreased from 98.1% in the year ended October 31, 2003 to 47.0% in the year ended October 31, 2004. The high effective tax rate in the year ended October 31, 2003 was due primarily to an increase in valuation allowances on deferred tax assets of \$6.6 million resulting from amortization of purchased intangibles in our 2002 acquisition. Due to our recent history of net losses for accounting purposes, we have recorded a valuation allowance of \$23.9 million for deferred tax assets at October 31, 2004 that are expected to reverse in taxable years beyond those for which management has forecasted future taxable income. In addition, we have recorded a further \$16.1 million of deferred tax assets at October 31, 2004 the realization of which depend on future domestic and certain foreign taxable income. Although realization is not assured, management believes that it is more likely than not that these deferred tax assets will be realized. The amount of deferred tax assets considered realizable, however, may increase or decrease in subsequent quarters when we reevaluate the underlying basis for our estimates of future U.S. and certain foreign taxable income. The decline in the effective tax rate for the year ended October 31, 2004 resulted primarily from a smaller increase in the valuation allowance in the year ended October 31, 2004 as compared with the year ended October 31, 2003.

***Segment Information***

North America net revenues increased \$19.2 million, or 8.2%, to \$254.0 million in the year ended October 31, 2004, from \$234.8 million in the year ended October 31, 2003. Net revenues growth was primarily driven by a \$21.6 million increase in System Solutions net revenues which was attributable to improved sales of system solutions that utilize improved communication capabilities, most notably wireline and wireless IP, offset slightly by lower sales of our system solutions with less advanced capabilities. The additional demand for system solutions with improved communications technology was driven by our QSR and petroleum customers.



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North America operating income increased \$8.7 million, or 11.4% to \$84.5 million in the year ended October 31, 2004, from \$75.8 million in the year ended October 31, 2003, mainly due to higher net revenues and slightly higher gross profit percentage, partially offset by higher operating expenses.

International net revenues increased \$30.5 million, or 28.8%, to \$136.6 million in the year ended October 31, 2004, from \$106.1 million in the year ended October 31, 2003. Net revenues grew primarily from a \$30.2 million increase in System Solutions net revenues in the year ended October 31, 2004. Our System Solutions net revenues growth was driven by sales in the European market which is facing electronic payment systems replacement activity associated with approaching deadlines for compliance with more stringent EMV standards. In addition, we successfully increased penetration in certain countries due in part to improved sales coverage and a system solutions offering better tailored to the requirements of the specific markets.

International operating income increased \$6.1 million, or 39.1%, to \$21.5 million in the year ended October 31, 2004, from \$15.4 million in the year ended October 31, 2003, mainly due to increased net revenues partially offset by a lower gross profit percentage and higher operating expenses.

The following table reconciles segment net revenues and operating income to totals for the years ended October 31, 2003 and 2004. Corporate net revenues and operating income (loss) reflect amortization of purchased intangible assets, in-process research and development expense, and amortization of step ups in the fair value of inventories, equipment and improvements and deferred revenue resulting from our 2002 acquisition. Corporate income (loss) also reflects the difference between the actual and standard cost of System Solutions net revenues and shared operating costs that benefit both segments, predominately research and development expenses and supply chain management.

	Year Ended October 31,	
	2003	2004
	(in thousands)	
<b>Net revenues:</b>		
North America	\$ 234,828	\$ 254,010
International	106,064	136,597
Corporate	(1,561)	(519)
	<b>\$ 339,331</b>	<b>\$ 390,088</b>
<b>Operating income:</b>		
North America	\$ 75,845	\$ 84,471
International	15,425	21,450
Corporate	(69,834)	(70,878)
	<b>\$ 21,436</b>	<b>\$ 35,043</b>

### Year Ended October 31, 2003 Compared to Year Ended October 31, 2002

#### *Net Revenues*

Net revenues, which include system solutions and services, for the years ended October 31, 2002 and 2003 are summarized in the following table (in thousands, except percentages):

	Year Ended October 31,		Variance In Dollars	Variance In Percent
	2002	2003		
System Solutions	\$ 257,995	\$ 292,824	\$ 34,829	13.5%
Services	37,598	46,507	8,909	23.7%

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Year Ended October 31,

Total	<del>\$ 295,595</del>	<del>\$ 559,551</del>	\$ 43,738	14.8%
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*System Solutions.* System Solutions net revenues increased \$34.8 million, or 13.5%, to \$292.8 million in the year ended October 31, 2003, from \$258.0 million in the year ended October 31, 2002. System Solutions net revenues comprised 86.3% of total net revenues in the year ended October 31, 2003, down from 87.3% in the year ended October 31, 2002. The growth in System Solutions net revenues was attributable to a \$40.4 million increase in sales of system solutions that incorporate advanced communications capabilities and system solutions that accept debit and credit cards, offset by declines in sales of system solutions with less advanced capabilities. In addition, our net revenues benefited from improved sales in India and Taiwan.

*Services.* Services net revenues increased \$8.9 million, or 23.7%, to \$46.5 million in the year ended October 31, 2003 from \$37.6 million in the year ended October 31, 2002. Services net revenues comprised 13.7% of net revenues in the year ended October 31, 2003 up from 12.7% in the year ended October 31, 2002. The improvement was primarily attributable to the greater demand for custom software application development and out-of-warranty repair. In addition, there was a \$1.4 million net revenues benefit in the year ended October 31, 2003 from recognition of net revenues that had been deferred in the year ended October 31, 2002 because collectibility was not reasonably assured.

### **Gross Profit**

The following table shows the gross profit for system solutions and services for the years ended October 31, 2002 and 2003 (in thousands, except percentages):

	Year Ended October 31,			
	Amount		Gross Profit Percentage	
	2002	2003	2002	2003
System Solutions	\$ 71,807	\$ 108,029	27.8%	36.9%
Services	13,086	16,863	34.8%	36.3%
Total	\$ 84,893	\$ 124,892	28.7%	36.8%

*System Solutions.* Gross profit on System Solutions, including amortization of purchased core and developed technology assets and the fair value adjustment to inventory, increased \$36.2 million, or 50.4%, to \$108.0 million in the year ended October 31, 2003, from \$71.8 million in the year ended October 31, 2002. Gross profit on System Solutions represented 36.9% of System Solutions net revenues in the year ended October 31, 2003, compared to 27.8% in the year ended October 31, 2002. Amortization of purchased core and developed technology assets as a percentage of System Solutions net revenues increased to 4.8% in the year ended October 31, 2003 from 1.8% in the year ended October 31, 2002. The increase was primarily due to the full year's amortization included in the year ended October 31, 2003, while the year ended October 31, 2002 included the amortization for only four months from the time of our 2002 acquisition. During the year ended October 31, 2002, gross profit was reduced by \$10.1 million, or 3.9% of our System Solutions net revenues, due to amortization of the inventory step-up recorded at the time of our 2002 acquisition. In the year ended October 31, 2003, System Solutions gross profit also reflected lower procurement costs, partially due to a more favorable component market. In addition, we benefited from \$3.9 million reduction in inventory obsolescence charges, a \$1.9 million settlement received from a contract manufacturer which also provided for a reduction in future procurement costs, and a \$1.0 million reduction in warranty expenses.

*Services.* Gross profit on Services increased \$3.8 million, or 28.9%, to \$16.9 million in the year ended October 31, 2003, from \$13.1 million in the year ended October 31, 2002. Gross profit on Services represented 36.3% of Services net revenues in the year ended October 31, 2003, compared to 34.8% in the year ended October 31, 2002. The improvement in gross profit percentage was favorably impacted by the

recognition of \$1.4 million of previously deferred net revenues for which there were no associated costs in the period, the outsourcing of repair activities and few large installation contracts.

### ***Research and Development Expense***

R&D expense for the years ended October 31, 2002 and 2003 are summarized in the following table (in thousands, except percentages):

	Year Ended October 31,		Variance In Dollars	Variance In Percent
	2002	2003		
Research and development	\$ 30,359	\$ 28,193	\$ (2,166)	(7.1)%
<i>Percentage of net revenues</i>	10.3%	8.3%		

R&D expense decreased in the year ended October 31, 2003 compared with the year ended October 31, 2002, due to increased deployment of engineering resources to custom applications development contracts charged to cost of Services net revenues.

### ***Sales and Marketing Expense***

Sales and marketing expense for the years ended October 31, 2002 and 2003 are summarized in the following table (in thousands, except percentages):

	Year Ended October 31,		Variance In Dollars	Variance In Percent
	2002	2003		
Sales and marketing	\$ 40,773	\$ 40,024	\$ (749)	(1.8)%
<i>Percentage of net revenues</i>	13.8%	11.8%		

The decline in sales and marketing expense between the year ended October 31, 2003 and the year ended October 31, 2002 was primarily due to reduction in sales and marketing personnel which occurred in the year ended October 31, 2002. The reduction was largely related to a change from a direct channel model to an indirect channel model in France.

### ***General and Administrative Expense***

General and administrative expense for the years ended October 31, 2002 and 2003 are summarized in the following table (in thousands, except percentages):

	Year Ended October 31,		Variance In Dollars	Variance In Percent
	2002	2003		
General and administrative	\$ 36,435	\$ 25,039	\$ (11,396)	(31.3)%
<i>Percentage of net revenues</i>	12.3%	7.4%		

The substantial reduction in general and administrative expense in the year ended October 31, 2003 compared to the year ended October 31, 2002 was attributable to lower professional fees paid to our auditors of \$3.2 million, lower restructuring charges of \$3.1 million, lower bad debt expense of \$2.6 million and lower management fees of \$1.9 million.

### ***Amortization of Purchased Intangible Assets***

Amortization of purchased intangible assets increased \$6.8 million, to \$10.2 million in the year ended October 31, 2003, from \$3.4 million in the year ended October 31, 2002. The increase is due to the year ended October 31, 2002 reflecting only four months of amortization subsequent to our 2002 acquisition.



***In-process Research and Development***

We recognized in-process research and development expense of \$17.9 million during the period from July 1, 2002 to October 31, 2002, in connection with our 2002 acquisition. The products considered to be in-process research and development at the time of our 2002 acquisition were in our countertop, consumer-activated, mobile and wireless, and petroleum company system solutions which have subsequently reached technological feasibility. As of the acquisition date, our in-process research and development primarily related to the following projects:

*Countertop systems.* The countertop systems project was developing a next generation, low cost countertop payment system for world-wide financial/retail markets. The project was 4% complete at the acquisition date. The project was completed substantially on time and on budget in March 2004. The estimated cost of completion at the acquisition date was \$2.4 million and the expected completion date was February 2004.

*Consumer-activated systems.* We had two projects involving consumer-activated systems in process. The first involved a new category of PIN pad devices with debit, credit and smart card payment capabilities with interfaces to countertop systems and ECRs. The project was 45% complete at the acquisition date and was completed on time and on budget in October 2002. The estimated cost of completion at the acquisition date was \$1.1 million and the expected completion date was October 2002.

The second project was a new product family of consumer-activated payment systems for multi-lane retailers. New features include a faster processor, more memory, modular design, a signature capture option, Ethernet/USB option and smart card option. The project was 21% complete at acquisition date. The project was completed on time and on budget in May 2003. The estimated cost of completion at the acquisition date was \$1.3 million and the expected completion date was May 2003.

*Countertop communication modules.* This project was developing new modem, Ethernet and ISDN communication modules for countertop system solutions, consisting of custom firmware and circuit board design intended to achieve desired functions, operating system drivers, library and application modifications. The project was 11% complete at the acquisition date. The project was completed on time and on budget in January 2003. The estimated cost of completion at the acquisition date was \$0.7 million and the expected completion date was January 2003.

We engaged a third-party valuation firm to assist management in determining the fair value of these in-process research and development projects. We prepared cash flow forecasts for the acquired projects and those forecasts were used by the valuation firm to develop a discounted cash flow model. Discount rates assigned to in-process technologies ranged from 17% to 22% with consideration given to the risk associated with these in-process projects.

***Interest Expense***

Interest expense increased \$6.3 million to \$12.5 million in the year ended October 31, 2003, from \$6.2 million in the year ended October 31, 2002. The increase was attributable to the increase in debt of approximately \$95.0 million used to partially finance our 2002 acquisition, which was outstanding for only four months in the year ended October 31, 2002.

***Other Income (Expense), Net***

Other income (expense), net increased \$6.8 million, to income of \$3.6 million in the year ended October 31, 2003, from an expense of \$3.2 million in the year ended October 31, 2002. The majority of the gain in the year ended October 31, 2003 was due to a refund of \$2.8 million for foreign unclaimed pension benefits in Taiwan. Of the expense recorded in the year ended October 31, 2002, \$5.2 million was due to net foreign currency transaction losses primarily related to fluctuations in the value of the U.S. dollar as

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compared to foreign currencies, primarily the Brazilian real. This was partially offset by a gain of \$1.7 million resulting from the sale of our Asian manufacturing facility in the year ended October 31, 2002.

### *Provision for Income Tax*

In the year ended October 31, 2003, our income tax provision was \$12.3 million, compared to a provision of \$0.1 million in the year ended October 31, 2002. Income taxes for the year ended October 31, 2002 were affected in part by our predecessor's election of S-corporation status, which resulted in a \$2.5 million loss of deferred tax assets and our inability to recognize a tax benefit on pre-tax losses. We achieved profitability in the year ended October 31, 2003 and recorded a tax expense resulting from those profits. Due to our recent history of net losses for accounting purposes, we have recorded a valuation allowance of \$23.4 million for deferred tax assets at October 31, 2003 that are expected to reverse in taxable years beyond those for which management has forecasted future taxable income. In addition, we have recorded a further \$7.2 million of deferred tax assets at October 31, 2003 the realization of which are dependent on future domestic and certain foreign taxable income. Although realization is not assured, management believes that it is more likely than not that these deferred tax assets will be realized. The amount of deferred tax assets considered realizable, however, may increase or decrease in subsequent quarters, when we reevaluate the underlying basis for our estimates of future U.S. and certain foreign taxable income.

### *Segment Information*

North America net revenues increased \$33.8 million, or 16.8%, to \$234.8 million in the year ended October 31, 2003 from \$201.0 million in the year ended October 31, 2002. Net revenues in the year ended October 31, 2003 grew primarily because of a \$28.8 million increase in System Solutions net revenues as a result of \$17.6 million of increased sales of our consumer-activated system solutions and strong demand for our system solutions that utilize improved communications capabilities. The remaining \$5.0 million of growth was due to increased Services net revenues, driven primarily by demand from petroleum companies for our custom application development services.

North America operating income increased \$12.3 million, or 19.5%, to \$75.8 million in the year ended October 31, 2003 from \$63.5 million in the year ended October 31, 2002 mainly due to increased net revenues and stable gross profit percentage, partially offset by increased operating expenses.

International net revenues increased \$10.6 million, or 11.0%, to \$106.1 million in the year ended October 31, 2003, from \$95.5 million in the year ended October 31, 2002. The main driver for this increase was improved sales in India and Taiwan. In the year ended October 31, 2002, we switched our distribution strategy in India, from a direct selling model to an indirect model, which caused net revenues to decline during the transition. During the year ended October 31, 2003, sales in India recovered strongly as our sales channel recovered. In Taiwan, sales in the year ended October 31, 2003 were boosted by a migration of banks to a new EMV standard. Sales in Europe and Latin America also increased slightly.

International operating income (loss) increased \$23.6 million to an income of \$15.4 million in the year ended October 31, 2003, from a loss of \$8.2 million in the year ended October 31, 2002, mainly due to the increased net revenues and improved gross profit percentage, partially offset by increased operating expenses.

The following table reconciles segment net revenues and operating income to totals for the years ended October 31, 2002 and 2003. Corporate net revenues and operating income (loss) reflect amortization of purchased intangible assets, in-process research and development expense, and amortization of step ups in the fair value of inventories, equipment and improvements and deferred revenue resulting from our 2002 acquisition. Corporate income (loss) also reflects the difference between

the actual and standard cost of System Solutions net revenues and shared operating costs that benefit both segments, predominately research and development expenses and supply chain management.

	Year Ended October 31,	
	2002	2003
(in thousands)		
Net revenues:		
North America	\$ 201,044	\$ 234,828
International	95,530	106,064
Corporate	(981)	(1,561)
	<u>295,593</u>	<u>339,331</u>
Total net revenues	\$ 295,593	\$ 339,331
Operating income:		
North America	\$ 63,453	\$ 75,845
International	(8,207)	15,425
Corporate	(99,253)	(69,834)
	<u>(44,007)</u>	<u>21,436</u>
Total operating income	\$ (44,007)	\$ 21,436



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Quarterly Results of Operations

The following tables set forth supplemental selected consolidated statements of operations data for the eleven quarters in the period ended July 31, 2005. This data has been derived from our unaudited interim consolidated financial statements which have been prepared on the same basis as our audited financial statements included elsewhere in this prospectus. The operating results for any quarter are not indicative of results for any future period.

	2003				2004				2005		
	Jan 31	Apr 30	Jul 31	Oct 31	Jan 31	Apr 30	Jul 31	Oct 31	Jan 31	Apr 30	Jul 31
(in thousands, except per share data)											
<b>Consolidated Statements of Operations Data:</b>											
Net revenues:											
System Solutions	\$ 68,207	\$ 65,925	\$ 78,661	\$ 80,031	\$ 77,148	\$ 78,554	\$ 92,779	\$ 96,158	\$ 97,989	\$ 105,414	\$ 111,388
Services	14,637	11,461	10,189	10,220	10,801	10,923	11,264	12,461	13,294	12,479	14,313
<b>Total net revenues</b>	<b>82,844</b>	<b>77,386</b>	<b>88,850</b>	<b>90,251</b>	<b>87,949</b>	<b>89,477</b>	<b>104,043</b>	<b>108,619</b>	<b>111,283</b>	<b>117,893</b>	<b>125,701</b>
Cost of net revenues:											
Cost of System Solutions net revenues excluding amortization of purchased core and developed technology assets	40,849	36,330	44,282	49,186	43,617	44,854	57,453	59,458	59,147	61,727	66,635
Amortization of purchased core and developed technology assets	3,537	3,537	3,537	3,537	2,994	2,468	2,264	2,018	1,962	1,693	1,600
<b>Total cost of System Solutions net revenues</b>	<b>44,386</b>	<b>39,867</b>	<b>47,819</b>	<b>52,723</b>	<b>46,611</b>	<b>47,322</b>	<b>59,717</b>	<b>61,476</b>	<b>61,109</b>	<b>63,420</b>	<b>68,235</b>
Services	8,686	8,000	6,637	6,321	6,989	5,947	6,027	7,548	7,550	7,043	6,361
<b>Total cost of net revenues</b>	<b>53,072</b>	<b>47,867</b>	<b>54,456</b>	<b>59,044</b>	<b>53,600</b>	<b>53,269</b>	<b>65,744</b>	<b>69,024</b>	<b>68,659</b>	<b>70,463</b>	<b>74,596</b>
<b>Gross profit</b>	<b>29,772</b>	<b>29,519</b>	<b>34,394</b>	<b>31,207</b>	<b>34,349</b>	<b>36,208</b>	<b>38,299</b>	<b>39,595</b>	<b>42,624</b>	<b>47,430</b>	<b>51,105</b>
Operating expenses:											
Research and development	6,562	7,237	6,704	7,690	7,241	8,513	8,501	9,448	9,494	10,457	10,400
Sales and marketing	9,419	9,824	9,579	11,202	10,159	11,229	10,858	11,756	12,044	12,932	13,334
General and administrative	6,134	6,994	6,760	5,151	6,059	5,270	7,697	6,477	6,704	6,787	8,116
Amortization of purchased intangible assets	2,550	2,550	2,550	2,550	2,550	2,550	2,550	2,550	1,304	1,346	1,158
<b>Total operating expenses</b>	<b>24,665</b>	<b>26,605</b>	<b>25,593</b>	<b>26,593</b>	<b>26,009</b>	<b>27,562</b>	<b>29,606</b>	<b>30,231</b>	<b>29,546</b>	<b>31,522</b>	<b>33,008</b>
<b>Operating income (loss)</b>	<b>5,107</b>	<b>2,914</b>	<b>8,801</b>	<b>4,614</b>	<b>8,340</b>	<b>8,646</b>	<b>8,693</b>	<b>9,364</b>	<b>13,078</b>	<b>15,908</b>	<b>18,097</b>
Interest expense	(2,843)	(3,397)	(3,320)	(2,896)	(2,837)	(2,573)	(3,113)	(4,074)	(4,294)	(4,468)	(2,996)
	(769)	716	3,012	598	(308)	(464)	(11,043)	(54)	(200)	29	(6,142)

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	2003				2004				2005			
Other income (expense), net												
Income (loss) before income taxes	1,495	233	8,493	2,316	5,195	5,609	(5,463)	5,236	8,584	11,469	8,959	
Provision (benefit) for income taxes	1,466	229	8,330	2,271	2,442	2,636	(2,568)	2,461	2,747	2,662	2,424	
Net income (loss)	29	4	163	45	2,753	2,973	(2,895)	2,775	5,837	8,807	6,535	
Accrued dividends and accretion on preferred stock	1,672	1,709	1,748	1,787	1,827	1,868	1,264					
Net income (loss) attributable to common stockholders	\$ (1,643)	\$ (1,705)	\$ (1,585)	\$ (1,742)	\$ 926	\$ 1,105	\$ (4,159)	\$ 2,775	\$ 5,837	\$ 8,807	\$ 6,535	
Net income (loss) per common share diluted	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ 0.02	\$ 0.02	\$ (0.08)	\$ 0.05	\$ 0.10	\$ 0.15	\$ 0.10	

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	2003				2004				2005		
	Jan 31	Apr 30	Jul 31	Oct 31	Jan 31	Apr 30	Jul 31	Oct 31	Jan 31	Apr 30	Jul 31
<b>Net revenues:</b>											
System Solutions	82.3%	85.2%	88.5%	88.7%	87.7%	87.8%	89.2%	88.5%	88.1%	89.4%	88.6%
Services	17.7	14.8	11.5	11.3	12.3	12.2	10.8	11.5	11.9	10.6	11.4
<b>Total net revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Cost of net revenues:</b>											
Cost of System Solutions net revenues excluding amortization of purchased core and developed technology assets	49.3	47.0	49.8	54.5	49.6	50.1	55.2	54.7	53.1	52.4	53.0
Amortization of purchased core and developed technology assets	4.3	4.6	4.0	3.9	3.4	2.8	2.2	1.9	1.8	1.4	1.3
<b>Total cost of System Solutions net revenues</b>	<b>53.6</b>	<b>51.6</b>	<b>53.8</b>	<b>58.4</b>	<b>53.0</b>	<b>52.9</b>	<b>57.4</b>	<b>56.6</b>	<b>54.9</b>	<b>53.8</b>	<b>54.3</b>
Services	10.5	10.3	7.5	7.0	7.9	6.6	5.8	6.9	6.8	6.0	5.0
<b>Total cost of net revenues</b>	<b>64.1</b>	<b>61.9</b>	<b>61.3</b>	<b>65.4</b>	<b>60.9</b>	<b>59.5</b>	<b>63.2</b>	<b>63.5</b>	<b>61.7</b>	<b>59.8</b>	<b>59.3</b>
<b>Gross profit</b>	<b>35.9</b>	<b>38.1</b>	<b>38.7</b>	<b>34.6</b>	<b>39.1</b>	<b>40.5</b>	<b>36.8</b>	<b>36.5</b>	<b>38.3</b>	<b>40.2</b>	<b>40.7</b>
<b>Operating expenses:</b>											
Research and development	7.9	9.4	7.5	8.5	8.2	9.5	8.2	8.7	8.5	8.9	8.3
Sales and marketing	11.3	12.6	10.8	12.5	11.6	12.5	10.3	10.9	10.8	10.9	10.6
General and administrative	7.4	9.0	7.6	5.7	6.9	6.0	7.4	6.0	6.0	5.8	6.5
Amortization of purchased intangible assets	3.1	3.3	2.9	2.8	2.9	2.8	2.5	2.3	1.2	1.1	0.9
<b>Total operating expenses</b>	<b>29.7</b>	<b>34.3</b>	<b>28.8</b>	<b>29.5</b>	<b>29.6</b>	<b>30.8</b>	<b>28.4</b>	<b>27.9</b>	<b>26.5</b>	<b>26.7</b>	<b>26.3</b>
<b>Operating income (loss)</b>	<b>6.2</b>	<b>3.8</b>	<b>9.9</b>	<b>5.1</b>	<b>9.5</b>	<b>9.7</b>	<b>8.4</b>	<b>8.6</b>	<b>11.8</b>	<b>13.5</b>	<b>14.4</b>
Interest expense	(3.4)	(4.4)	(3.7)	(3.2)	(3.2)	(2.9)	(3.0)	(3.8)	(3.9)	(3.8)	(2.4)
Other income (expense), net	(1.0)	0.9	3.4	0.7	(0.4)	(0.5)	(10.7)		(0.2)		(4.9)
<b>Income (loss) before income taxes</b>	<b>1.8</b>	<b>0.3</b>	<b>9.6</b>	<b>2.6</b>	<b>5.9</b>	<b>6.3</b>	<b>(5.3)</b>	<b>4.8</b>	<b>7.7</b>	<b>9.7</b>	<b>7.1</b>
Provision (benefit) for income taxes	1.8	0.3	9.4	2.6	2.8	3.0	(2.5)	2.2	2.5	2.2	1.9
<b>Net income (loss)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>	<b>0.0</b>	<b>3.1</b>	<b>3.3</b>	<b>(2.8)</b>	<b>2.6</b>	<b>5.2</b>	<b>7.5</b>	<b>5.2</b>
Accrued dividends and accretion on preferred stock	2.0	2.2	2.0	1.9	2.0	2.1	1.2				
<b>Net income (loss) attributable to common stockholders</b>	<b>(2.0)%</b>	<b>(2.2)%</b>	<b>(1.8)%</b>	<b>(1.9)%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>(4.0)%</b>	<b>2.6%</b>	<b>5.2%</b>	<b>7.5%</b>	<b>5.2%</b>

**Net Revenues**

Fluctuations in our net revenues over the first three quarters in the year ended October 31, 2003, were primarily related to volatility in net revenues internationally, particularly in Latin America. We benefited from a number of large customer orders in Latin America in the first quarter and third quarter as well as a significant customer order in Greece in the third quarter associated with preparations for the 2004 Olympics.

Net revenues were relatively flat in the first half of the year ended October 31, 2004 before accelerating in the second half of the year ended October 31, 2004, a trend which continued in the nine months ended July 31, 2005. The increases in revenues was due principally to higher sales volumes internationally, particularly due to strong demand from emerging countries, our customers' EMV compliance requirements and customer demand for system solutions.

***Gross Profit***

Gross profit as a percentage of net revenues increased from 35.9% in the quarter ended January 31, 2003 to 38.1% in the quarter ended April 30, 2003 due to a \$1.9 million settlement received from a contract manufacturer that included a commitment for future reductions in procurement costs. The trend in gross profit as a percentage of net revenues remained relatively flat in the next quarter but fell to 34.6% in the quarter ended October 31, 2003 because of supply chain constraints in fulfilling a large order in Brazil that resulted in increased freight and import duty charges.

Gross profit as a percentage of net revenues improved slightly during the first and second quarters of the year ended October 31, 2004, reflecting the benefit of lower procurement costs. In the second half of

the year ended October 31, 2004, gross profit as a percentage of net revenues declined as a result of higher usage of air freight and spot purchases of components to respond to increasing customer demands as well as ramping costs associated with the launch of a new product line. In addition, the higher mix of International revenues also caused a lower gross profit percentage.

Gross profit as a percentage of net revenues grew steadily during the first three quarters of 2005 due to a lower amortization of purchased core and developed technology assets, improved product mix and margin due to the introduction of the Vx Solutions, and more efficient management of freight activity and supply chain overhead. These benefits were offset by a higher weighting in international shipments and a charge due to inventory obsolescence of legacy products due to the shift to the Vx Solutions. Service margins also grew due to a more favorable product mix in North America towards helpdesk, onsite maintenance and installations partially offset by an international decline in sales of some high margin software applications and losses in certain service contracts in Latin America.

#### ***Other Income (Expense), Net***

In the quarter ended July 31, 2003, we realized other income of \$2.8 million associated with a refund of foreign unclaimed pension benefits in Taiwan. In the quarter ended July 31, 2004, we realized a \$9.8 million expense associated with the retirement of debt.

Other income (expense), net improved in each of the first two quarters of fiscal 2005, primarily due to lower foreign currency exchange losses. Other expense in the third quarter of fiscal 2005 was a result of the prepayment premium of \$2.2 million associated with repaying our secured credit facility, as well as expensing the unamortized portion of debt issuance costs of \$2.9 million and approximately \$0.5 million in fees for the first amendment to our secured credit facility.

#### **Liquidity and Capital Resources**

Our primary liquidity and capital resource needs are to service our debt, finance working capital, and make capital expenditures and investments. At July 31, 2005, our primary sources of liquidity were cash and cash equivalents of \$20.1 million, our \$30.0 million unused revolving credit facility and cash generated from operations.

Our operations provided us cash of \$25.6 million in the nine months ended July 31, 2005, which was attributable to net income of \$21.2 million, depreciation, amortization and other non-cash charges of \$16.9 million, offset by \$12.5 million used by net operating assets and liabilities. The principal uses of net operating assets and liabilities in the nine months ended July 31, 2005 were largely attributable to a decrease in accounts payable of \$8.5 million and income taxes payable of \$5.4 million and an increase in deferred tax assets of \$4.1 million. This was offset by a decrease in deferred revenue of \$2.5 million and a reduction in accounts receivables of \$4.3 million, reflecting increased collections as a result of more balanced shipments through each quarter, which allowed more cash to be received before the end of the quarter. Our operations provided us cash of \$33.2 million in the year ended October 31, 2004, which was attributable to net income of \$5.6 million and depreciation, amortization and other non-cash charges of \$33.1 million offset in part by a use of \$5.5 million in net operating assets and liabilities. The principal uses in net operating assets and liabilities were deferred tax assets, which increased by \$9.8 million because book purchase accounting amortization was greater than tax purchase accounting amortization, and accounts receivable which increased by \$7.7 million because of higher net revenues. Offsetting this use of cash was decreased inventory balances of \$8.5 million, due to initiatives to reduce transit time from the factory to our customers and increased deferred services net revenues of \$5.5 million due to higher technical support contract volume. Our operations provided us cash of \$9.8 million in the year ended October 31, 2003, which was attributable to net income of \$0.2 million and depreciation, amortization and other non-cash charges of \$27.3 million offset in part by a use of \$17.7 million in net operating assets and

liabilities. The principal use of cash from operating assets and liabilities in the year ended October 31, 2003 was largely attributable to an \$8.4 million increase in account receivables from higher net revenues.

Our cash requirements for investing activities have tended to be relatively stable, although our strategy to augment our organic growth through selected strategic acquisitions may increase our investment requirements. We used \$16.9 million in net cash for investing activities during the nine months ended July 31, 2005, \$13.5 million of which was used for the acquisition of the assets of GO Software. We used cash of \$5.3 million in investing activities in the year ended October 31, 2004, which was principally comprised of \$2.6 million of capitalized software development costs and \$2.4 million of capital expenditures related primarily to computer equipment and leasehold improvements. We used cash of \$10.4 million in investing activities in the year ended October 31, 2003, which consisted of \$6.3 million for the remaining obligations related to our 2002 acquisition, \$2.2 million of capital expenditures related primarily to computer equipment and \$2.0 million of capitalized software development costs. We currently have no significant capital spending or purchase commitments related to investments but expect to continue to engage in capital spending in the ordinary course of business.

Our financing activities will consist largely of meeting any financing needs for our planned acquisition strategy, which will be offset by our need to repay existing debt. We used \$1.1 million in net cash for financing activities in the nine months ended July 31, 2005, primarily due to the repayment of \$72.0 million of the outstanding principal owed on the second lien loan under our secured credit facility and principal payments of \$6.5 million on the Term B loan offset by net proceeds from our initial public offering of \$76.8 million. We used cash of \$21.6 million in financing activities in the year ended October 31, 2004, which consisted primarily of proceeds of \$250.1 million, net of \$11.9 million of financing fees, related to our recapitalization and new secured credit facility, offset by uses of \$97.4 million for a common stock dividend, \$86.2 million related to the repurchase of preferred stock, \$60.0 million related to the retirement of the related party promissory notes and \$28.1 million of net borrowings under our revolving note, term note facilities and capital leases. Our financing activities provided cash of \$3.2 million during the year ended October 31, 2003, which was comprised primarily of \$2.3 million of net borrowings under our revolving note and term note facilities. We will be required to repay a portion of our existing secured debt with a portion of any excess cash flow generated through our operations.

We completed an amendment to our credit agreement on March 23, 2005 that reduced the interest rate spread on our Term B loan from 2.50% over three-month LIBOR to 2.00% over three-month LIBOR (or based on the Company's option from 1.50% over the lender's base rate to 1.00% over the lender's base rate). The anticipated annual savings in interest expense for the Term B loan attributable to this amendment is approximately \$0.9 million.

Our future capital requirements may vary significantly from prior periods as well as from those currently planned. These requirements, will depend on a number of factors, including operating factors such as our terms and payment experience with customers and investment we may make in product or market development such as our current investments in expanding our International operations. Finally, our capital needs may be significantly affected by any acquisition we may make in the future. Based upon our current level of operations, we expect that our cash flow from operations, together with the amounts we are able to borrow under our secured credit facility, will be adequate to meet our anticipated needs for at least the next several years although we may from time to time raise additional capital to refinance indebtedness or for other general corporate purposes, including acquisitions and investments.

## Secured Credit Facility

On June 30, 2004, we entered into a secured credit facility with a syndicate of financial institutions, led by Banc of America Securities and Credit Suisse First Boston. This facility allowed us to retire our promissory notes payable to stockholders, retire our prior term and revolving note payable, redeem all outstanding Class A redeemable convertible preferred stock, pay a dividend to common stockholders and provide future working capital. The secured credit facility consists of a revolving credit facility, or revolver, permitting borrowings up to \$30.0 million and a Term B loan of \$190.0 million and previously included a second lien loan of \$72.0 million. The secured credit facility is guaranteed by our subsidiaries and is secured by collateral including substantially all of our assets and the stock of our subsidiaries. As of July 31, 2005, we had \$183.0 million in borrowings outstanding under the secured credit facility, made up of \$183.0 million in respect of the Term B loan. As of July 31, 2005, the interest rate on the Term B loan was 5.68%. For the period from April 30, 2005 to July 31, 2005 the weighted average interest rate on the secured credit facility was 5.69%. We also pay a commitment fee on the unused portion of the commitments of the lenders under our credit facility at a rate that varies depending upon our consolidated total leverage ratio.

The revolving credit facility bears interest at a rate equal to a margin over LIBOR or the lenders' base rate, with the margin varying based on a grid in which the pricing depends on our consolidated total leverage ratio. Currently interest accrues at either 2.50% over three-month LIBOR, which was 3.68% at July 31, 2005, or 1.50% over the lender's base rate, which was 6.25% at July 31, 2005. Borrowings on the Term B loan, following an amendment of the terms of our secured credit facility as of March 23, 2005 that became effective on May 4, 2005, following the completion of our initial public offering, bear interest at a rate of either 2.00% over three-month LIBOR or 1.00% over the lender's base rate. During such time as the ratings assigned to the Term B loan by either of Moody's Investors Service, Inc. and Standard & Poor's Ratings Group, a division of McGraw Hill, Inc. are at least Ba3 or BB- or higher, respectively, the interest rate for the Term B loan will be 1.75% over three-month LIBOR or 0.75% over the lender's base rate.

In May 2005, we used a portion of the proceeds of our initial public offering to repay the \$72.0 million principal amount of the second lien loan under our secured credit facility, which reduced our interest expense in the second quarter and third quarter of fiscal 2005 and will reduce our interest expense in future periods. In the nine months ended July 31, 2005, we accrued \$7.2 million in interest expense attributable to the Term B loan, which had an average rate of 5.02% for the period. The anticipated annual savings in interest expense for the Term B loan attributable to the amendment to our credit agreement is approximately \$900,000. The costs attributable to the amendment of approximately \$500,000 were recorded as an expense in the third quarter of fiscal 2005.

On September 7, 2005, we completed a second amendment to our credit agreement that will become effective upon the payment of bank fees. Under the terms of the second amendment, we are no longer required to make a mandatory payment of 50% of the proceeds that we receive from a public equity offering. Certain restrictive covenants were also amended to provide us with additional operating flexibility.

We are required under our secured credit facility to fix the interest rate through swaps, rate caps, collars and similar agreements with respect to at least 30% of the outstanding principal amount of all loans and other indebtedness that have floating interest rates. This interest rate protection must extend through June 30, 2006.

The respective maturity dates on the components of the secured credit facility are June 30, 2009, June 30, 2011 and December 31, 2011 for the revolver, Term B loan, and second lien loan, respectively.

The terms of the secured credit facility require us to comply with financial covenants, including maintaining leverage, and fixed charge coverage ratios, obtaining protection against fluctuation in interest rates, and limits on capital expenditure levels at the end of each fiscal quarter. As of July 31, 2005, we were

required to maintain a senior leverage ratio of not greater than 3.35 to 1.0, a maximum leverage ratio of not greater than 4.75 to 1.0 and a fixed charge ratio of at least 2.0 to 1.0. As of July 31, 2005, our senior leverage ratio was 2.42 to 1.00, our maximum leverage ratio, which includes the senior leverage ratio and the second lien leverage ratio, was 2.42 to 1.00 and our fixed charge ratio was 3.30 to 1.00. Some of the financial covenants become more restrictive over the term of the secured credit facility. If we fail to comply with any of the financial covenants the lenders may declare an event of default under the secured credit facility. An event of default resulting from a breach of a financial covenant may result, at the option of lenders holding a majority of the loans, in an acceleration of repayment of the principal and interest outstanding and a termination of the revolving credit facility. The secured credit facility also contains nonfinancial covenants that restrict some of our activities, including our ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments, make capital expenditures and engage in specified transactions with affiliates. The secured credit facility also contains customary events of default, including defaults based on events of bankruptcy and insolvency, nonpayment of principal, interest or fees when due, subject to specified grace periods, breach of specified covenants, change in control and material inaccuracy of representations and warranties.

We believe we were in compliance with the secured credit facility's financial and nonfinancial covenants as of July 31, 2005.

The secured credit facility also contains customary events of default, including defaults based on events of bankruptcy and insolvency, nonpayment of principal, interest or fees when due, subject to specified grace periods, breach of specified covenants, change in control and material inaccuracy of representations and warranties.

### Contractual Commitments

The following table summarizes our contractual obligations as of October 31, 2004 (in thousands):

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Term B loan	\$ 189,525	\$ 1,900	\$ 5,700	\$ 3,800	\$ 178,125(1)
Second lien loan	72,000				72,000(2)
Capital lease obligation	662	408	242	12	
Operating leases	18,919	5,771	11,578	1,570	
Minimum purchase obligations	37,400	37,400			
Other long-term liabilities					
	<u>\$ 318,506</u>	<u>\$ 45,479</u>	<u>\$ 17,520</u>	<u>\$ 5,382</u>	<u>\$ 250,125</u>

(1)

Of this amount, \$177.2 million is due on June 30, 2011. Payments on the secured credit facility are due in equal quarterly installments over the seven-year term, beginning on the last day of each quarter. During the nine months ended July 31, 2005 we made prepayments of approximately \$5.1 million.

(2)

We repaid the \$72.0 million principal due on the second lien debt under our secured credit facility as well as pay a prepayment premium of \$2.2 million.

We work on a purchase order basis with third-party contract manufacturers with facilities in China, Mexico and Brazil to manufacture substantially all of our inventories. The agreements require us to provide each manufacturer with a master purchase order on a monthly basis, which constitutes a binding commitment by us to purchase products produced by the manufacturer as specified in the master purchase order. The total amount of purchase commitments as of October 31, 2004 was approximately \$37.4 million.



We expect that we will be able to fund our remaining obligations and commitments with cash flows from operations. To the extent we are unable to fund these obligations and commitments with cash flows from operations, we intend to fund these obligations and commitments with proceeds from our \$30.0 million revolver under our secured credit facility or future debt or equity financings.

#### **Off-Balance Sheet Arrangements**

Our only off-balance sheet arrangements, as defined in Item 303(a)(4)(v) of the SEC's Regulation S-K, consist of interest rate cap agreements and forward foreign currency exchange agreements described under "Quantitative and Qualitative Disclosures about Market Risk" below.

#### **Effects of Inflation**

Our monetary assets, consisting primarily of cash and receivables, are not affected by inflation because they are short-term and in the case of cash are immaterial. Our non-monetary assets, consisting primarily of inventory, intangible assets, goodwill and prepaid expenses and other assets, are not affected significantly by inflation. We believe that replacement costs of equipment, furniture and leasehold improvements will not materially affect our operations. However, the rate of inflation affects our cost of goods sold and expenses, such as those for employee compensation, which may not be readily recoverable in the price of system solutions and services offered by us.

#### **Quantitative and Qualitative Disclosures about Market Risk**

##### *Interest Rates*

We are exposed to interest rate risk related to our debt, which bears interest based upon the three-month LIBOR rate. In July 2004, we purchased a two-year interest rate cap with a notional amount of \$50.0 million under which we will receive interest payments if the three-month LIBOR rate exceeds 4%. In July 2004, we purchased one-year interest rate caps with combined notional amounts of \$140.0 million under which we will receive interest payments if the three-month LIBOR rate exceeds 5%. We purchased the interest rate caps for a total of \$330,000, which is being amortized as interest expense over the life of the caps. A 1% increase in the variable rate of interest on the currently outstanding debt under our secured credit facility would increase annual interest expense by approximately \$2.6 million. The \$140.0 million combined interest rate caps expired in July, 2005. In March 2005, we purchased a one-year interest rate cap with an effective date of July 2005 and a notional amount of \$30.0 million under which we will receive interest payments if the three-month LIBOR rate exceeds 5%. Since July 2004, LIBOR has remained under 4% and we have not received any interest payments to date.

##### *Foreign Currency Risk*

A substantial part of our business consists of sales made to customers outside the United States. A portion of the net revenues we receive from such sales is denominated in currencies other than the U.S. dollar. Additionally, portions of our costs of net revenues and our other operating expenses are incurred by our International operations and denominated in local currencies. While fluctuations in the value of these net revenues, costs and expenses as measured in U.S. dollars have not materially affected our results of operations historically, we cannot assure you that adverse currency exchange rate fluctuations will not have a material impact in the future. In addition, our balance sheet reflects non-U.S. dollar denominated assets and liabilities, primarily inter-company balances which can be adversely affected by fluctuations in currency exchange rates. In certain periods, we have not hedged our exposure to these fluctuations. For example, in the period from July 1, 2002 to October 31, 2002, we recorded net foreign currency transaction losses of \$5.2 million primarily due to the exchange rate change of the Brazilian real. More recently, we have entered into foreign currency forward contracts and other arrangements intended to hedge our exposure to adverse fluctuations in exchange rates. As of July 31, 2005, our foreign currency risk pertaining

to non-U.S. dollar denominated assets and liabilities primarily were a \$0.9 million inter-company payable from our Brazil subsidiary and a \$2.3 million inter-company payable from our Australia subsidiary, both due to our principal U.S. operating subsidiary. As of July 31, 2005, we have entered into foreign currency forward contracts to sell Brazilian reais and Australian dollars with notional amounts of \$0.9 million and \$2.3 million, respectively. However, if we chose not to enter into foreign currency forward contract transactions to hedge against these exposures and the Brazilian real and Australian dollar both were to devalue 5% to 10% against the U.S. dollar, results of operations at that time would include a foreign exchange loss of \$0.2 million to \$0.3 million.

Hedging arrangements of this sort may not always be effective to protect our results of operations against currency exchange rate fluctuations, particularly in the event of imprecise forecasts of non-U.S. denominated assets and liabilities. Accordingly, if there is an adverse movement in exchange rates, we might suffer significant losses. For instance, in the year ended October 31, 2004, we suffered foreign currency contract losses of \$2.2 million net of foreign currency transaction gains as a result of our hedging activities.

## **Critical Accounting Policies**

### ***General***

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements. Our significant accounting policies are described in Note 2 to our consolidated financial statements included elsewhere in this prospectus.

### ***Revenue Recognition***

Net revenues from System Solutions is recognized upon shipment, delivery, or customer acceptance of the product as required pursuant to the customer arrangement. Net revenues from services such as customer support are initially deferred and then recognized on a straight-line basis over the term of the contract. Net revenues from services such as installations, equipment repairs, refurbishment arrangements, training and consulting are recognized as the services are rendered. For arrangements with multiple elements, we allocate net revenues to each element using the residual method based on objective and reliable evidence of the fair value of the undelivered element. We defer the portion of the arrangement fee equal to the objective evidence of fair value of the undelivered elements until they are delivered.

While the majority of our sales transactions contain standard business terms and conditions, there are some transactions that contain non-standard business terms and conditions. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting including: (1) whether an arrangement exists and what is included in the arrangement; (2) how the arrangement consideration should be allocated among the deliverables if there are multiple deliverables; (3) when to recognize net revenues on the deliverables; (4) whether undelivered elements are essential to the functionality of delivered elements; and (5) whether we have fair value for the undelivered element. In addition, our revenue recognition policy requires an assessment as to whether collectibility is probable, which inherently

requires us to evaluate the creditworthiness of our customers. Changes in judgments on these assumptions and estimates could materially impact the timing of revenue recognition.

To a limited extent, we also enter into software development contracts with our customers that we recognize as net revenues on a completed contract basis. As a result, estimates of whether the contract is going to be profitable is necessary since, if we will lose money on the contract, we are required to record a provision for such loss in the period identified.

### ***Goodwill***

We review goodwill at least annually for impairment. In testing for a potential impairment of goodwill, we: (1) allocate goodwill to our various reporting units to which the acquired goodwill relates; (2) estimate the fair value of our reporting units; and (3) determine the carrying value (book value) of those reporting units, as some of the assets and liabilities related to those reporting units are not held by those reporting units but by the corporation. Furthermore, if the estimated fair value of a reporting unit is less than the carrying value, we must estimate the fair value of all identifiable intangible assets and liabilities of the reporting unit, in a manner similar to a purchase price allocation for an acquired business. This can require independent valuations of certain internally generated and unrecognized intangible assets such as in-process research and development and developed technology. Only after this process is completed can the amount of goodwill impairment, if any, be determined.

The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. In estimating the fair value of a reporting unit for the purposes of our annual or periodic analyses, we make estimates and judgments about the future cash flows of that reporting unit. Although our cash flow forecasts are based on assumptions that are consistent with our plans and estimates we are using to manage the underlying businesses, there is significant exercise of judgment involved in determining the cash flows attributable to a reporting unit over its estimated remaining useful life. In addition, we make certain judgments about allocating shared assets to the estimated balance sheets of our reporting units. We also consider our and our competitor's market capitalization on the date we perform the analysis. Changes in judgment on these assumptions and estimates could result in a goodwill impairment charge.

### ***Long-lived Assets***

We review our long-lived assets including property and equipment, capitalized software development costs and identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. Determining if such events or changes in circumstances have occurred is subjective and judgmental. Should we determine such events have occurred, we then determine whether such assets are recoverable based on estimated future undiscounted net cash flows. If future undiscounted net cash flows are less than the carrying value of such asset, we write down that asset to its fair value.

We make estimates and judgments about future undiscounted cash flows and fair value. Although our cash flow forecasts are based on assumptions that are consistent with our plans, there is significant exercise of judgment involved in determining the cash flows attributable to a long-lived asset over its estimated remaining useful life. Our estimates of anticipated future cash flows could be reduced significantly in the future. As a result, the carrying amount of our long-lived assets could be reduced through impairment charges in the future. Additionally, changes in estimated future cash flows could result in a shortening of estimated useful lives for long-lived assets including intangibles.

### ***Inventory Valuation***

The valuation of inventories requires us to estimate obsolete or excess inventory and inventory that is not of saleable quality. The determination of obsolete or excess inventories requires us to estimate the

future demand for our products within specific time horizons, generally twelve months or less. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to record additional inventories write-offs, which would have a negative impact on our gross profit percentage.

We review the adequacy of our inventories valuation on a quarterly basis. For production inventory, our methodology involves matching our on-hand and on-order inventories with our sales estimate over the next twelve and eighteen months. We then evaluate the inventory found to be in excess of the twelve-month demand estimate and take appropriate write-downs to reflect the risk of obsolescence. For on-hand and on-order inventory in excess of eighteen month requirements we generally record a 100% reserve. This methodology is significantly affected by our sales estimate. If actual demand were to be substantially lower than estimated, additional inventories write-downs for excess or obsolete inventories may be required.

#### ***Allowance for Doubtful Accounts***

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to pay their invoices to us in full. We regularly review the adequacy of our accounts receivable allowance after considering the size of the accounts receivable balance, each customer's expected ability to pay, aging of accounts receivable balances and our collection history with each customer. We make estimates and judgments about the inability of customers to pay the amount they owe us which could change significantly if their financial condition changes or the economy in general deteriorates.

#### ***Warranty Costs***

We accrue for estimated warranty obligations when revenue is recognized based on an estimate of future warranty costs for delivered product. Our warranty obligation typically extends from 13 months to five years from the date of shipment. We estimate such obligations based on historical experience and expectations of future costs. Our estimate and judgments is affected by actual product failure rates and actual costs to repair. These estimates and judgments are more subjective for new product introductions as these estimates and judgments are based on similar products versus actual history.

#### ***Stock-based Compensation***

Effective May 1, 2005, we adopted SFAS 123(R), which requires us to measure compensation cost for all outstanding invested share-based awards at fair value and recognize compensation over the requisite service period for awards expected to vest. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider several factors when estimating expected forfeitures, such as types of awards. Actual results may differ substantially from these estimates. Expected volatility of the stock is based on our peer group in the industry in which we do business because we do not have sufficient historical volatility data for our own stock. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. In the future, as we gain historical data for volatility in our own stock and the actual term employees hold our options expected volatility and expected term may change which could substantially change the grant-date fair value of future awards of stock options and ultimately the expense we record.

#### ***Restructuring***

Our predecessor made estimates of the costs to be incurred as a part of its restructuring plan. We assumed such restructuring plan which primarily represents vacant lease space related liabilities at October 31, 2004 of approximately \$2.0 million. We make estimates and judgments about the length of time it will take to obtain a sublease tenant, and the rate at which we can sublease such vacant space. The

amounts we have accrued represent our best estimate of the obligations we expect to incur, but could be subject to change due to various factors including market conditions and the outcome of negotiations with third parties. Should the actual amounts differ from our estimates, the amount of the restructuring charges could be materially impacted.

### ***Income Taxes***

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. In evaluating our ability to recover our deferred tax assets we consider all available positive and negative evidence including our past operating results, the existence of cumulative losses in past fiscal years and our forecast of future taxable income in the jurisdictions in which we have operations.

We have placed a valuation allowance on certain U.S. deferred tax assets and our non-U.S. net operating loss carry forwards because realization of these tax benefits through future taxable income cannot be reasonably assured. We intend to maintain the valuation allowances until sufficient positive evidence exists to support the reversal of the valuation allowances. An increase in the valuation allowance would result in additional expense in such period. We make estimates and judgments about our future taxable income that are based on assumptions that are consistent with our plans and estimates. Should the actual amounts differ from our estimates, the amount of our valuation allowance could be materially impacted.

### **Recent Accounting Pronouncements**

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*, or SFAS 151. SFAS 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of SFAS 151 are effective for fiscal periods beginning after June 15, 2005. The adoption of SFAS 151 is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3*, or SFAS 154. SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of SFAS 154 is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

Effective May 1, 2005, we early adopted the fair value recognition and measurement provisions of SFAS 123(R), which is applicable for stock-based awards exchanged for employee services and in certain circumstances for nonemployee directors. We elected to adopt the modified-prospective-transition method, as provided by SFAS 123(R). Accordingly, prior period amounts have not been restated. Under this transitional method, we are required to record compensation expense for all awards granted after the date of adoption using grant-date fair value estimated in accordance with the provisions of SFAS 123(R) and for the unvested portion of previously granted awards as of May 1, 2005 using the grant-date fair value estimated in accordance with the provisions of SFAS 123.

## BUSINESS

### Overview

We are a leading global provider of technology that enables electronic payment transactions and value-added services at the point of sale. Since 1981, we have designed and marketed system solutions that facilitate the long-term shift toward electronic payment transactions and away from cash and checks. We have one of the leading electronic payment solutions brands and are one of the largest providers of electronic payment systems worldwide. Our net revenues grew organically by 14.8% and 15.0%, respectively, in the years ended October 31, 2003 and 2004, in each case as compared with the prior year, reaching \$390.1 million in the year ended October 31, 2004. Our net revenues grew by 26.1% for the nine months ended July 31, 2005 as compared to the nine months ended July 31, 2004.

Our system solutions consist of point of sale electronic payment devices that run our proprietary and third party operating systems, security and encryption software and certified payment software as well as third party, value-added applications. Our system solutions are able to process a wide range of payment types including signature and PIN-based debit cards, credit cards, contactless / radio frequency identification, or RFID, cards, smart cards, pre-paid gift and other stored-value cards, electronic bill payment, check authorization and conversion, signature capture and electronic benefits transfer, or EBT. Our proprietary architecture was the first to enable multiple value-added applications, such as gift card and loyalty card programs, healthcare insurance eligibility and time and attendance tracking, to reside on the same system without requiring recertification upon the addition of new applications. Today we are an industry leader in multi-application payment systems deployments.

We design our system solutions to meet the demanding requirements of our direct and indirect customers. Our electronic payment systems are available in several distinctive modular configurations, maximizing value to our customers by offering them flexibility to support a variety of connectivity options, including wireline and wireless internet protocol, or IP, technologies. We also offer our customers support for installed systems, consulting and project management services for system deployment and customization of integrated software solutions.

Our customers are primarily global financial institutions, payment processors, petroleum companies, large retailers, government organizations and healthcare companies, as well as independent sales organizations, or ISOs. They choose our system solutions for their robust functionality, ability to be compatible with previously deployed VeriFone system solutions, intuitive user interface and modular design. The functionality of our system solutions includes transaction security, connectivity, compliance with certification standards, and the flexibility to execute a variety of payment and non-payment applications on a single system solution.

We believe that we benefit from a number of competitive advantages gained through our 24-year history and success in our industry. These advantages include our globally trusted brand name, large installed base, history of significant involvement in the development of industry standards, global operating scale, customizable platform and investment in research and development. We believe that these advantages position us well to capitalize on key industry trends.

### Our Industry

The electronic payment solutions industry encompasses systems, software and services that enable the acceptance and processing of electronic payments for goods and services and provide other value-added functionality at the point of sale. The electronic payment system is a critical part of the payment infrastructure. We believe the industry trends of increasing intelligence at the point of sale, the global shift toward electronic payment transactions and away from cash and checks and the increasing focus on security and interoperability will drive growth in demand for electronic payment systems.

The electronic payment system serves as the interface between consumers and merchants at the point of sale and with the payment processing infrastructure, capturing critical electronic payment data, securing the data through sophisticated encryption software and algorithms and routing the data across a range of payment networks for processing, authorization and settlement. Payment networks include credit card networks, such as Visa, MasterCard and American Express, that route credit card and signature-based debit transactions, as well as electronic funds transfer, or EFT, networks, such as STAR, Interlink and NYCE, that route PIN-based debit transactions. In a typical electronic payment transaction, the electronic payment system first captures and secures consumer payment data from one of a variety of payment media, such as a credit or debit card, smart card or contactless / RFID card. Consumer payment data is then routed from the electronic payment system to the appropriate payment processor and financial institution for authorization. Finally, the electronic payment system receives the authorization to complete the transaction between the merchant and consumer.

### ***Increasing Intelligence at the Point of Sale***

***Advances in Computing.*** Advances in microprocessing technology, storage capacity and software are enabling increasing complexity and functionality of electronic payment systems at the point of sale. Historically, electronic payment systems' primary purpose was to initiate and complete credit card transactions at the point of sale. System-on-Chip technologies and enhanced operating systems and applications now enable multi-purpose functionality that can accommodate a wide range of payment-related transactions and non-payment applications. We believe electronic payment system providers that can continue to take advantage of the advances in computing will be able to offer retailers, card associations, card issuers and payment processors an expanding value proposition at the point of sale.

***Multi-purpose Functionality.*** Industry participants are developing value-added payment applications including pre-paid cards, gift card and loyalty card programs, electronic bill payment and electronic check truncation that expand the range of services and functionality offered by electronic payment systems. Further, the use of new secure non-payment value-added applications, such as age verification, money transfer, healthcare insurance eligibility, Medicaid processing, advertising, retail fraud prevention and time and attendance tracking is increasing. When new value-added applications are installed into an electronic payment system, payment processors typically require extensive testing and recertification, which is costly and time intensive. Accordingly, we believe that industry participants, such as retailers, card associations, card issuers and payment processors, value an electronic payment system solution that can incorporate a new application without lengthy testing and recertification.

***Broadband and IP Connectivity.*** Broadband connectivity provides faster transmission of transaction data at a lower cost, enabling more advanced payment and other value-added applications at the point of sale. Major telecommunications carriers have expanded their communications networks and lowered fees to allow more merchants to utilize wireline and wireless IP networks cost effectively. The faster processing and lower costs associated with IP connectivity have opened new markets for electronic payment systems, many of which have been primarily cash-only industries such as quick service restaurants, or QSRs. New wireless electronic payment solutions are being developed to increase transaction processing speed, throughput and mobility at the point of sale, and offer significant security benefits by enabling consumers to avoid relinquishing their payment cards. A portable device can be presented to consumers, for example, to pay at the table in full-service restaurants or to pay in other environments, such as outdoor arenas, farmers' markets and taxi cabs.

***Card Innovation at the Point of Sale.*** The point of sale is becoming an important area of differentiation for card associations, card issuers and payment processors. As the market for issuing credit cards has become more saturated in the U.S., card associations and card issuers are differentiating their brands by expanding their offerings. Payment processors are also differentiating themselves by expanding their offerings as front-end authorization and back-end clearing and settlement have become more commoditized. Card associations, card issuers and payment processors are differentiating their offerings, in

part, by offering value-added applications and incorporating innovative technologies including contactless / RFID and biometrics. As a result, electronic payment systems that can run value-added applications and enable emerging technologies are becoming increasingly critical.

***Global Shift Toward Electronic Payment Transactions and Away from Cash and Checks***

*North America.* Usage of credit and debit card-based payments, especially PIN-based debit, continues to increase substantially. During the five years ended in 2003, total U.S. debit purchase volume grew at a 28.6% compound annual growth rate, from \$167 billion to \$589 billion. By 2008, debit purchase volume is expected to reach \$1.2 trillion, representing a 15.9% compound annual growth rate from 2003. PIN-based debit, which is appealing to merchants because of lower transaction fees relative to credit cards, and to consumers because of increased security and enhanced features, is a major factor behind the recent growth in demand for electronic payment systems in emerging vertical markets such as QSRs. Currently, nine of the ten largest QSR chains in the U.S. are in the process of endorsing a formal electronic payment program for their franchisees. Furthermore, government-related opportunities, including EBT programs, healthcare claims and eligibility, license verification and background checks, are driving additional growth in demand for electronic payment systems.

*Europe.* While credit card and debit card usage in the U.S. has grown significantly, usage in international markets has grown at an even faster rate. Visa and MasterCard purchase volume increased 15.2% in Europe in 2003 compared to 2002, versus 11.1% in the U.S. Due to card fraud, European nations and card associations have focused on developing and implementing next-generation security measures. MasterCard International and Visa International have established EMVCo, LLC, or EMV, a smart card standards organization, and have prescribed specifications for certification of all new and existing electronic payment systems. Other security initiatives include the U.K.'s chip and PIN standard, which combines smart card technology with PIN-based debit security features. Such standards are expected to drive additional growth in sales of next-generation electronic payment systems. Additionally, Europe's relatively expensive wireline telecommunications costs and adoption of next-generation wireless networks are driving growth in sales of wireless electronic payment systems.

*Emerging Markets.* Certain regions, such as Eastern Europe, Latin America, and Asia, and certain countries in particular, including Russia, India and China, are experiencing rapid growth in the usage of card-based payments. In China, Visa and MasterCard purchase volume increased 34% from 2002 to 2003, from \$6.8 billion to \$9.1 billion. Similarly, India where only 14% of citizens currently have a credit card, according to a MasterCard International survey experienced 31% growth in Visa and MasterCard purchase volume during the same period, from \$1.8 billion in 2002 to \$2.4 billion in 2003. The increasing adoption of electronic payments in these regions is driven primarily by strong economic growth, improving infrastructure development, strong support from governments seeking to increase VAT and sales tax collection, and the expanding presence of wireless networks.

***Increasing Focus on Security and Interoperability***

New industry security and interoperability standards are driving recertification and replacement of electronic payment systems, particularly in Europe and the U.S. In order to offer electronic payment systems that connect to payment networks, electronic payment system providers must certify their products and services with card associations, financial institutions and payment processors and comply with government and telecommunications company regulations. The certification process may take up to twelve months to complete.

*Card Association Standards.* The major card associations have introduced new security standards to address the growing need for transaction security. Visa International and MasterCard International recently cooperated on the development and release of the Payment Card Industry, or PCI, specification and test methods for the certification of electronic payment systems for secure debit transactions. This new



set of stringent standards supersedes previous standards issued separately by Visa and MasterCard. In addition, EMV has prescribed specifications designed to ensure interoperability between smart cards and electronic payment systems on a global basis, increase functionality of electronic payment systems and reduce fraud. The deadlines for EMV compliance vary by card association and region, with compliance required in Europe ahead of other regions. Merchants and financial institutions that are not compliant with EMV standards will be subject to various sanctions.

*Class A / B Certification.* U.S. payment processors have two levels of certification, Class A and Class B. Class B certification ensures that an electronic payment system adheres to the payment processor's basic functional and network requirements. Class A certification adds another stipulation that the payment processor will support the electronic payment system on its internal help desk systems. Obtaining these certifications can be time intensive and is required by U.S. payment processors.

*Regional Security Standards.* Electronic payment systems must comply with evolving country-specific security regulations. Countries such as Australia, Canada, the Netherlands, New Zealand, Singapore, Sweden and Switzerland have particularly stringent and specific security requirements. Electronic payment systems also must comply with the recommendations of quasi-regulatory authorities and standards-setting committees, which address, among other things, fraud prevention, processing protocols and technologies utilized. New standards are continually being adopted as a result of worldwide fraud prevention initiatives, increasing the need for system compatibility and new developments in technology. Electronic payment system providers must manage these complex requirements, which may require ongoing enhancements to existing systems or replacement with newly certified electronic payment systems.

## **Our Competitive Strengths**

We believe that we benefit from a number of competitive advantages gained through our 24-year history and success in our industry. They include:

### ***Trusted Brand Name***

The VeriFone brand has a strong global reputation for quality, reliability and data security. We believe that financial institutions, payment processors and merchants trust our system solutions to handle critical financial transactions in a secure and user-friendly operating environment.

### ***Large Installed Base***

We believe that we have a larger installed base of electronic payment systems than any of our competitors. We believe that financial institutions, payment processors and merchants typically purchase electronic payment systems from the incumbent provider in order to reduce risk and to avoid the costs of implementing a new payment system from a different provider. Our installed base supports our global sales and marketing infrastructure by enhancing our ability to establish or expand our market position in specific vertical and geographic markets. In addition, our large installed base of electronic payment systems makes our proprietary operating systems a preferred choice on which third party developers can create value-added applications for broad distribution of their applications, further reinforcing our competitive advantage.

### ***Global Scale***

We are one of the largest worldwide providers of electronic payment system solutions for use at the point of sale. During the nine months ended July 31, 2005, we generated total net revenues of \$354.9 million, of which 59.2% was generated in North America and 40.8% was generated internationally. We have developed a global network of 26 sales and marketing offices and 22 development centers. We believe that our scale and broad geographic coverage enable us to market and distribute our products more effectively and in more markets than most of our competitors, and to provide our customers with

innovative, comprehensive and customized system solutions. As an example, certain multinational customers have chosen our electronic payment systems over those of our competitors because of our ability to customize our technology platform for different worldwide geographic markets.

***Leading Research and Development Initiatives and Technology Innovation***

We are a leading innovator of technology that enables electronic payment transactions and value-added services at the point of sale. Our global research and development initiatives focus on adding features and functionality to our system solutions through the development and utilization of new technology. In the year ended October 31, 2004, we launched 20 new system solutions and 195 custom solutions. Our technology strengths include security, interoperability and the provision of value-added applications at the point of sale. We provide among the highest levels of security for payment transactions at the point of sale through our advanced encryption technology and tamper-resistant system solutions. Our core operating environment is a secure, multi-tasking and multi-application proprietary operating system with a consistent and intuitive user interface that allows payment processors or financial institutions to directly or remotely deliver predominantly third party, value-added applications without having to recertify existing applications. This operating environment dramatically reduces the time and cost for our customers to deploy additional functionality to their systems. We believe the ability to avoid recertification of existing certified systems when adding applications is a distinguishing feature of our architecture. The modular configuration of our electronic payment systems offers our customers flexibility to support a variety of connectivity options, including wireline and wireless IP technologies, such as IP-based CDMA, GPRS and Wi-Fi. In addition, our modular software development environment enables our system solutions to be customized to meet our customers' specific needs through our internally developed or third party applications.

***Broad Set of Industry Certifications***

Our system solutions are certified by major payment processors, card associations and international card standards organizations. These certifications, which are obtained by us, or in certain international markets, by resellers of our system solutions, impose minimum standards for security and interoperability of electronic payment systems. The knowledge of certification processes that we have gained over our history and through our participation in international standards organizations enables us to manage the lengthy and expensive certification process effectively. As a result, we believe that we are able to bring innovative products to market faster than our competitors. Examples of our strong capability in this area are the certifications our system solutions have received in several countries with particularly stringent and specific security standards, such as Australia, Canada, the Netherlands, New Zealand, Singapore, Sweden and Switzerland.

***Proven Track Record of Execution***

Our senior management team has increased net revenues by 14.8% and 15.0% over the past two fiscal years, respectively, from \$295.6 million in the year ended October 31, 2002 to \$390.1 million in the year ended October 31, 2004, while significantly increasing profitability, working capital efficiency and operating cash flow.

**Our Growth Strategy**

Our objective is to enhance our position as a leading provider of technology that enables electronic payment transactions and value-added services at the point of sale. The key elements of our strategy are to:

***Increase Market Share in North America and Europe***

We intend to increase our market share in North America and Europe by capitalizing on industry trends, continuing to penetrate key sales channels and expanding our solutions offering. As an example, in

Europe, we plan to take advantage of recently enacted requirements that will result in upgrades to EMV-compliant electronic payment systems. In North America, we are increasing sales to small and medium-sized merchants by further strengthening our relationships with ISOs. We intend to continue to seek opportunities to expand our market share in North America and Europe by leveraging our brand, market position, scale, technology and distribution channels.

***Further Penetrate Attractive Vertical Markets***

We plan to continue to increase the functionality of our system solutions to address the specific needs of various vertical markets. We currently provide system solutions that are customized for the needs of our financial services, petroleum company, multi-lane retail, government and healthcare customers. As an example, our system solutions allow our petroleum company customers to manage fuel dispensing and control and enable "pay at the pump" functionality, cashiering, store management, inventory management and accounting for goods and services at the point of sale. We intend to continue to focus on these attractive vertical markets, as well as increase our penetration of new markets such as QSRs.

***Capitalize on High Growth Opportunities in Emerging Markets***

We seek to establish a leading position in emerging, high growth electronic payment markets in Eastern Europe, Asia and Latin America. In order to do so, we intend to continue to invest in additional sales and marketing and research and development resources targeted towards these regions. Examples of emerging payment markets in which we have already established a leading position include Russia, Poland and Mexico. We intend to grow our presence further in emerging markets, especially China, India and Brazil, where demand for electronic payment systems is growing rapidly.

***Pursue Selective, Strategic Acquisitions***

We may augment our organic growth by acquiring businesses, product lines or technologies. Our acquisition strategy is intended to broaden our suite of electronic payment solutions, expand our presence in selected geographies, broaden our customer base, and increase our penetration of distribution channels and vertical markets.

**Our System Solutions**

Our system solutions are available in several distinctive modular configurations, offering our customers flexibility to support a variety of connectivity options, including wireline and wireless IP technologies.

***Countertop***

Our countertop electronic payment systems accept magnetic and smart cards and support credit, debit, check, electronic benefits transfer and a full range of pre-paid products, including gift cards and loyalty programs, among many others. Our newest line of countertop solutions is our Vx electronic payment systems, which include a high performance 32-bit ARM9 microprocessor and have product line extensions targeted at the high-end countertop and wireless pay-at-table market segments. Our products are designed in a modular fashion to offer a wide range of options to our customers, including the ability to deploy new technologies at minimal cost as technology standards change. Our electronic payment systems are easily integrated with a full range of optional external devices, including secure PIN pads, check imaging equipment, barcode readers, contactless / RFID readers and biometric devices. Our secure PIN pads support credit and debit transactions, as well as a wide range of applications that are either built into electronic payment systems or connect to electronic cash registers, or ECRs, and other electronic payment systems. In addition, we offer an array of certified software applications and application libraries that enable our secure PIN pads to interface with major ECR systems.

*Mobile / Wireless*

We offer a line of wireless system solutions that support IP-based CDMA, GPRS and Wi-Fi technologies for secure, "always on" connectivity. We expect that one of the largest market opportunities for wireless solutions will be developing countries where wireless telecommunications networks are being deployed at a much faster rate than wireline networks. We also expect to use wireless system solutions to enter into new markets for electronic payment solutions. These applications may include pay-at-the-table solutions for full-service restaurants and taxicabs.

*Consumer-activated*

We offer a line of products specifically designed for consumer-activated functionality at the point of sale. These products include large, easy-to-read displays, user-friendly interfaces, ECR interfaces, durable key pads, signature capture functionality and other features that are important to serving customers in a multi-lane retail environment. For example, our signature capture devices automatically store signatures and transaction data for fast recall, and the signature image is time stamped for fraud prevention. Our consumer-activated system solutions also enable merchants to display advertising, promotional content, loyalty program information and electronic forms in order to market products and services to consumers at the point of sale.

*Petroleum*

Our family of products for petroleum companies consists of integrated electronic payment systems that combine card processing, fuel dispensing and ECR functions. These products are designed to meet the needs of petroleum company operations, where rapid consumer turnaround, easy pump control and accurate record keeping are imperative. These products allow our petroleum company customers to manage fuel dispensing and control and enable "pay at the pump" functionality, cashiering, store management, inventory management and accounting for goods and services at the point of sale. They are compatible with a wide range of fuel pumps, allowing retail petroleum outlets to integrate our systems easily at most locations.

*Server-based*

Our server-based transaction products enable merchants to integrate advanced payment functionality into PC-based electronic systems seamlessly. These products handle all of the business logic steps related to an electronic payment transaction, including collection of payment-related information from the consumer and merchant, and communication with payment processors for authorization and settlement. Our products also enable the functionality of peripherals that connect to PC-based electronic payment systems, including consumer-activated products such as secure PIN pads and signature capture devices.

**Our Services**

*Client Services*

We support our installed base by providing deployment, on-site and telephone-based installation and training, 24-hour help desk support, repairs, replacement of impaired system solutions, asset tracking and reporting. We provide a single source of comprehensive management services providing support primarily for our own system solutions in most vertical markets. Our services address many system configurations, including local area networks, leased-line and dial-up environments. We also offer customized service programs for specific vertical markets in addition to standardized service plans.

*Customized Application Development*

We provide specific project management services for large turn-key implementations. Our project management services include all phases of implementation, including customized software development,

procurement, vendor coordination, site preparation, training, installation, follow-on support and legacy system disposal. We also offer customer education programs as well as consulting services regarding selection of product and payment methodologies and strategies such as debit implementation. We believe that our client services are distinguished by our ability to perform mass customizations for large customers quickly and efficiently.

## **Technology**

We have developed the following core technologies that are essential to the creation, delivery and management of our system solutions. We believe these technologies are central to our leadership position in the electronic payment solutions industry.

### *Platform Architecture*

Our secure, multi-tasking, multi-application platform architecture consists of an ARM9 System-on-Chip and our Verix operating system, Verix multi-application conductor application and VeriShield file authentication technology. The combination of these technologies in an innovative hardware and software memory protection and separation scheme provides a robust and secure operating environment, enabling the download and execution of multiple applications on an electronic payment system without the need for recertification.

Our operating environment and modular design provide a consistent and intuitive user interface for third party applications as well as our own. We believe these characteristics of our platform enable our customers to deliver and manage multi-application payment systems in a timely, secure and cost-effective manner. We continue to enhance and extend the capabilities of our platform to meet the growing demands of our customers for multi-application payment systems.

In addition to the above platform, our newer consumer-activated and petroleum system solutions incorporate the use of a commercial Linux operating system that has been customized to include security, application resources, and data communication capabilities required in these payment systems. The Linux operating system was chosen for functionality, adaptability, and robustness as well as the readily available development tools for graphical user interface and multi-media content applications.

### *Libraries and Development Tools*

We believe that by delivering a broad portfolio of Verix application libraries and development tools to our large community of internal and third party application developers, we are able to significantly reduce the time to obtain certification for our system solutions. By packaging complex programming modules such as EMV, smart card interfaces, wireless communications, IP and secure socket layer, or SSL, into standard libraries with defined programming interfaces, we facilitate the timely and consistent implementation of our multi-application system solutions. Further, we maintain a high level of application compatibility across platforms, facilitating the migration of applications to future solutions.

We also provide developer tool kits that contain industry standard visual development environments (C/C++) along with platform-specific compilers and debuggers. We provide numerous support vehicles for our application development communities, including Verix Developer Training, a dedicated developers' support team and VeriFone DevNet, an online developers' portal that provides registered Verix developers access to libraries, tools, programming guides and support. Our libraries, tool kits, training and support systems facilitate the rapid growth in deployment of third party, value-added applications for our system solutions.

We believe that this growing portfolio of value-added applications increases the attractiveness of our solutions to global financial institutions and payment processors. In the highly competitive transaction processing market, these institutions are looking for ways to differentiate their solutions by adding

additional services beyond credit and debit transaction processing. These value-added applications provide this differentiation and also provide a way to increase merchant retention and revenue for these channels.

#### ***Application Framework***

Our SoftPay application framework contains a comprehensive set of pre-certified software modules enabling rapid configuration and delivery of merchant-ready applications for payment processors and financial institutions. We have configured SoftPay for use in a broad range of vertical markets including retail, restaurants, lodging and rental services. SoftPay supports our comprehensive range of wireline and wireless IP communications options, including Ethernet, CDMA, GPRS and Wi-Fi.

#### ***Remote Management System***

Effective remote management is essential to cost effective deployment and maintenance of electronic payment systems. Our VeriCentre system provides broad remote management functionality for our system solutions, including software downloads, application management, remote diagnostics and information reporting. Our VeriCentre system licencees are responsible for the implementation, maintenance and operation of the VeriCentre system. In certain markets and with certain customers, VeriFone maintains and manages the system to provide remote management services directly to customers. In addition, message management functionality allows financial institutions and payment processors to send customized text and graphics messages to any or all of their Verix terminal based merchants, and receive pre-formatted responses.

#### **Customers**

We specifically design our system solutions to meet the demanding requirements of our direct and indirect customers. These customers include global financial institutions, payment processors, petroleum companies, large retailers, government organizations and healthcare companies, as well as ISOs, which re-sell our system solutions to small merchants. In North America, for the year ended October 31, 2004, approximately one third of our sales were via ISOs, distributors, resellers and system integrators, approximately one quarter were direct sales to petroleum companies, retailers and government-sponsored payment processors, and the remainder were to non-government-sponsored payment processors and financial institutions. Internationally, for the year ended October 31, 2004, approximately 73% of our sales were via distributors, resellers and system integrators and the remaining 27% were direct sales to financial institutions, payment processors and major retailers.

In the nine months ended July 31, 2005, we derived 33.0% of our net revenues from our ten largest customers. In the year ended October 31, 2004, our ten largest customers accounted for 36.3% of our net revenues. Sales to First Data Corporation and its affiliates, including its TASQ Technology division, which aggregates orders it receives from payment processors and ISOs, represented 12.3% of our net revenues in the nine months ended July 31, 2005, and no other customer accounted for more than 10% of our net revenues. In the year ended October 31, 2003, we derived 36.7% of our net revenues from our ten largest customers, down from 41.6% in the year ended October 31, 2002. In the year ended October 31, 2004, 16.9% of our net revenues were from sales to First Data and its affiliates. In the year ended October 31, 2003, we derived 14.7% of our net revenues from sales to First Data and its affiliates, and no other customer accounted for more than 10% of our net revenues.

## Sales and Marketing

Our North American sales teams are focused specifically on financial institutions, payment processors, third party distributors and value-added resellers, and on specific vertical markets, such as petroleum, multi-lane retail, restaurants, government and healthcare. Our International sales teams are based in offices located in 17 countries with regional coverage responsibilities in Europe, the Middle East and Africa, or EMEA, Asia / Pacific and Latin America. Typically, each sales team includes a general manager or managing director, account representatives, business development personnel, sales engineers and customer service representatives with specific vertical market expertise. The sales teams are supported by client services, manufacturing and product development teams to deliver products and services that meet the needs of our diverse customer base.

Our marketing group is responsible for product management, account management, program marketing and corporate communications. Our product management group analyzes and identifies product and technology trends in the marketplace and works closely with our research and development group to develop new products and enhancements. Our program marketing function promotes adoption of our branded solutions through initiatives such as our Value-Added Partner, or VAP, Program. Our corporate communications function coordinates key market messaging across regions, including public relations and go-to-market product campaigns.

As of July 31, 2005, we had 221 sales and marketing employees, representing approximately 22% of our total workforce.

Our VAP Program provides a technical, operational and marketing environment for third party developers to leverage our distribution channels to sell value-added applications and services. Over 33 third party developers, or partners, in our VAP Program, have provided solutions for pre-paid cards, gift card and loyalty card and age verification services, among others. Through the program, merchants obtain seamless access to value-added applications, allowing them to differentiate their offerings without a costly product development cycle.

## Global Outsourcing Operations

Since Fall 2001, we have outsourced 100% of our product manufacturing to providers in the Electronic Manufacturing Services, or EMS, industry. We outsource most of our manufacturing to Jabil Circuit in Guadalajara, Mexico, in Minas Gerias state, Brazil and in Shanghai, China and Sanmina-SCI in Shanghai and Singapore. These two EMS providers collectively accounted for approximately 87.8% of our EMS spending in the year ended October 31, 2004 and 80.4% of our EMS spending in the nine months ended July 31, 2005. Jabil Circuit's facility in Mexico manufactures the majority of our high volume product lines, and Sanmina-SCI manufactures the majority of our lower volume, higher value product lines. Jabil Circuit's facility in Minas Gerias state also manufactures products for sale in Brazil and other Latin American countries. We have enabled direct shipment capability for several product lines from our EMS providers to our customers in various countries around the world. This outsourcing and direct shipment model enables a significant reduction in working capital while leveraging the cost efficiencies, logistics and global scale of our EMS providers. We believe this enables us to focus our management and capital resources on differentiation in the areas of product design, software technologies, solution integration, sales, distribution and services.

## Competition

Our principal competitors in the market for electronic payment systems and services are: Gilbarco, Inc., a subsidiary of Danaher Corporation, Hypercom Corporation, Ingenico S.A., International Business Machines Corporation, Lipman Electronic Engineering Ltd., MICROS Systems, Inc., NCR Corporation, Radiant Systems, Inc., SAGEM Monetal and Symbol Technologies, Inc.

We compete primarily on the basis of the following factors: trusted brand, end-to-end system solutions, availability of certifications, value-added applications and advanced product features, advanced communications modularity, reliability and low total cost of ownership.

We expect competition in our industry will be largely driven by the requirements to respond to increasingly complex technology, industry certifications and security standards.

### **Research and Development**

We work with our customers to develop system solutions that address existing and anticipated end-user needs. Our development activities are distributed globally and managed primarily from the U.S. We utilize regional application development capabilities in locations where labor costs are lower than in the U.S. and where regional expertise can be leveraged for our target markets in Asia, Europe and Latin America. Our regional development centers provide customization and adaptation to meet the needs of customers in local markets. Our modular designs enable us to customize existing systems in order to shorten development cycles and time to market.

Our research and development goals include:

developing new solutions, technologies and applications;

developing enhancements to existing technologies and applications; and

ensuring compatibility and interoperability between our solutions and those of third parties.

Our research and development expenses were \$30.4 million in the year ended October 31, 2002, \$28.2 million in the year ended October 31, 2003 and \$33.7 million in the year ended October 31, 2004. As of July 31, 2005, we had 368 research and development employees representing 36% of our total workforce.

### **Industry Standards and Government Regulations**

In order to offer products that connect to payment networks, electronic payment system providers must certify their products and services with card associations, financial institutions and payment processors, as well as comply with government and telecommunications company regulations.

We have gained an in-depth knowledge of certification requirements and processes by working closely with card associations, payment processors, security organizations and international regulatory organizations to certify our new products. We accelerate this certification process by leveraging our applications, user interface and core technologies.

We retain a group of engineers who specialize in security design methodologies. This group is responsible for designing and integrating security measures in our system solutions and conducts early design reviews with independent security lab consultants to ensure compliance of our electronic payment system designs with worldwide security standards.

Regulatory certifications are addressed by our compliance engineering department, which is staffed by electromagnetic compatibility, or EMC, safety, telecommunications and wireless carrier certification experts.

We actively participate in electronic payment industry working groups that help develop market standards. Our personnel are members of several working groups of the American National Standards Institute, or ANSI, a private, non-profit organization that administers and coordinates voluntary standardization in the U.S. They have leadership roles on subcommittees that develop standards in such areas as financial transactions, petroleum industry and smart cards. We are also a member of GlobalPlatform, an international trade association that seeks to establish, maintain and drive adoption of



standards that enable an open and interoperable infrastructure for smart cards and electronic payment systems.

We also are subject to other legal and regulatory requirements, including the European Union's Restriction on Hazardous Substances (RoHS) directive which may restrict the real certain material in the physical devices that include our solutions and/or require active steps to promote recycling of materials and components. Although the directive has been adopted by the European Commission, national legislation to implement the directive is still pending in the member states.

We comply with the following standards and requirements:

***Security Standards***

Industry and government security standards ensure the integrity of the electronic payment process and protect the privacy of consumers using electronic payment systems. New standards are continually being adopted or proposed as a result of worldwide fraud prevention initiatives, increasing the need for new security solutions and technologies. In order for us to remain compliant with the growing variety of international requirements, we have developed a security architecture that incorporates physical, electronic, operating system, encryption and application-level security measures. This architecture has proven successful even in countries that have particularly stringent and specific security requirements, such as Australia, Canada, the Netherlands, New Zealand, Singapore, Sweden and Switzerland.

***Card Association Standards***

***EMV Standards.*** MasterCard International and Visa International have introduced new security standards to address the growing need for transaction security. One important example is their establishment of EMV, a smart card standards organization that has prescribed specifications for all electronic payment systems to receive certifications for smart card transactions. The EMV standard is designed to ensure global smart card interoperability across all electronic payment systems. To ensure adherence to this standard, specific certifications are required for all electronic payment systems and their application software. We maintain EMV certifications across our applicable product lines.

***Visa and MasterCard PCI Standards.*** Visa International and MasterCard International recently agreed to a common standard methodology for how PIN-enabled devices, or PEDs, are tested and approved. These standards, called Payment Card Industry, or PCI, standards, supersede Visa and MasterCard's respective standards. Effective October 1, 2004, newly submitted point of sale PED models must meet Visa and MasterCard PCI as evaluated by a recognized test laboratory. The PED standards apply to previously existing PEDs effective July 1, 2010. To meet the PCI standards, a PED must pass testing by a laboratory recognized for this purpose. Visa International and MasterCard International will both approve a PED that tests successfully. They have opened the PCI standards to other payment networks that might wish to align their standards with PCI as well. This alignment is expected to enable electronic payment system providers to develop payment technology more quickly and cost effectively. In addition, electronic payment system providers can reduce the complexity of new product development by undergoing security evaluation at one of the certified testing laboratories.

***Payment Processor / Financial Institution Requirements***

U.S. payment processors have two types of certification levels, Class A and Class B. Class B certification ensures that an electronic payment system adheres to the payment processor's basic functional and network requirements. Class A certification adds another stipulation that the processor actively support the electronic payment system on its internal help desk systems. Attainment of Class A certification, which may take up to twelve months, requires working with each payment processor to pass extensive functional and end-user testing and to establish the help desk-related infrastructure necessary to provide Class A support. Attaining Class A certifications increases the number of payment processors that

may actively sell and deploy a particular electronic payment system. We have significant experience in attaining these critical payment processor certifications and have a large portfolio of Class A certifications with major U.S. processors. In addition, several international financial institutions and payment processors have certification requirements that electronic payment systems must comply with in order to process transactions on their specific networks. We have significant direct experience and, through our international distributors, indirect experience in attaining these required certifications across the broad range of system solutions that we offer to our international customers.

#### ***Telecommunications Regulatory Authority and Carrier Requirements***

Our products must comply with government regulations, including those imposed by the Federal Communications Commission and similar telecommunications authorities worldwide regarding emissions, radiation, safety and connections with telephone lines and radio networks. Our products must also comply with recommendations of quasi-regulatory authorities and of standards-setting committees. Our electronic payment systems have been certified as compliant with a large number of national requirements, including those of the Federal Communications Commission and Underwriters Laboratory in the U.S. and similar local requirements in other countries.

Wireless network carriers have standards with which systems connected to their networks must comply. In addition to national requirements for telecommunications systems, many wireless network carriers have their own certification process for devices to be used on their networks. Our wireless electronic payment systems have been certified by leading wireless carrier networks around the world.

#### **Proprietary Rights**

We rely primarily on copyrights, trademarks and trade secret laws to establish and maintain our proprietary rights in our technology and products. We do not own any patents that protect important aspects of our current solutions.

We currently hold trademark registration in approximately 26 countries for VERIFONE and in approximately 39 countries for VERIFONE and our ribbon logo. We currently hold trademark registration in the United States and a variety of other countries for product names and other marks.

We have not had a consistent practice of registering copyrights in our software and other written works. Instead, we have relied upon common law copyright, customer license agreements and other forms of protection. We use non-disclosure agreements and license agreements to protect software and other written materials as copyrighted and/or trade secrets.

In the U.S. and other countries, prior to 2001, our predecessor held patents relating to a variety of point of sale and related inventions, which expire in accordance with the applicable law in the country where filed. In 2001, as part of the divestiture of VeriFone, Inc. from Hewlett-Packard, or HP, HP and VeriFone, Inc. entered into a technology agreement whereby HP retained ownership of most of the patents owned or applied for by VeriFone prior to the date of divestiture. The technology agreement grants VeriFone a perpetual, non-exclusive license to use any of the patented technology retained by HP at no charge. In addition, we hold a non-exclusive license to patents held by NCR related to signature capture in electronic payment systems. This license expires in 2011, along with the underlying patents.

#### **Employees**

As of July 31, 2005, we employed 1,016 persons worldwide, including 368 persons in research and development. None of our employees are represented by a labor union, and we have experienced no work stoppages. We consider our employee relations to be good.

## Facilities

Our principal executive offices are located in approximately 17,500 square feet of leased office space in San Jose, California under a lease expiring in July of 2010. We also lease the following principal facilities in the U.S.:

Use	Location	Approximate square footage	Lease expiration date
R&D / Supply Chain	Rocklin, California	49,000	October 2008
Distribution Center	Lincoln, California	99,000	June 2006
North American Sales Offices	Alpharetta, Georgia	87,500	February 2007
Petro Sales and R&D / Call Center	Clearwater, Florida	75,293	April 2009
R&D and Sales/Distribution Center	Savannah, Georgia	13,900	July 2006

We also lease and occupy regional offices in various cities for our sales, service and application engineering operations. These leases total approximately 49,000 square feet and expire on dates ranging from September 2005 to November 2009.

Outside the U.S., we lease the following principal facilities:

Use	Location	Approximate square footage	Lease expiration date
Sales Office	Sao Paolo, Brazil	4,564	March 2007
Sales Office	London, U.K.	9,510	December 2010
Sales Office	Mexico City, Mexico	6,159	December 2006
Sales Office	Hong Kong	2,090	June 2007
Sales Office	Manila, Philippines	7,707	April 2007

We believe that our facilities are adequate for our current operations and, if necessary, can be replaced with little disruption.

## Geographical Information

Our U.S. net revenues were \$194.5 million, \$228.9 million and \$248.9 million, respectively, for the years ended October 31, 2002, 2003 and 2004. Our net revenues for all other countries were \$101.1 million, \$110.4 million and \$141.2 million, respectively, for the years ended October 31, 2002, 2003 and 2004.

As of October 31, 2002, 2003 and 2004, respectively, our long-lived assets located in the U.S. were \$112.3 million, \$89.9 million and \$69.3 million, and in all other countries were \$13.2 million, \$14.1 million and \$16.1 million.

## Legal Proceedings

In the ordinary course of our business, we are subject to periodic lawsuits, investigations and claims. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceeding to which we are a party is likely to have a material adverse effect on our business, results of operations, cash flows or financial condition.

Our Brazilian subsidiary has been notified of two tax assessments regarding a Brazilian state value added tax, or VAT, regarding the periods from January 2000 to December 2001 and from January 2002 to December 2003, and related to products supplied to us by a contract manufacturer.

The first assessment relates to an asserted deficiency of 5.7 million Brazilian reais (approximately \$2.4 million) including interest and penalties. The tax assessment was based on a clerical error in which our Brazilian subsidiary omitted the required tax exemption number on its invoices. We do not expect that we

will ultimately incur a material liability in respect of this assessment, because we believe, based in part on advice of our Brazilian tax counsel, that we will prevail in the proceedings relating to this assessment. On May 25, 2005, we had an administrative hearing with respect to this audit. Management expects to receive the decision of the administrative judges sometime during the fourth quarter of fiscal 2005. In the event we receive an adverse ruling from the administrative body, even if not final in the matter, we would reexamine the determination as to whether an accrual is necessary.

The second assessment relates to an assertion that our Brazilian subsidiary improperly claimed a VAT exemption to which it was not entitled. We accrued an immaterial amount for the full amount of the assessment, including interest and penalties in the three months ended July 31, 2005. We have not accepted the findings of the auditor and are working with counsel in filing an appeal. However, since we believe that we are less likely to prevail on appeal with respect to the second assessment, we recorded a general and administrative expense for the amount of the taxes, penalties and interest in the nine months ended July 31, 2005.

It is currently uncertain what impact these state tax examinations may have with respect to our use of a corresponding exemption to reduce the Brazilian federal VAT.

## MANAGEMENT

Set forth below is information concerning our directors and executive officers.

Name	Age	Position
Douglas G. Bergeron(1)	44	Chairman of the Board of Directors; Chief Executive Officer
Barry Zwarenstein	57	Senior Vice President and Chief Financial Officer
Jesse Adams	54	Executive Vice President, North America Sales
William Atkinson	51	Executive Vice President, Global Marketing and Business Development
David Turnbull	43	Executive Vice President, Operations
Elmore Waller	56	Executive Vice President, Integrated Solutions
Craig A. Bondy (1)	32	Director
James C. Castle (1)(3)	68	Director
Leslie Denend (2)(3)	64	Director
Robert B. Henske (2)(3)	44	Director
Collin E. Roche (2)	34	Director
Daniel Timm	44	Director

(1) Member of the nominating and corporate governance committee.

(2) Member of the compensation committee.

(3) Member of the audit committee.

Executive officers are appointed by and serve at the pleasure of our board of directors. A brief biography of each person who serves as a director or executive officer follows below.

*Douglas G. Bergeron.* Mr. Bergeron has served as Chairman of the Board of Directors and as Chief Executive Officer of VeriFone Holdings, Inc. since July 2001. From December 2000 to June 2002, Mr. Bergeron was Group President of Gores Technology Group and, from April 1999 to October 2000 served as President and Chief Executive Officer of Geac Computer Corporation. From 1990 to 1999, Mr. Bergeron served in a variety of executive management positions at SunGard Data Systems Inc., including Group CEO of SunGard Brokerage Systems Group and President of SunGard Futures Systems. Mr. Bergeron holds a Bachelor of Arts degree (with Honors) in Computer Science from York University in Toronto, Canada, and a Masters of Science degree from the University of Southern California. Mr. Bergeron is on the board of First Consulting Group of Long Beach, California and the Multiple Sclerosis Society of Silicon Valley and a member of the Listed Company Advisory Committee of the New York Stock Exchange.

*Barry Zwarenstein.* Mr. Zwarenstein joined VeriFone Holdings, Inc. in June 2004 as Senior Vice President and Chief Financial Officer. Mr. Zwarenstein served as Chief Financial Officer of Iomega Corporation from November 2001 to June 2004, of Mellanox Technologies Limited from January 2001 to June 2001, of Acuson Corporation from October 1998 to December 2000, and of Logitech S.A. from July 1996 to September 1998. Mr. Zwarenstein started his career at FMC Corporation, where he held a variety of financial positions, including, at the time of his departure, Chief Financial Officer for FMC Europe in Brussels, Belgium. Mr. Zwarenstein received a Bachelor of Commerce degree from the University of Natal, South Africa and an M.B.A. from the Wharton School of Business at the University of Pennsylvania. He is qualified as a Chartered Accountant (South Africa).

*Jesse Adams.* Mr. Adams has served as Executive Vice President, North America Sales, since July 2001. From July 1999 through December 2000, Mr. Adams was employed by Geac Computer Corporation as President of the Hospitality Group and as Senior Vice President of North America Sales and Marketing for the Enterprise Resource Planning Group. From 1983 through 1999, Mr. Adams was

employed by SunGard Data Systems Inc. in a variety of sales and executive roles, including eight years as SVP of Western Regional Sales. Mr. Adams also worked as a marketing representative and systems engineer at IBM Data Processing Division from 1979 to 1983. Mr. Adams holds a B.S. in Applied Science and Engineering from the U.S. Military Academy at West Point.

*William Atkinson.* Mr. Atkinson has worked for VeriFone Holdings, Inc. since August 2001, and as Executive Vice President of Global Marketing and Business Development since August 2002. From August 2001 through April 2002, Mr. Atkinson served as Vice President, North America Financial Channels at VeriFone. From October 1999 through January 2001, Mr. Atkinson was Senior Vice President, Sales and Marketing at Cayenta, Inc., a subsidiary of Titan Corporation. He was also Senior Vice President, Worldwide Sales Operations at Vertel Corporation, from March 1999 to October 1999. From October 1996 to March 1999, he served in various positions, including Vice President of Worldwide Sales, Chief Financial Officer, and Chief Executive Officer and Chairman of the Board of Directors. Mr. Atkinson has also served in senior sales management roles at Dun and Bradstreet Systems, Inc. and SunGard Data Systems Inc. Mr. Atkinson earned a B.S. from Northern Illinois University.

*David Turnbull.* Mr. Turnbull joined VeriFone in May 2002, serving as Executive Vice President, Operations since July 2004. Prior to joining VeriFone, Mr. Turnbull worked for Apple Computer, Inc. in a variety of engineering and project management positions, and, from January 1998 to August 2001, as Director of Engineering for Consumer Portables and Communication Products. Mr. Turnbull has a B.S. in electrical and computer engineering from University of California at Santa Barbara and is a member of the Institute of Electrical and Electronics Engineers.

*Elmore Waller.* Mr. Waller has served as Executive Vice President, Integrated Solutions since December 2004 and, since joining VeriFone in 1986, has served in a number of leadership positions including Senior Vice President and General Manager of the Worldwide Petro Division. Prior to working at VeriFone, Mr. Waller worked for 11 years at General Electric Company, serving in several financial management positions. Mr. Waller holds an M.B.A. from Syracuse University.

*Craig A. Bondy.* Mr. Bondy has served as a director since July 2002. He is a Principal of GTCR Golder Rauner, L.L.C., which he joined in August 2000. He previously worked in the investment banking department of Credit Suisse First Boston from 1995 until 1998 when he entered the Stanford Graduate School of Business. He received a B.B.A. in Finance from the Honors Business Program at the University of Texas at Austin and an M.B.A. from the Stanford Graduate School of Business. Mr. Bondy serves on the boards of directors of several private companies in GTCR's portfolio.

*Dr. James C. Castle.* Dr. Castle has served as a director since January 2005. Dr. Castle is currently President and Chief Executive Officer of Castle Information Technologies, LLC, a provider of information technology and board of directors consulting services, since 2001. He was formerly the Chairman of the Board and Chief Executive Officer of DST Systems of California, Inc. (formerly USCS International, Inc.), a position he held from August 1992 to April 2002. DST Systems of California is a worldwide provider of computer services to the cable industry and a provider of billing services to the cable, telephony, financial services and utility industries. From 1991 to 1992, Dr. Castle was President and Chief Executive Officer of Teradata Corporation, until that company merged with NCR Corporation, a subsidiary of AT&T. From 1987 to 1991, Dr. Castle was Chairman of the Board, President, Chief Executive Officer and a director of Infotron Systems Corporation. Dr. Castle earned a Ph.D. in computer and information sciences from the University of Pennsylvania, an M.S.E.E. from the University of Pennsylvania and a B.S. from the U.S. Military Academy at West Point. Dr. Castle is also a director of ADC Telecommunications, Inc., a supplier of network equipment, software and systems integration services, The PMI Group, Inc., a provider of credit enhancement and other products that promote homeownership and facilitate mortgage transactions in the capital markets, and Southwest Water Company, a provider of a broad range of services, including water production and distribution.

*Dr. Leslie G. Denend.* Dr. Denend has served as a director since January 2005. Dr. Denend was President of Network Associates, Inc., from December 1997 until May 1998. Since 1998, Dr. Denend has served on the boards of numerous public and private companies. Dr. Denend also was President and CEO of Network General Corporation from February 1993 until December 1997 and Chairman, President and CEO of Vitalink Communications Corporation from October 1990 until its acquisition by Network Systems Corp. in June 1991. Dr. Denend remained as a business unit president at Network Systems Corp. until December 1992. He was Executive Vice President at 3Com Corporation from January 1989 until October 1990. He was also a partner in McKinsey and Company from December 1984 until January 1989. Dr. Denend served as Executive Assistant to the Executive Director of the Council on International Economic Policy in the Executive Office of the President from August 1974 until August 1975, as a member of the National Security Council Staff from June 1977 until 1979, when he became the Special Assistant to the Assistant to the President for National Security Affairs, until January 1981. Dr. Denend also served as Deputy Director of the Cabinet Council on Economic Affairs from May 1982 until June 1983. Dr. Denend earned a Ph.D. and an M.B.A. from Stanford University and a B.S. from the U.S. Air Force Academy. He also currently serves as a director of Exponent, Inc., a science and engineering consulting firm, and McAfee, Inc., a supplier of computer security solutions.

*Robert B. Henske.* Mr. Henske has served as a director since January 2005. Mr. Henske is currently senior vice president and general manager of the consumer tax group of Intuit Inc., which he joined in 2003. Mr. Henske served as Intuit's Chief Financial Officer from 2003 to 2005. He was previously CFO of Synopsys Inc., a supplier of electronic design automation software from May 2000 until January 2003. Mr. Henske was also CFO at American Savings Bank, a partner at Oak Hill Capital Management, a Robert M. Bass Group private equity investment firm, and a partner at Bain & Company. He earned an M.B.A. in finance and strategic planning from the Wharton School at the University of Pennsylvania and a B.A. in chemical engineering from Rice University.

*Collin E. Roche.* Mr. Roche has served as a director since July 2002. Mr. Roche is currently a Principal of GTCR Golder Rauner, L.L.C., which he joined in 1996 and rejoined in 2000 after receiving an M.B.A. from Harvard Business School. Prior to joining GTCR, Mr. Roche worked as an investment banking analyst at Goldman, Sachs & Co. and as an associate at Everen Securities. He received a B.A. in Political Economy from Williams College. Mr. Roche serves on the boards of directors of Syniverse Holdings, Inc., a provider of mission-critical technology services to wireless telecommunications companies worldwide, and several private GTCR portfolio companies.

*Daniel Timm.* Mr. Timm has served as a director since July 2002. He is a Principal of GTCR Golder Rauner, L.L.C., which he joined in 2001. He was previously Chief Financial Officer at Chatham Technologies, a contract electronics manufacturer, and President and Chief Operating Officer at The Bruss Company, a food processor. Mr. Timm earned an M.B.A. from the University of Chicago and a B.S. in Accountancy from the University of Illinois and is a Certified Public Accountant. Mr. Timm currently serves as a director of several private companies in GTCR's portfolio.

#### **Composition of our Board of Directors**

Our board of directors consists of seven members. Our board of directors is elected annually, and each director holds office for a one-year term.

Messrs. Bergeron, Bondy, Roche and Timm were appointed to the board pursuant to a stockholders agreement among Mr. Bergeron, us, certain affiliates of GTCR and certain funds managed by TCW Asset Management Company and its affiliates, referred to collectively in this prospectus as TCW/Crescent Mezzanine, as well as a related prior letter agreement between Mr. Bergeron and such affiliates of GTCR that was entered into in contemplation of our 2002 acquisition. The parties to the stockholders agreement agreed to cause the election to the board of, among others, our Chief Executive Officer (Mr. Bergeron) and three representatives designated by an affiliate of GTCR (Messrs. Bondy, Roche and Timm). In

addition, Drs. Castle and Denend and Mr. Henske were appointed to the board at the agreement of Mr. Bergeron and an affiliate of GTCR, also as contemplated by the stockholders agreement. The relevant provision of the stockholders agreement expired upon the completion of our initial public offering on May 4, 2005.

### **Committees of our Board of Directors**

Our board of directors has an audit committee, a compensation committee and a nominating and governance committee.

*Audit Committee.* The audit committee of our board of directors appoints, determines the compensation for and supervises our independent registered public accounting firm, reviews our internal accounting procedures, systems of internal controls and financial statements, reviews and approves the services provided by our internal and independent registered public accounting firm, including the results and scope of their audit, and resolves disagreements between management and our independent registered public accounting firm. The audit committee currently consists of Drs. Castle and Denend, as well as Mr. Henske, as chairman, whom we have designated as an "audit committee financial expert" as defined in applicable SEC rules.

*Compensation Committee.* The compensation committee of our board of directors will review and approve the compensation of our chief executive officer and recommend to the board of directors the compensation and benefits of all of our executive officers and administer our equity incentive plans. The compensation committee consists of Dr. Denend, as chairman, and Messrs. Henske and Roche.

*Nominating and Corporate Governance Committee.* The role of the nominating and corporate governance committee is to identify individuals qualified to become members of the board of directors, recommend that the board of directors select director nominees for the next annual meeting of stockholders, and develop and recommend to the board of directors a set of corporate governance principles. The nominating and corporate governance committee consists of Dr. Castle, as chairman, and Messrs. Bergeron and Bondy.

### **Director Compensation**

All directors who are not our employees or representatives of our major stockholders receive an annual fee of \$30,000. In addition, each member of our audit committee receives an additional annual fee of \$5,000, with the chairman of the audit committee receiving \$10,000; each member of our compensation committee receives an additional annual fee of \$2,500, with the chairman of our compensation committee receiving \$5,000; and each member of our nominating and corporate governance committee receives an additional annual fee of \$2,500, with the chairman of the nominating and corporate governance committee receiving \$5,000. These additional annual fees are payable only to committee members who are not our employees or affiliated with any of our principal stockholders. All annual fees are paid in quarterly installments. In addition, under our Outside Directors' Stock Option Plan, we have granted to each director who is not our employee or affiliated with any of our principal stockholders, upon the director's initial appointment to the board, options to purchase 30,000 shares of our common stock and plan, each year thereafter, to grant options to purchase an additional 7,500 shares of our common stock. The exercise price for these options is the fair market value of our common stock at the time of the grant of the options. For each grant of options, one quarter of the options vest after one year, and the remainder vest ratably by quarter over the succeeding three years. The options have a term of seven years.



**Executive Compensation**

The following table presents information regarding compensation earned during the year ended October 31, 2004 by our Chief Executive Officer and our four other highest-paid executive officers. These executives are referred to as the "named executive officers" elsewhere in this prospectus.

**Summary Compensation Table**

Name and Principal Position(1)	Annual Compensation			Long-Term Compensation		All Other Compensation (\$)
	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(2)	Awards		
				Restricted Stock Awards (\$)(3)	Securities Underlying Options (#)	
Douglas G. Bergeron Chairman of the Board of Directors and Chief Executive Officer	534,438	350,000	38,428			351,240(4)
Jesse Adams Executive Vice President, North America Sales	279,917	108,129	2,560			11,520(5)
William Atkinson Executive Vice President, Global Marketing and Business Development	274,083	104,700	2,560			7,536(6)
David Turnbull Executive Vice President, Operations	249,083	94,741	2,560			792(7)
Elmore Waller Executive Vice President, Integrated Systems	223,958	107,769	1,024		10,000	8,984(8)

- (1) The named executive officers do not include our Chief Financial Officer, Barry Zwarenstein, who became our Chief Financial Officer as of July 1, 2004. Mr. Zwarenstein's base salary for the year ending October 31, 2005 is \$300,000 and his target bonus is \$150,000, based on quarterly and annual goals. On commencement of employment, Mr. Zwarenstein was granted options to purchase 325,000 shares of common stock at an exercise price of \$3.28 per share.
- (2) Relates to the difference between fair value at time of the grant of restricted stock and the purchase price for restricted stock granted under our 2002 Securities Purchase Plan. The amount represents the pro rata amount of such discount for the restricted stock vesting during the fiscal year.
- (3) As of October 31, 2004, our named executive officers owned restricted shares of our common stock with values as follows: Mr. Bergeron (together with his affiliate DGB Investments, Inc.), 2,346,257 shares with a value of \$23,462,570; Mr. Adams, 156,417 shares with a value of \$1,564,170; Mr. Atkinson, 156,417 shares with a value of \$1,564,170; Mr. Turnbull, 156,417 shares with a value of \$1,564,170; and Mr. Waller, 62,567 shares with a value of \$625,670. These values are based on our initial public offering price of \$10.00 per share on May 4, 2005. The restricted stock described in this footnote will vest ratably on July 1 of each of the years 2005, 2006 and 2007. Dividends are payable on the restricted stock described in this footnote; however, each of the named executive officers has agreed with us that, if he voluntarily resigns, he will repay to us any cash dividends, net of federal, state and local taxes, that he has received in respect of shares of stock that remain restricted on the date of resignation.



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- (4) Includes \$175,000 of relocation related payment, \$171,878 paid to compensate Mr. Bergeron for taxes due on the relocation related payment, \$3,570 of company 401(k) plan matching contribution and \$792 of life insurance premium.
- (5) Includes \$10,728 of company 401(k) plan matching contribution and \$792 of life insurance premium.
- (6) Includes \$6,744 of company 401(k) plan matching contribution and \$792 of life insurance premium.
- (7) Includes \$792 of life insurance premium.
- (8) Includes \$8,192 of company 401(k) plan matching contribution and \$792 of life insurance premium.

**Stock Option Grants in the Year Ended October 31, 2004**

The following table sets forth information regarding grants of stock options we granted during the year ended October 31, 2004 to the named executive officers. We granted options to purchase common stock equal to a total of 742,000 shares during the year ended October 31, 2004. Potential realizable values are net of exercise price before taxes, and are based on the assumption that our common stock appreciates, from the initial public offering price of \$10.00 per share on May 4, 2005, at the annual rate shown, compounded annually, from the date of grant until expiration of the ten-year option term. These numbers are calculated based on SEC requirements and do not reflect our projection or estimate of future stock price growth.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Shares of Common Stock Underlying Option/ SARs Granted	Percentage of Total Options/SARs Granted to Employees in FY 2004	Exercise or Base Price Per Share	Expiration Date	5%	10%
Douglas G. Bergeron						
Jesse Adams						
William Atkinson						
David Turnbull						
Elmore Waller	10,000	1.35%	\$ 3.05	1/1/2014	\$ 132,390	\$ 228,874

**Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values**

The following table sets forth the number and value of securities underlying options held as of October 31, 2004, based on the initial public offering price of \$10.00 per share on May 4, 2005.

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Shares Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Douglas G. Bergeron						
Jesse Adams			11,250	13,750	\$ 112,500	\$ 137,500
William Atkinson			11,250	13,750	\$ 112,500	\$ 137,500
David Turnbull			11,250	13,750	\$ 112,500	\$ 137,500
Elmore Waller			9,000	21,000	\$ 90,000	\$ 210,000

**Employment Agreements**

*Douglas G. Bergeron*

We entered into a senior management agreement with Mr. Bergeron dated July 1, 2002, containing provisions relating to employment terms and stock ownership.

The senior management agreement provides for Mr. Bergeron to serve as the Chief Executive Officer of VeriFone, Inc., until his resignation, disability or death, or a decision by our board of directors to terminate his employment with or without cause (as defined in the agreement). Mr. Bergeron's annual base salary was initially set at \$510,000, subject to any increase as determined by the board of directors based on achievements of budgetary or other objectives set by the board, and Mr. Bergeron was also eligible for a bonus of up to 50% of his annual base salary, based upon the achievement of budgetary and other objectives set by the board. Mr. Bergeron was paid a base salary of \$513,188 and a bonus of \$305,000 for fiscal year 2003 and a base salary of \$534,438 and a bonus of \$350,000 for fiscal year 2004. On December 27, 2004, Mr. Bergeron's senior management agreement was amended to provide for an annual base salary of \$535,000 for fiscal year 2005 and to provide for Mr. Bergeron to be eligible for a bonus of up to 100% of his annual base salary.

If Mr. Bergeron's employment is terminated without cause or he resigns for good reason (as defined in the agreement), then during the one-year period following his termination (or any extension to that period which may apply), Mr. Bergeron would be entitled to receive an amount equal to his annual base salary plus an amount equal to the bonus he received for the immediately preceding full fiscal year.

Mr. Bergeron's senior management agreement contains provisions requiring him to protect the confidentiality of our proprietary and confidential information. Mr. Bergeron has agreed not to compete with us or solicit our employees or customers for a period of one year if he is terminated without cause or resigns for good reason, or for a period of two years if his employment is terminated for any other reason.

Pursuant to this senior management agreement, Mr. Bergeron purchased 3,910,428 shares, designated as carried common, of our voting common stock at a price of \$0.0333 per share; and DGB Investments, Inc., a corporation controlled by Mr. Bergeron, purchased 2,021,791 shares, designated as co-invest common, of our voting common stock at a price of \$0.0333 per share and 3,302 shares of our Class A redeemable convertible preferred stock at a price of \$1,000 per share. We redeemed all of our outstanding Class A redeemable convertible preferred stock on June 30, 2004 for an amount equal to \$1,000 per share plus accrued and unpaid dividends, or a total of \$3,945,642 for the Class A redeemable convertible preferred stock owned by DGB Investments.

The co-invest common was fully vested upon purchase by DGB Investments, Inc., the corporation controlled by Mr. Bergeron, subject to a right of repurchase which terminated upon the completion of our initial public offering on May 4, 2005. The carried common vests at a rate of 20% of the entire amount of carried common per year, subject to Mr. Bergeron's continued employment, with an initial vesting date of July 1, 2003. All of the unvested carried common will vest upon a sale of the company, if Mr. Bergeron's employment has not been terminated at that time.

The senior management agreement provides that in the event that Mr. Bergeron ceases to be employed by us, all stock purchased pursuant to the senior management agreement will be subject to repurchase by us, or by affiliates of GTCR and TCW/Crescent Mezzanine to the extent that we do not exercise our repurchase right to all applicable shares. The repurchase price for each share depends in part on whether it is vested. The repurchase price for each unvested share of common stock is \$0.0333 per share. The purchase price for each vested share of common stock is its fair market value as of the date of termination, except that if Mr. Bergeron's employment is terminated for cause, the purchase price for each vested share of carried common will be \$0.0333. This repurchase right terminated with respect to vested shares upon the completion of our initial public offering on May 4, 2005.

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The senior management agreement prohibits the transfer of Mr. Bergeron's carried common and co-invest common owned by DGB Investments, Inc., other than transfers:

to us or specified affiliates of GTCR or TCW/Crescent Mezzanine pursuant to the repurchase right described above;

family members, pursuant to laws of inheritance or to a guardian, in each case so long as the transferee agrees to be bound by the transfer restrictions; or

pursuant to certain public sales of common stock executed by specified affiliates of GTCR or TCW/Crescent Mezzanine.

By a separate agreement with us and VeriFone, Inc., Mr. Bergeron (together with a corporation and trusts through which he beneficially owns shares of our common stock) has agreed not to use the public-sale exception to the general prohibition on transfer, from the completion of our initial public offering on May 4, 2005 until the earlier of (i) November 5, 2006 and (ii) the completion of this offering. See "Certain Relationships and Related Party Transactions Registration Rights Agreement Amendment to Registration Rights Agreement with Mr. Bergeron, DGB Investments and Other of His Affiliates."

The transfer restrictions survive with respect to each share of carried common and co-invest common until the earliest of:

the date on which such share is transferred in a public sale permitted by the agreement; and

the consummation of a sale of the company.

### ***Barry Zwarenstein***

We entered into a change in control severance agreement effective July 1, 2004 with Mr. Zwarenstein that requires us to provide specified payments and benefits to Mr. Zwarenstein if we undergo a change in control that results in a qualifying termination. A qualifying termination occurs if Mr. Zwarenstein's employment is terminated for cause or if he resigns for good reason (as defined in the agreement) in the period beginning 90 days before a change in control and ending 18 months after a change in control or otherwise, in certain circumstances if the termination occurs prior to the above-referenced period if the termination was at the request of a person that had indicated an intention to, or had taken steps reasonably calculated to, effect a change in control.

A change in control for purposes of the agreement means any of the following events, subject to specified exceptions:

any person or group of persons, other than Douglas G. Bergeron and his affiliates and investment funds affiliated with GTCR, become the beneficial owners of 40% or more of our outstanding voting securities;

the consummation of a merger or similar transaction that requires the approval of our stockholders (either for the transaction itself or for the issuance of securities);

a change in the majority composition of our board of directors;

a sale of all or substantially all of our assets; and

our liquidation or dissolution.

If there is a qualifying termination, we must pay Mr. Zwarenstein, within 10 days following the date of termination, the following:

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a sum equal to the total of (i) Mr. Zwarenstein's base salary through the date of termination and any bonuses that have become payable and have not been paid or deferred, (ii) a pro rata portion of

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Mr. Zwarenstein's annual bonus for the fiscal year in which termination occurs (subject to specified minimums and elimination of duplicative payments) and (iii) any accrued vacation pay and compensation previously deferred by Mr. Zwarenstein, other than pursuant to a tax-qualified plan; and

a sum equal to the total of (i) Mr. Zwarenstein's annual base salary during the twelve-month period immediately prior to the date of termination and (ii) his target incentive bonus for the fiscal year in which the date of termination or the change in control occurs (whichever is greater).

In connection with a qualifying termination, we must also provide Mr. Zwarenstein with continuing medical, insurance and related benefits for twelve months following the date of termination.

In connection with the consummation of a merger or similar transaction or a sale of all or substantially all of our assets that constitutes a change in control, the agreement also provides for the full vesting of any stock options, restricted stock and other stock-based rights held by Mr. Zwarenstein pursuant to the New Founders' Stock Option Plan unless a specific grant otherwise provides.

The agreement provides for modification to these payments and other benefits in order to mitigate the tax effects on Mr. Zwarenstein of a specified federal excise tax.

Mr. Zwarenstein has agreed that in the event of a tender or exchange offer, proxy contest or the execution of an agreement whose consummation would constitute a change in control, he will not voluntarily leave his employment with us (other than in the case of death, mandatory retirement or for good reason) until the change in control occurs or is terminated or abandoned.

This agreement continues in effect until we give two years' written notice of cancellation, but the agreement ends immediately if Mr. Zwarenstein's employment is terminated more than 90 days before a change in control.

### **Benefit Plans**

#### *2002 Securities Purchase Plan*

Our 2002 Securities Purchase Plan is designed to provide incentives to our employees through the sale of common stock. The plan empowers our board of directors to select participants in the plan from among our employees and to sell to any participant any common stock in such quantities, at such prices, on such terms and subject to such conditions as may be established by the board of directors under the plan.

In 2002 and 2003 we sold an aggregate of 1,929,145 shares of our voting common stock under the plan to 11 of our executives at \$0.0333 per share for an aggregate purchase price of \$64,300. Generally, the terms of these sales provide that in the event the purchaser ceases to be employed by us, the stock will be subject to repurchase by us, or by affiliates of GTCR and TCW/Crescent Mezzanine to the extent that we do not exercise our repurchase right. The repurchase price for each share depends in part on whether it is vested. The repurchase price for each unvested share is its original purchase price. The repurchase price for each vested share is its fair market value as of the date of termination of employment (except in the case of termination for cause, in which case the repurchase price is the original purchase price). The repurchase right terminated with respect to vested shares upon the completion of our initial public offering on May 4, 2005.

The terms of these sales also generally prohibit the transfer of the shares, other than transfers (i) to us or to affiliates of GTCR or TCW/Crescent Mezzanine pursuant to the repurchase right described above, (ii) family members, pursuant to laws of inheritance or to a guardian, in each case so long as the transferee agrees to be bound by the transfer restrictions or (iii) pursuant to certain public sales of common stock

executed by specified affiliates of GTCR or TCW/Crescent Mezzanine. The transfer restrictions survive with respect to each share until the earliest of:

the date on which such share is transferred in a public sale permitted by the agreement; and

the consummation of a sale of the company.

We made grants under the plan on July 1, 2002 to the following executive officers, in each case for a purchase price of \$0.0333 per share: Jesse Adams (260,695 shares), William Atkinson (260,695 shares), David Turnbull (260,695 shares) and Elmore Waller (104,278 shares). These shares vest at 20% per year, on each of the first five anniversaries of the grant date, in each case if and only if the as of such anniversary the executive officer has been continuously employed by us from the grant date. All unvested stock becomes vested upon a sale of the company, if the executive officer is then still employed by us. This public offering is not a sale of the company for purposes of this vesting term. The fair value of the shares at the time of grant was \$0.08 per share.

#### ***New Founders' Stock Option Plan***

Our New Founders' Stock Option Plan permits grants to executives or other key employees of options to purchase shares of our nonvoting common stock. This plan is available generally to our employees. All options granted or to be granted under the plan will be options to purchase our common stock.

Grants of options to purchase an aggregate of 1,500,000 shares are currently authorized under the plan. The options have a term of ten years and generally vest over a period of five years from the date of grant, with 20% vesting after one year, and an additional 5% vesting every three months thereafter. Through July 31, 2005, we had issued options under the plan to purchase an aggregate of 1,449,030 shares, net of cancellations, at a weighted average exercise price of \$4.00. At July 31, 2005, there were 1,387,045 options outstanding at a weighted average exercise price of \$4.04, of which 400,455 were exercisable, at a weighted average exercise price of \$3.09 per share.

#### ***Outside Directors' Stock Option Plan***

Our Outside Directors' Stock Option Plan permits grants of options to purchase shares of our voting common stock to members of our board of directors who are not our employees or representatives of our major stockholders. The plan authorizes grants of options to purchase an aggregate of 225,000 shares. The options may have a term of no more than seven years and generally vest over a period of four years from the date of grant, with one quarter vesting after one year, and the remainder vesting ratably by quarter over the succeeding three years, but generally vest immediately upon a sale of the company for an optionholder who has been a member of the board continuously from the grant until the sale of the company. Through July 31, 2005, we had issued options under the plan to purchase an aggregate of 90,000 shares at a weighted average exercise price of \$10.00 per share of which zero were exercisable.

#### ***2005 Employee Equity Incentive Plan***

Our 2005 Employee Equity Incentive Plan permits grants of incentive or non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and share units and other stock-based awards. Grants may be made to our officers and employees and other individuals performing services for us. The plan authorizes the issuance of an aggregate of 3,100,000 shares of our common stock. Through July 31, 2005, we had issued options under the plan to purchase an aggregate of 1,957,200 shares net of cancellations, at a weighted average exercise price of \$10.11 per share. At July 31, 2005, there were 1,957,200 options outstanding at a weighted average exercise price of \$10.11, of which zero were exercisable.



**Limitation of Liability and Indemnification of Officers and Directors**

Our certificate of incorporation generally provides that our directors will not be liable to us or to our stockholders for breach of a fiduciary duty. Our bylaws provide for indemnification against all losses actually incurred by directors and officers in connection with any action, suit or proceeding relating to their position as a director or officer. Our bylaws also provide for indemnification or reimbursement of expenses to any of our employees. These provisions of our certificate of incorporation and bylaws are discussed further under the heading "Description of Our Capital Stock - Limitation of Liability and Indemnification Matters."

We expect to enter into separate indemnification agreements with each of our directors and officers which may be broader than the specific indemnification provisions contained in Delaware law. These indemnification agreements require us, among other things, to indemnify our officers and directors against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from bad faith or active and deliberate dishonesty, or where the director or officer received an improper personal benefit or, in a criminal proceeding, had reasonable cause to believe that his or her conduct was unlawful. These indemnification agreements also require us to advance any expenses incurred by the directors or officers as a result of any proceeding against them as to which they could be indemnified and to obtain directors' and officers' insurance if available on reasonable terms.

## **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

Since October 31, 2001, there has not been, nor is there currently planned, any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeds \$60,000 and in which any director, executive officer or holder of more than 5% of our capital stock or any member of such persons' immediate families had or will have a direct or indirect material interest, other than agreements which are described under the caption "Management" and the transactions described below.

### **Transactions with Certain Affiliates**

Since July 1, 2002, we have paid approximately \$2.1 million to Driver Alliant Insurance Services, Inc., of which Driver Alliant received approximately \$111,000 as service fees for insurance brokerage services and the remainder of which was remitted to insurers as insurance premiums, and we have paid approximately \$91,000 to Horn Murdock Cole for consulting services. Both of these entities are controlled by GTCR. While we believe that each of these transactions was on terms substantially comparable to those we could have obtained from unaffiliated parties, we did not seek proposals from third parties for their services. We no longer receive services from any of the foregoing entities controlled by GTCR, other than from Driver Alliant for health insurance brokerage. We have also paid management and other fees to GTCR described under the caption "Our 2002 Acquisition Professional Services Agreement" elsewhere in this prospectus.

We paid management fees of \$2,045,000 to an affiliate of Gores Technology Group and of Alec Gores, one of our principal stockholders, during the period from November 1, 2001 to June 30, 2002. During the period from November 1, 2001 to October 31, 2002, we also paid approximately \$1,767,000 to MPC Computers, LLC, formerly known as Micron PC, LLC, an affiliate of Gores Technology Group and of Alec Gores. The fees paid to Gores Technology Group and Alec Gores consisted of fees for management and strategic consulting services. The fees paid to MPC Computer, LLC were for information technology support, payroll and administrative support services.

### **Indemnification and Employment Agreements**

As permitted by the Delaware General Corporation Law, we have adopted provisions in our amended and restated certificate of incorporation that authorize and require us to indemnify our officers and directors to the full extent permitted under Delaware law, subject to limited exceptions. We have also entered, and intend to continue to enter, into separate indemnification agreements with each of our directors and officers which may be broader than the specific indemnification provisions contained in Delaware law. See "Management Limitation of Liability and Indemnification of Officers and Directors." We have also entered into change of control agreements and/or employment agreements with our Chief Executive Officer and our Chief Financial Officer. See "Management Employment Agreements."

### **Stock Option Grants**

We have granted stock options to purchase shares of our common stock to our executive officers and directors. See "Principal and Selling Stockholders" and "Management Summary Compensation Table."

### **Restricted Stock Grants to Executive Officers**

We granted restricted stock to our CEO in connection with our 2002 acquisition. See "Management Employment Agreements Douglas G. Bergeron."

### **Our 2002 Acquisition**

On July 1, 2002, we acquired all of the outstanding common stock of VeriFone, Inc., our principal operating subsidiary, from VeriFone Holding Corp., a wholly owned subsidiary of Gores Technology

Group. Our 2002 acquisition was financed through (i) borrowings of \$95 million, including a \$35 million revolving and term loan facility with a third party and a \$60 million senior subordinated loan agreement with affiliates of GTCR and TCW/Crescent Mezzanine, and (ii) proceeds of approximately \$1 million from the issuance of common stock and \$63 million from the issuance of class A redeemable convertible preferred stock. The loan agreement with affiliates of GTCR and TCW/Crescent Mezzanine also contained warrants to purchase common stock and Class A redeemable convertible preferred stock.

***Senior Subordinated Loan Agreement with Affiliates of GTCR and TCW/Crescent Mezzanine***

Under the senior subordinated loan agreement, we borrowed an aggregate of \$60 million under promissory notes, consisting of \$30 million borrowed from each of GTCR and TCW/Crescent Mezzanine, to facilitate the acquisition of VeriFone, Inc. The notes bore interest at 13.0% per annum, which was payable quarterly, and were due in full in July 2012. The promissory notes were fully repaid in June 2004 with proceeds from our secured credit facility.

In conjunction with the loan agreement, an affiliate of GTCR received warrants to purchase 2,577,102 shares of our voting common stock for \$0.0067 per share and 4,209 shares of our class A redeemable convertible preferred stock for \$0.01 per share, and affiliates of TCW/Crescent Mezzanine were issued warrants to purchase 2,577,102 shares of our voting common stock for \$0.0067 per share and 4,209 shares of our class A redeemable convertible preferred stock for \$0.01 per share. In each case, the exercise price for the warrants was deemed paid on issuance of the promissory notes. These lenders immediately exercised the warrants for our class A redeemable convertible preferred stock, and the affiliate of GTCR immediately exercised all of their warrants to purchase our voting common stock. The affiliates of TCW/Crescent Mezzanine exercised their warrants to purchase our voting common stock in June 2004.

***Issuance of Common Stock in Our 2002 Acquisition***

On July 1, 2002, in connection with our 2002 acquisition, we issued an aggregate of 5,932,219 shares of voting common stock to Mr. Bergeron and an affiliate pursuant to a senior management agreement with Mr. Bergeron. These arrangements are described in greater detail under the caption "Management Employment Agreements Douglas G. Bergeron" elsewhere in this prospectus. In addition, on July 1, 2002 we issued under our 2002 securities purchase plan an aggregate of 1,199,198 shares of voting common stock to eight other executives. These arrangements are described in greater detail under the caption "Management Benefit Plans 2002 Securities Purchase Plan" elsewhere in this prospectus.

***Issuance of Class A Redeemable Convertible Preferred Stock***

In July 2002, we issued 4,209 shares of class A redeemable convertible preferred stock to affiliates of GTCR and TCW/Crescent Mezzanine pursuant to the exercise of warrants, and sold 3,302 shares of class A redeemable convertible preferred stock for \$1,000 per share to DGB Investments, Inc., a company controlled by Douglas G. Bergeron, our chief executive officer, pursuant to a senior management agreement.

On June 30, 2004, we redeemed all outstanding class A redeemable convertible preferred stock for \$1,000 per share plus all accrued and unpaid dividends aggregating to \$86.2 million.

Dividends on each share of class A redeemable convertible preferred stock accrued on a daily basis at a rate of 9% per annum of the sum of the liquidation value, which was \$1,000 per share, plus accumulated and unpaid dividends. To the extent not paid on March 31, June 30, September 30, and December 31 of each year, all dividends that had accrued on each share of class A redeemable convertible preferred stock outstanding accumulated and remained accumulated until paid. At the request of a majority of the holders of the class A redeemable convertible preferred stock, we would have applied the net proceeds from any public offering to redeem all or any portion of the shares of class A redeemable convertible preferred stock then outstanding at \$1,000 per share plus accrued and unpaid dividends.

### Agreements Related to Our 2002 Acquisition

In connection with our 2002 acquisition, we and our subsidiaries entered into several agreements with various related parties under which we have certain ongoing obligations, as described below.

**Purchase Agreement.** We issued common stock and Class A preferred stock in our 2002 acquisition to affiliates of GTCR and TCW/Crescent Mezzanine pursuant to a purchase agreement. The Class A preferred stock has been redeemed according to its terms and is no longer outstanding. The purchase agreement, as amended effective upon the completion of this offering, imposes continuing requirements on us in favor of the stockholders who purchased stock in our 2002 acquisition, as well as in favor of certain of their assignees.

We must deliver periodic financial statements and other financial information to the affiliates of GTCR and TCW/Crescent Mezzanine that purchased our stock in the recapitalization, as well as to any person or entity to which they may assign such stock, as long as that person holds any of our common stock.

In addition, until GTCR and its affiliates own less than 37.5% of the shares of our common stock it owned immediately following our initial public offering (i.e. less than 11,962,373 shares), we will be subject to the following restrictions:

GTCR will have the right to designate at least one member of each of the compensation committee and nominating and corporate governance committee of our board of directors, and

we may not amend, modify or waive any provision of any existing agreement with key executives, including Douglas G. Bergeron, Jesse Adams, William Atkinson, David Turnbull, Elmore Waller, Nigel Bidmead and Robert Lopez, without the consent of the holders of a majority of the shares of common stock that we issued in our 2002 acquisition to affiliates of GTCR and TCW/Crescent Mezzanine (to the extent still held by them).

**Stockholders Agreement.** In connection with our 2002 acquisition, we entered into a stockholders agreement with certain executives and affiliates of GTCR and TCW/Crescent Mezzanine and an affiliate of Gores Technology Group and its successors.

The stockholders agreement also has a provision that applies to transactions in which we undergo a change in control. Subject to specified conditions, the agreement requires the stockholders who are parties to it to consent to any sale of VeriFone Holdings to a non-affiliate of GTCR if the sale is approved by the holders of a majority of the shares subject to the agreement. This provision generally applies to any set of transactions that results in the acquisition, by a person or group of related persons, of substantially all of our assets or of an amount of our stock with sufficient voting power to elect a majority of our directors. However, a public offering of our stock or a sale to GTCR affiliates is not subject to this provision.

**Professional Services Agreement.** In connection with our 2002 acquisition, our subsidiary VeriFone, Inc. entered into a professional services agreement with GTCR, pursuant to which VeriFone, Inc. engaged GTCR as a financial and management consultant. Under this agreement, GTCR agrees to consult with the boards of directors and management of us and our affiliates regarding corporate strategy, budgeting of future corporate investments, acquisition and divestiture strategies, and debt and equity financings. VeriFone, Inc. agrees to pay GTCR an annual management fee of \$250,000, and to reimburse GTCR for fees and expenses incurred by GTCR or its personnel. For the nine months ended July 31, 2005, we paid GTCR a management fee of \$63,000 under this agreement. VeriFone, Inc. also agreed to pay GTCR a placement fee equal to 1% of the gross amount of any debt or equity financing of VeriFone Holdings, Inc., and to indemnify GTCR and its personnel against losses arising from their performance under the agreement (except due to gross negligence or willful misconduct). We paid GTCR approximately \$1.6 million in connection with our 2002 acquisition and approximately \$2.9 million in connection with our establishment of our secured credit facility. The professional services agreement was terminated prior to

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the completion of our initial public offering on May 4, 2005, and no placement fee was paid to GTCR in connection with our initial public offering or will be payable to GTCR in connection with this offering.

### **Registration Rights Agreement**

We entered into a registration rights agreement pursuant to which we have agreed to register for sale under the Securities Act shares of our common stock in the circumstances described below. This agreement provides some stockholders with the right to require us to register common stock owned by them and other stockholders who are parties to the agreement, and provides stockholders who are parties to the agreement with the right to include common stock owned by them in a registration statement under most other circumstances.

#### *Demand Rights*

The holders of a majority of the shares described below, acting as a single group, have the right to require us to register such shares:

shares of our common stock issued to specified affiliates of GTCR and TCW/Crescent Mezzanine as part of our 2002 acquisition, as well as any other shares of common stock owned by any person who owns such shares issued as part of our 2002 acquisition; and

shares of our common stock issuable on the exercise of warrants that have been or may be issued to specified affiliates of GTCR and TCW/Crescent Mezzanine, as well as any other shares of common stock owned by any person who owns shares issued on exercise of such warrants.

We call the right to require us to register shares a demand right, and the resulting registration a demand registration. Stockholders with demand rights may make an unlimited number of such demands for registration on Form S-1 or, if available to us, on Form S-3. In addition, the holders of a majority of the shares or warrants described above that were issued initially to specified affiliates of TCW/Crescent Mezzanine may separately demand registration once on Form S-3 beginning on October 27, 2005, if registration on Form S-3 is then available to us. Holders of piggyback rights, described below, may include shares they own in a demand registration.

#### *Piggyback Rights*

A larger group of stockholders can request to participate in, or "piggyback" on, registrations of any of our securities for sale by us or by a third party. We call this right a piggyback right, and the resulting registration a piggyback registration. The piggyback right applies to the following shares:

the shares described above that have demand rights;

shares of our common stock held by specified executives, as well as any other executive who, with the consent of an affiliate of GTCR, becomes a party to the registration rights agreement. As of December 31, 2004, the executives who were parties to the registration rights agreement were Messrs. Adams, Atkinson, Bergeron, Turnbull and Waller, Nigel Bidmead and Robert Lopez, as well as several former executives who remain stockholders, Denis Calvert, Donald Campion, Robert Cook, Gary Grant and James Sheehan; and

shares of our common stock held by any other person to whom we issue equity securities and whom we permit, with the consent of an affiliate of GTCR, to become a party to the registration rights agreement.

The piggyback right applies to any registration other than:

a demand registration,

an initial public offering of our equity securities, unless any stockholder with piggyback rights is entitled to participate in the offering, or

a registration on Form S-4 or S-8.

***Conditions and Limitations; Expenses***

The registration rights outlined above are subject to conditions and limitations, including the right of the underwriters to limit the number of shares to be included in a registration and our right to delay or withdraw a registration statement under specified circumstances.

We are not required to make a demand registration on Form S-1 within 90 days of either a prior demand registration on Form S-1 or a prior piggyback registration, unless those stockholders with piggyback rights were unable to register all the shares they wished to in the prior piggyback registration. In addition, holders of securities with registration rights may not make any public sale of our equity securities (including sales under Rule 144) during a period that begins seven days before the effectiveness of a registration statement and that ends, in the case of our initial public offering, on October 27, 2005, and, in any other underwritten offering in which registration rights were exercised, including this offering, 90 days after effectiveness. (In either case, the managing underwriters for the relevant offering may agree to shorten this period.) See "Shares Eligible for Future Sale."

The underwriters in any demand registration, and in any piggyback registration that is underwritten, will be selected by the holders of a majority of the shares with demand rights that are included in the registration.

Other than underwriting discounts and commissions and brokers' commissions, we will pay all registration expenses in connection with a registration, as well as reasonable (or otherwise limited) fees for legal counsel to the stockholders with registration rights.

**PRINCIPAL AND SELLING STOCKHOLDERS**

The following table presents information concerning the beneficial ownership of the shares of our common stock as of August 30, 2005, by:

each person we know to be the beneficial owner of 5% of more of our outstanding shares of common stock;

each of our executive officers listed on the Summary Compensation Table above under "Management";

each of our directors;

each of our selling stockholders, including certain members of our management; and

all of our executive officers and directors as a group.

Beneficial ownership is determined under the rules of the Securities and Exchange Commission and generally includes voting or investment power over securities. Except in cases where community property laws apply or as indicated in the footnotes to this table, we believe that each stockholder identified in the table possesses sole voting and investment power over all shares of common stock shown as beneficially owned by the stockholder. Percentage of beneficial ownership is based on 65,089,904 shares of common stock outstanding as of August 30, 2005, and 67,589,904 shares of common stock outstanding after the completion of this offering. Shares of common stock subject to options that are currently exercisable or exercisable within 60 days of August 30, 2005 are considered outstanding and beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless indicated below, the address of each individual listed below is c/o VeriFone Holdings, Inc., 2099 Gateway Place, Suite 600, San Jose, California 95110. Fractional shares have been omitted in the table.

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As of August 30, 2005, we had 75 holders of record of our common stock.

Name and Address of Beneficial Owner	Shares Beneficially Owned Before Offering		Number of Shares Offered	Shares Beneficially Owned After Offering(1)	
	Number	Percent		Number	Percent
<b>Beneficial owners</b>					
GTCR Fund VII, L.P.(2)(3)	31,899,662	49.0%	6,415,666	24,958,909	36.9%
GTCR Capital Partners, L.P.(2)(3)	31,899,662	49.0%	466,351	24,958,909	36.9%
GTCR Co-Invest, L.P.(2)(3)	31,899,662	49.0%	58,736	24,958,909	36.9%
Douglas G. Bergeron(7)	6,620,453	10.2%	1,873,636	4,746,817	7.0%
TCW/Crescent Mezzanine Partners III, L.P.(5)(6)	3,141,368	4.8%	542,619	2,457,866	3.6%
TCW/Crescent Mezzanine Trust III(5)(6)	3,141,368	4.8%	84,535	2,457,866	3.6%
TCW Leveraged Income Trust IV, L.P.(5)(6)	3,141,368	4.8%	34,175	2,457,866	3.6%
TCW/Crescent Mezzanine Partners III Netherlands, L.P.(5)(6)	3,141,368	4.8%	22,173	2,457,866	3.6%
Alec E. Gores(4)	2,412,584	3.7%	524,932	1,887,652	2.8%
Jesse Adams(8)	276,945	*	46,395	230,550	*
William Atkinson(8)	276,945	*	50,614	226,331	*
Nigel Bidmead(8)	118,278	*	30,368	87,910	*
Robert Lopez(8)	111,278	*	26,150	85,128	*
David Turnbull(8)(9)(11)	1,305,617	2.0%	244,909	1,060,708	1.6%
Elmore Waller(8)	99,212	*	17,997	81,215	*
Barry Zwarenstein(8)	81,250	*		81,250	*
Craig A. Bondy(2)(3)	31,899,662	49.0%		24,958,909	36.9%
James C. Castle					*
Leslie Denend					*
Robert B. Henske					*
Collin E. Roche(2)(3)	31,899,662	49.0%		24,958,909	36.9%
Daniel Timm(2)(3)	31,899,662	49.0%		24,958,909	36.9%
Donald C. Campion(10)	165,424	*	27,908	137,516	*
Gary Grant(10)	48,447	*	10,541	37,906	*
NBI Irrevocable Trust #1(11)	257,168	*	55,955	201,213	*
NBI Irrevocable Trust #2(11)	257,168	*	55,955	201,213	*
NBI Irrevocable Trust #3(11)	257,168	*	55,955	201,213	*
NBI Irrevocable Trust #4(11)	257,168	*	55,955	201,213	*
Hattler Family Trust(12)	128,584	*	27,977	100,587	*
David McGovern(12)	128,584	*	27,977	100,587	*
Catherine B. Scanlon(9)(11)(12)	108,492	*	23,606	84,886	*
Frank Stefanik(12)	96,438	*	20,983	75,365	*
All directors and executive officers as a group (12 persons)	40,560,084	62.2%	9,174,304	31,385,780	46.3%

\*

Less than 1%.

(1)

Assumes no exercise of the underwriters' over-allotment option. The selling stockholders have granted the underwriters an option to purchase up to an aggregate of 1,961,737 additional shares, which will be allocated among the stockholders pro rata in accordance with the number of shares being offered by the respective stockholders as indicated above.



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- (2) The address of each of GTCR Fund VII, L.P., GTCR Capital Partners, L.P., GTCR Co-Invest, L.P. and Messrs. Bondy, Roche and Timm is c/o GTCR Golder Rauner, L.L.C., 6100 Sears Tower, Chicago, Illinois 60606.
- (3) Beneficial ownership information before offering includes 29,486,368 shares of common stock held by GTCR Fund VII, L.P., 2,493,874 shares of common stock held by GTCR Capital Partners, L.P., and 269,948 shares of common stock held by GTCR Co-Invest, L.P. GTCR Golder Rauner, L.L.C. is the general partner of the general partner of GTCR Fund VII, L.P., the general partner of the general partner of the general partner of GTCR Capital Partners, L.P., and the general partner of GTCR Co-Invest, L.P. GTCR Golder Rauner, L.L.C., through a six-person members committee (consisting of Mr. Roche, Philip A. Canfield, David A. Donnini, Edgar D. Jannotta, Jr., Joseph P. Nolan and Bruce V. Rauner, with Mr. Rauner as the managing member), has voting and dispositive authority over the shares held by GTCR Fund VII, L.P., GTCR Capital Partners, L.P. and GTCR Co-Invest, L.P., and therefore beneficially owns such shares. Decisions of the members committee with respect to the voting and disposition of the shares are made by a vote of not less than one-half of its members and the affirmative vote of the managing member and, as a result, no single member of the members committee has voting or dispositive authority over the shares. Each of Messrs. Bondy, Roche, Timm, Canfield, Donnini, Jannotta, Nolan and Rauner, as well as Vincent J. Hemmer, David F. Randell, George E. Sperzel and Daniel W. Yih are principals of GTCR Golder Rauner, L.L.C., and each of them disclaims beneficial ownership of the shares held by the GTCR funds.
- The beneficial ownership information does not include 13,809,617 shares held by stockholders subject to the provision of the stockholders agreement described in the second paragraph of the section titled "Certain Relationships and Related Party Transactions Agreements Related to Our 2002 Acquisition Stockholders Agreement." Each of the GTCR funds and each of the principals of GTCR Golder Rauner, L.L.C. as listed in the preceding paragraph disclaims beneficial ownership of those shares.
- (4) Reflects shares of common stock held by the Revocable Living Trust Agreement of Alec E. Gores, of which Mr. Gores is trustee. Mr. Gores was a director and chairman of the board of directors of VeriFone, Inc., our principal operating subsidiary, prior to our 2002 acquisition. Mr. Turnbull, who is a brother-in-law of Mr. Gores, disclaims beneficial ownership of the shares held by Mr. Gores.
- (5) The address of each of TCW/Crescent Mezzanine Partners III, L.P., TCW/Crescent Mezzanine Trust III, TCW Leveraged Income Trust IV, L.P. and TCW/Crescent Mezzanine Partners III Netherlands, L.P. is c/o TCW Asset Management Company, 200 Crescent Court, Dallas, Texas 75201.
- (6) Beneficial ownership information before offering includes 2,493,874 shares of common stock held by TCW/Crescent Mezzanine Partners III, L.P., 388,520 shares of common stock held by TCW/Crescent Mezzanine Trust III, 157,068 shares of common stock held by TCW Leveraged Income Trust IV, L.P. and 101,906 shares of common stock held by TCW /Crescent Mezzanine Partners III Netherlands, L.P. TCW Asset Management Company is the investment adviser of TCW Leveraged Income Trust IV, L.P. and sub-advisor of TCW/Crescent Mezzanine Management III, L.L.C., which is the investment manager of TCW/Crescent Mezzanine Partners III, L.P., TCW/Crescent Mezzanine Trust III and TCW/Crescent Mezzanine Partners III Netherlands, L.P.
- As to TCW/Crescent Mezzanine Partners III, L.P., TCW/Crescent Mezzanine Partners III Netherlands L.P. and TCW/Crescent Mezzanine Trust III (collectively, the "Mezz Record Owners") the power to vote and direct the voting of securities held by the Mezz Record Owners and the power to dispose and direct the disposition of those securities is delegated to TCW Asset Management Company, or TAMCO, a California corporation and SEC registered investment adviser pursuant to a Sub-Investment Management Agreement. TAMCO has a 27 member Board of Directors.

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TAMCO is wholly owned by The TCW Group, Inc., or TCWG, a Nevada corporation. TCWG, together with its direct and indirect subsidiaries, collectively constitute The TCW Group, Inc. business unit (the "TCW Business Unit"). The TCW Business Unit is primarily engaged in the provision of investment management services. The ultimate parent company of TCWG is Société Générale, S.A., or SG, a company incorporated under the laws of France. The principal business of SG is acting as a holding company for a global financial services group, which includes certain distinct specialized business units that are independently operated, including the TCW Business Unit. SG, for purposes of the federal securities laws, may be deemed ultimately to control TCWG and the TCW Business Unit.

SG, its executive officers and directors, and its direct and indirect subsidiaries (including all of its business units except the TCW Business Unit), may beneficially own securities of VeriFone, Inc. and such securities are not reported as shares owned by the Mezz Record Owners. In accordance with Exchange Act Release No. 34-39538 (January 12, 1998) and due to the separate management and independent operation of its business units, SG disclaims beneficial ownership of our securities beneficially owned by the TCW Business Unit. Each member of the TCW Business Unit disclaims beneficial ownership of our securities beneficially owned by SG and any of SG's other business units.

As to TCW Leveraged Income Trust IV, L.P., or LINC IV, TAMCO serves as its investment adviser with powers to vote and dispose of securities owned by LINC IV.

- (7) Beneficial ownership information before offering includes 2,370,470 shares held by DGB Investments, Inc., an investment company controlled by Mr. Bergeron, and 4,249,983 shares held by various family trusts the beneficiaries of which are members of Mr. Bergeron's family.
- (8) 16,250 shares of the shares listed as beneficially owned by each of Messrs. Adams, Atkinson and Turnbull, 14,000 shares of those listed as beneficially owned by Mr. Bidmead, 7,000 shares of those listed as beneficially owned by Mr. Lopez, 16,500 shares of those listed as beneficially owned by Mr. Waller, and 81,250 shares of those listed as beneficially owned by Mr. Zwarenstein represent shares issuable upon the exercise of options that are exercisable or will become exercisable within 60 days after August 30, 2005.
- (9) Beneficial ownership information before offering includes 257,168 shares of common stock held by NBI Irrevocable Trust #1, 257,168 shares of common stock held by NBI Irrevocable Trust #2, 257,168 shares of common stock held by NBI Irrevocable Trust #3 and 257,168 shares of common stock held by NBI Irrevocable Trust #4. Mr. Turnbull disclaims beneficial ownership of all shares held by the NBI Irrevocable Trust #1, NBI Irrevocable Trust #2, NBI Irrevocable Trust #3 and NBI Irrevocable Trust #4.
- (10) Messrs. Calvert, Campion, Cook, Grant and Sheehan are former executives of the company.
- (11) Catherine B. Scanlon, together with Linda Gores Turnbull (who is the wife of David Turnbull, one of our executive officers), is co-trustee of each of NBI Irrevocable Trust #1, NBI Irrevocable Trust #2, NBI Irrevocable Trust #3 and NBI Irrevocable Trust #4.
- (12) Beneficial ownership information represents shares distributed to such stockholder in respect of such stockholder's ownership interest in VF Holding Corp., an affiliate of Gores Technology Group and of Alec E. Gores, one of our principal stockholders. Certain such selling stockholders served as directors, officers or employees of our predecessor or its affiliates within the past three years and have served or serve as directors, officers or employees of Gores Technology Group or its affiliates. See "Certain Relationships and Related Party Transactions."

## DESCRIPTION OF OUR CAPITAL STOCK

*The following descriptions are summaries of material terms of our certificate of incorporation and bylaws. They may not contain all of the information that is important to you. To understand them fully, you should read our certificate of incorporation and bylaws, copies of which are filed with the SEC as exhibits to the registration statement of which this prospectus is a part. The following descriptions are qualified in their entirety by reference to the certificate of incorporation and bylaws and applicable law.*

Our authorized capital stock consists of 100,000,000 shares of common stock, par value \$0.01 per share, and 10,000,000 shares of preferred stock, par value \$0.01 per share. As of August 30, 2005, there were 65,089,904 shares of common stock outstanding and no shares of preferred stock outstanding. Upon the completion of this offering, we will have 67,589,904 shares of common stock and no shares of preferred stock outstanding.

### Common Stock

We are authorized to issue one class of common stock. Stockholders are entitled to one vote for each share of our common stock held of record on all matters on which stockholders are entitled or permitted to vote. Our common stock does not have cumulative voting rights in the election of directors. As a result, holders of a majority of the shares of our common stock voting for the election of directors can elect all the directors standing for election. Upon the completion of this offering, GTCR will own 36.9% of our outstanding common stock and will have substantial influence over the election of our directors. See "Principal and Selling Stockholders" and "Risk Factors Risks Related to Our Capital Structure." Holders of our common stock will be entitled to receive dividends, if any, out of legally available funds when and if declared from time to time by our board of directors. See "Dividend Policy." In the event of our liquidation, dissolution or winding up, the holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to the rights of any then outstanding preferred stock. Our common stock has no preemptive, subscription or conversion rights, and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of holders of shares of any series of preferred stock that we may designate and issue in the future. All outstanding shares of our common stock are fully paid and nonassessable and the shares of common stock offered hereby will be fully paid and nonassessable.

### Preferred Stock

Our Board of Directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of our common stockholders. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying or preventing our change in control, and may cause the market price of our common stock to decline or impair the voting and other rights of the holders of our common stock. We have no current plans to issue any shares of preferred stock.

### Antitakeover Effects of Provisions of Our Amended and Restated Certificate of Incorporation and Bylaws

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying, discouraging, or preventing a merger or acquisition that our stockholders may consider favorable, including transactions in which stockholders might receive a premium for their shares. These provisions include:

authorization of the issuance of "blank check" preferred stock without the need for action by stockholders,

removal of directors or amendment of our organizational documents only by the affirmative vote of the holders of two-thirds, or for certain amendments, four-fifths, of the shares of our capital stock entitled to vote,

provision that any vacancy on the board of directors, however occurring, including a vacancy resulting from an enlargement of the board, may only be filled by vote of the directors then in office,

inability of stockholders to call special meetings of stockholders, and

advance notice requirements for board nominations and proposing matters to be acted on by stockholders at stockholder meetings.

#### **Limitation of Liability and Indemnification Matters**

As permitted by the Delaware General Corporation Law, our amended and restated certificate of incorporation contains provisions that limit or eliminate the personal liability of our directors for a breach of their fiduciary duty of care as a director. The duty of care generally requires that, when acting on behalf of a corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for:

any breach of the director's duty of loyalty to us or our stockholders,

any act or omission not in good faith or that involve intentional misconduct or a knowing violation of law,

any act related to unlawful stock repurchases, redemptions or other distributions or payment of dividends, or

any transaction from which the director derived an improper personal benefit.

The duty of loyalty generally requires that, when acting on behalf of a corporation, officers and directors act in the best interests of the corporation and its stockholders. In circumstances where an officer or director owes fiduciary duties to more than one entity it can be difficult for such person to satisfy duties of loyalty to both entities. Messrs. Bondy, Roche and Timm are principals of our significant stockholder, GTCR, and also serve on our board of directors. Our certificate of incorporation provides that transactions that we enter into in which a director or officer has a conflict of interest are generally permissible so long as (1) the material facts relating to the director's or officer's relationship or interest as to the transaction are disclosed to our board of directors and a majority of our disinterested directors approves the transaction, (2) the material facts relating to the director's or officer's relationship or interest as to the transaction are disclosed to our stockholders and a majority of our disinterested stockholders approves the transaction, or (3) the transaction is otherwise fair to us. GTCR's representatives will not be required to offer to us any transaction opportunity of which they become aware and could take any such opportunity for themselves or offer it to other companies in which they have an investment, unless such opportunity is expressly offered to them solely in their capacity as a director of the company.

These limitations of liability do not affect the availability of equitable remedies such as injunctive relief or rescission.

Additionally, as permitted by the Delaware General Corporation Law, our certificate of incorporation provides that:

we shall indemnify our directors, officers and employees to the fullest extent permitted by the Delaware General Corporation Law,

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we shall advance expenses to our directors, officers and employees in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions, and

the rights provided in our certificate of incorporation are not exclusive.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is EquiServe Trust Company, N.A.

### **Listing**

Our common stock is listed on the New York Stock Exchange under the symbol "PAY."

### SHARES ELIGIBLE FOR FUTURE SALE

Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of our common stock. Upon completion of the offering there will be 67,589,904 shares of common stock outstanding. Of these shares, 30,788,248 shares of common stock, including 13,078,248 shares of common stock to be sold in this offering, will be freely transferable without restriction or further registration under the Securities Act of 1933 immediately following this offering. An additional 4,625 shares will be freely tradeable beginning on October 27, 2005, following the termination of the lock-up agreement entered into by the holders of those shares with the underwriters of our initial public offering. The remaining 36,797,031 shares of common stock held by us, our executive officers, directors, and stockholders will be eligible for resale pursuant to Rule 144 as described below, after the expiration of any applicable lock-up arrangements described below.

#### Lock-Up Agreements

In connection with this offering, we, our executive officers, our directors who own shares of our common stock or options to acquire shares of our common stock and certain of our stockholders, including the selling stockholders, holding in the aggregate 36,273,683 shares of our common stock upon the completion of this offering, will enter into 90-day lock-up agreements with the underwriters of this offering under which neither we nor they may, for a period of 90 days after the date of this prospectus, directly or indirectly sell or dispose of any shares of common stock or any securities convertible into or exchangeable or exercisable for shares of common stock without the prior written consent of J.P. Morgan Securities Inc. and Lehman Brothers Inc., subject to certain exceptions. See "Underwriting."

In connection with our initial public offering that was completed on May 4, 2005, our directors, executive officers and substantially all of our stockholders at that time, who hold an aggregate of approximately 47,303,609 shares of our outstanding common stock, agreed with the underwriters for our initial public offering to be bound by a 180-day lock-up agreement that prohibits them from offering, selling, assigning, transferring, pledging, contracting or selling or otherwise disposing of or hedging any shares of our common stock or any securities convertible into or exchangeable for shares of our common stock until October 27, 2005, without the prior written consent of J.P. Morgan Securities Inc. and Lehman Brothers Inc, subject to certain exceptions. J.P. Morgan Securities Inc. and Lehman Brothers Inc. have agreed to waive this lock-up agreement solely to permit the selling stockholders to sell in this offering.

#### Rule 144

In general, under Rule 144, a person (or persons whose shares are required to be aggregated), including an affiliate, who has beneficially owned shares for at least one year is entitled to sell, within any three-month period commencing July 29, 2005, a number of shares that does not exceed the greater of:

1% of the number of shares of common stock then outstanding, which will equal approximately 675,890 shares after the completion of this offering; or

the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

In addition to this volume limitation, sales under Rule 144 also are subject to manner-of-sale restrictions, notice requirements and the availability of current public information about us. Additionally, substantially all of the Rule 144 shares are subject to one or both of the lock-up arrangements described above.

#### Rule 144(k)

Under paragraph (k) of Rule 144, persons who are not our affiliate at any time during the 90 days preceding a sale, and who have beneficially owned the shares proposed to be sold for at least two years, are

entitled to sell such shares without complying with the manner-of-sale, public information, volume limitation or notice provisions of Rule 144. The two-year holding period includes the holding period of any prior owner who is not our affiliate. Therefore, unless otherwise restricted, shares covered by Rule 144(k) may be sold at any time.

#### **Rule 701**

In general, under Rule 701, any of our employees, directors, officers, consultants or advisors who purchased shares from us in connection with a compensatory stock or option plan or other written agreement before the effective date of this offering, or who purchased shares from us after that date upon the exercise of options granted before that date, are eligible to resell such shares in reliance upon Rule 144 beginning 90 days after the date of this prospectus. If such person is not an affiliate, the sale may be made subject only to the manner-of-sale restrictions of Rule 144. If such a person is an affiliate, the sale may be made under Rule 144 without compliance with its one-year minimum holding period, but subject to the other Rule 144 restrictions. However, substantially all of the Rule 701 shares are subject to one or both of the lock-up arrangements described above.

#### **Stock Options**

In addition, as of July 31, 2005, employee stock options to purchase a total of approximately 3,434,245 shares of common stock were outstanding. On May 2, 2005 we filed a registration statement on Form S-8 under the Securities Act to register the issuance and resale of those shares issuable under our stock option plans. That registration statement automatically became effective upon filing. As a result, when the options or rights are exercised, such shares issuable on exercise thereof will be freely tradable under the Securities Act, subject to the lock-up agreements described above, and except that any shares purchased by "affiliates," as that term is defined in Rule 144, would be subject to limitations and restrictions under Rule 144 that are described above. For a discussion of key terms of the company's stock option and stock purchase plans, see "Management Benefit Plans."

#### **Registration Rights**

Beginning 90 days after the date of this offering, holders of approximately a majority of our common stock will be entitled to registration rights described above. For more detailed information regarding these registration rights, see "Certain Relationships and Related Transactions Registration Rights Agreement." Registration of such shares under the Securities Act would result in such shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by "affiliates," as that term is defined in Rule 144, immediately upon the effectiveness of such registration.

**CERTAIN UNITED STATES TAX CONSEQUENCES  
TO NON-U.S. HOLDERS OF COMMON STOCK**

This section summarizes certain United States federal income and estate tax consequences of the ownership and disposition of common stock by a non-U.S. holder. You are a non-U.S. holder if you are, for United States federal income tax purposes:

a nonresident alien individual,

a foreign corporation, or

an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from common stock.

This section does not consider the specific facts and circumstances that may be relevant to a particular non-U.S. holder and does not address the treatment of a non-U.S. holder under the laws of any state, local or foreign taxing jurisdiction. This section is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, existing and proposed regulations, and administrative and judicial interpretations, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

If a partnership holds the common stock, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the common stock should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the common stock.

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*You should consult a tax advisor regarding the United States federal tax consequences of acquiring, holding and disposing of common stock in your particular circumstances, as well as any tax consequences that may arise under the laws of any state, local or foreign taxing jurisdiction.*

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**Dividends**

As discussed under the section entitled "Dividend Policy" above, we do not currently anticipate paying dividends for the foreseeable future. In the event that we do pay dividends, except as described below, if you are a non-U.S. holder of common stock, dividends paid to you are subject to withholding of United States federal income tax at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate. Even if you are eligible for a lower treaty rate, we and other payors will generally be required to withhold at a 30% rate (rather than the lower treaty rate) on dividend payments to you, unless you have furnished to us or another payor:

a valid Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, your status as (or, in the case of a United States alien holder that is a partnership or an estate or trust, such forms certifying the status of each partner in the partnership or beneficiary of the estate or trust as) a non-United States person and your entitlement to the lower treaty rate with respect to such payments, or

in the case of payments made outside the United States to an offshore account (generally, an account maintained by you at an office or branch of a bank or other financial institution at any location outside the United States), other documentary evidence establishing your entitlement to the lower treaty rate in accordance with U.S. Treasury regulations.

If you are eligible for a reduced rate of United States withholding tax under a tax treaty, you may obtain a refund of any amounts withheld in excess of that rate by filing a refund claim with the United States Internal Revenue Service.





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If dividends paid to you are "effectively connected" with your conduct of a trade or business within the United States, and, if required by a tax treaty, the dividends are attributable to a permanent establishment that you maintain in the United States, we and other payors generally are not required to withhold tax from the dividends, provided that you have furnished to us or another payor a valid Internal Revenue Service Form W-8ECI or an acceptable substitute form upon which you represent, under penalties of perjury, that:

you are a non-United States person, and

the dividends are effectively connected with your conduct of a trade or business within the United States and are includible in your gross income.

"Effectively connected" dividends are taxed at rates applicable to United States citizens, resident aliens and domestic United States corporations.

If you are a corporate non-U.S. holder, "effectively connected" dividends that you receive may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

### **Gain on Disposition of Common Stock**

If you are a non-U.S. holder, you generally will not be subject to United States federal income tax on gain that you recognize on a disposition of common stock unless:

the gain is "effectively connected" with your conduct of a trade or business in the United States, and the gain is attributable to a permanent establishment that you maintain in the United States, if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis,

you are an individual, you hold the common stock as a capital asset, you are present in the United States for 183 or more days in the taxable year of the sale and certain other conditions exist, or

we are or have been a United States real property holding corporation for federal income tax purposes and you held, directly or indirectly, at any time during the five-year period ending on the date of disposition, more than 5% of the common stock and you are not eligible for any treaty exemption.

If you are a corporate non-U.S. holder, "effectively connected" gains that you recognize may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

We have not been, are not and do not anticipate becoming a United States real property holding corporation for United States federal income tax purposes.

### **Federal Estate Taxes**

Common stock held by a non-U.S. holder at the time of death will be included in the holder's gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

### **Backup Withholding and Information Reporting**

If you are a non-U.S. holder, you are generally exempt from backup withholding and information reporting requirements with respect to:

dividend payments and

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the payment of the proceeds from the sale of common stock effected at a United States office of a broker,

as long as the income associated with such payments is otherwise exempt from United States federal income tax, and:

the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished to the payor or broker:

a valid Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, that you are (or, in the case of a non-U.S. holder that is a partnership or an estate or trust, such forms certifying that each partner in the partnership or beneficiary of the estate or trust is) a non-United States person, or

other documentation upon which it may rely to treat the payments as made to a non-United States person in accordance with U.S. Treasury regulations, or

you otherwise establish an exemption.

Payment of the proceeds from the sale of common stock effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale of common stock that is effected at a foreign office of a broker will be subject to information reporting and backup withholding if:

the proceeds are transferred to an account maintained by you in the United States,

the payment of proceeds or the confirmation of the sale is mailed to you at a United States address, or

the sale has some other specified connection with the United States as provided in U.S. Treasury regulations,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, a sale of common stock will be subject to information reporting if it is effected at a foreign office of a broker that is:

a United States person,

a controlled foreign corporation for United States tax purposes,

a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period, or

a foreign partnership, if at any time during its tax year:

one or more of its partners are "U.S. persons," as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or

such foreign partnership is engaged in the conduct of a United States trade or business,

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unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the Internal Revenue Service.

### UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated September 19, 2005, we and the selling stockholders have agreed to sell to the underwriters named below, for whom J.P. Morgan Securities Inc. and Lehman Brothers Inc., as joint book-running managers, are acting as representatives, the following respective numbers of shares of common stock:

Underwriter	Number of Shares
J.P. Morgan Securities Inc.	4,000,000
Lehman Brothers Inc.	4,000,000
Credit Suisse First Boston LLC	1,538,000
Goldman, Sachs & Co.	1,538,000
Wachovia Capital Markets, LLC	1,386,295
SunTrust Capital Markets, Inc.	615,953
<b>Total</b>	<b>13,078,248</b>

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in this offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The selling stockholders have granted to the underwriters a 30-day option to purchase on a pro rata basis up to an aggregate of 1,961,737 additional outstanding shares from the selling stockholders at the public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of \$0.53 per share. After the public offering, the underwriters may change the public offering price and concession and discount to brokers and dealers.

The following table summarizes the compensation and estimated expenses we and the selling stockholders will pay:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting discounts and commissions paid by us	\$ 0.8832	\$ 0.8832	\$ 2,208,000	\$ 2,208,000
Expenses payable by us	\$ 0.40	\$ 0.40	\$ 1,000,000	\$ 1,000,000
Underwriting discounts and commissions paid by the selling stockholders	\$ 0.8832	\$ 0.8832	\$ 9,342,709	\$ 11,075,314
Expenses payable by the selling stockholders	\$	\$	\$	\$

We have agreed that we will not, for a period of 90 days after the date of this prospectus, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any additional shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing, without the prior written consent of J.P. Morgan Securities Inc. and Lehman Brothers Inc.

Our officers and directors who own shares of our common stock or options to acquire shares of our common stock and certain of our stockholders, including the selling stockholders, holding in the aggregate 36,273,683 shares of our common stock upon the completion of this offering, have agreed that they will not, for a period of 90 days after the date of this prospectus, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into