

VeriFone Holdings, Inc.  
Form S-4  
June 09, 2006

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As filed with the Securities and Exchange Commission on June 9, 2006

Registration No. 333-

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM S-4**  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**VeriFone Holdings, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**3578**  
(Primary Standard Industrial  
Classification Code Number)

**04-3692546**  
(I.R.S. Employer  
Identification Number)

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**2099 Gateway Place, Suite 600  
San Jose, California 95110  
(408) 232-7800**

(Address, Including Zip Code, and Telephone Number, Including  
Area Code, of Registrant's Principal Executive Offices)

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**Douglas G. Bergeron**  
**Chairman and Chief Executive Officer**  
**VeriFone Holdings, Inc.**  
**2099 Gateway Place, Suite 600**  
**San Jose, California 95110**  
**(408) 232-7800**

(Name, Address, Including Zip Code, and Telephone Number, Including  
Area Code, of Agent for Service)

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*Copies to:*

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(650) 461-5600

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666 Fifth Avenue  
New York, New York 10103  
(212) 318-3000

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO THE PUBLIC: As soon as possible after this  
Registration Statement is declared effective.

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If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

### CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered(1) | Proposed Maximum Offering Per Share | Proposed Maximum Aggregate Offering Price(2) | Amount of Registration Fee(2) |
|--|----------------------------|-------------------------------------|--|-------------------------------|
| Common Stock, \$0.01 par value                     | 13,397,462 shares          | Not applicable                      | \$379,550,098                                | \$40,611.86                   |

(1) This Registration Statement relates to the maximum number of shares of common stock, par value \$0.01 per share, of VeriFone Holdings, Inc. ("VeriFone") issuable to holders of ordinary shares, par value New Israeli Shekel 1 per share ("Lipman ordinary shares"), of Lipman Electronic Engineering Ltd. ("Lipman") in the proposed merger of Lion Acquisitions Ltd., a wholly-owned subsidiary of VeriFone, with and into Lipman. The amount of VeriFone common stock to be registered has been determined by multiplying the maximum number of Lipman ordinary shares that may be outstanding immediately prior to the completion of the transaction by 0.500 (the number of shares of VeriFone Common Stock to be issued for each outstanding Lipman ordinary share).

(2) Estimated solely for purposes of calculating the registration fee required by the Securities Act of 1933, as amended, and computed pursuant to Rule 457(c) and Rule 457(f) based on (i) \$28.33, the average of the high and low per share prices of Lipman ordinary shares on the Nasdaq National Market on June 8, 2006 and (ii) the maximum number of shares of VeriFone Common Stock to be received by holders of Lipman ordinary shares.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**SUBJECT TO COMPLETION. DATED JUNE 9, 2006**

*The information in this proxy statement/prospectus is not complete and may be changed. VeriFone may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.*

**Proxy Statement for Special Meeting and Prospectus of VeriFone Holdings, Inc. for up to Shares of VeriFone Common Stock**

**Proxy Statement for Special Meeting of Shareholders of Lipman Electronic Engineering Ltd.**

## **MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

Dear Shareholders:

We are writing to you today about the proposed merger of Lipman Electronic Engineering Ltd. with a subsidiary of VeriFone Holdings, Inc.

In the merger, each holder of ordinary shares of Lipman will receive for each such share (i) one-half (0.50) share of common stock, par value \$0.01 per share, of VeriFone and (ii) \$14.304 in cash, as reduced by the per share amount of a special cash dividend to be paid to Lipman shareholders prior to the completion of the merger. Alternatively, Lipman shareholders may elect to receive for each Lipman share either \$29.07 in cash, as reduced by the per share amount of the special cash dividend, or 0.9844 shares of VeriFone common stock, as reduced by the per share value of the special cash dividend. All amounts to be received, whether pursuant to the mixed, cash or stock election, will be reduced by the amount or value of the special cash dividend to be paid by Lipman. The amount of the special cash dividend is currently estimated at \$40 million in the aggregate, or approximately \$1.50 per Lipman ordinary share. The total merger consideration is subject to proration so that VeriFone will (i) issue a number of shares of VeriFone common stock equal to the product of (x) 0.50 multiplied by (y) the number of Lipman ordinary shares issued and outstanding on the closing date and (ii) pay an amount in cash equal to the product of (x) \$14.304 multiplied by (y) the number of Lipman ordinary shares issued and outstanding on the closing date, as reduced by the aggregate amount of the special cash dividend. VeriFone currently estimates that the total consideration to be paid by VeriFone will consist of approximately 13.3 million shares and approximately \$382 million in cash, less the aggregate amount of the special cash dividend. VeriFone common stock is traded on the New York Stock Exchange under the trading symbol "PAY." The closing price of VeriFone common stock on June 8, 2006 was \$29.88 per share. The last reported sales price per Lipman ordinary share as reported on the Nasdaq National Market on June 8, 2006 was \$28.46.

Each company is holding a special meeting of shareholders in order to obtain the approvals necessary to complete the merger as more fully described in this proxy statement/prospectus. The merger cannot be completed unless the holders of 75% of the Lipman ordinary shares present and voting (not including abstentions) at the Lipman special meeting approve and adopt the merger agreement and approve the merger and unless the holders of a majority of the outstanding shares of VeriFone common stock approve the issuance of VeriFone common stock to be issued to Lipman shareholders and holders of Lipman share options pursuant to the merger agreement. At the Lipman special meeting, Lipman shareholders will be asked to vote on the merger and the other matters described in the attached proxy statement/prospectus. Under Israeli law, holders of Lipman ordinary shares are not entitled to statutory dissenters' rights.

Only holders of record of Lipman ordinary shares at the close of business on \_\_\_\_\_, 2006 are entitled to attend and vote at the Lipman special meeting or any adjournment thereof.

Only holders of record of VeriFone common stock at the close of business on \_\_\_\_\_, 2006 are entitled to attend and vote at the VeriFone special meeting or any adjournment thereof.

The Lipman board of directors has (1) reviewed and considered the terms and conditions of the merger agreement, (2) unanimously determined that the merger agreement and the merger are in the best interests of Lipman and its shareholders, considering the fairness opinion of Merrill Lynch & Co., Inc. and such other factors as the board of directors has deemed appropriate, and that no reasonable concern exists that Lipman, as the surviving company in the merger with VeriFone's newly formed merger subsidiary, will be unable to fulfill its obligations to its creditors, and (3) unanimously approved the merger agreement, the merger and all of the transactions contemplated by the merger agreement. **The Lipman board of directors unanimously recommends that you vote FOR the proposal to approve the merger agreement, the merger and all of the transactions contemplated by the merger agreement. In addition, Mivtach Shamir Holdings Ltd., Mez-Op Holdings Ltd., Isaac Angel, Mike Lilo, Roy Neuman and Eliezer Yanay have each agreed to vote certain of their Lipman ordinary shares, representing in the aggregate approximately 17.0% of the outstanding Lipman ordinary shares, FOR the proposal to approve and adopt the merger agreement and approve the merger.**

The VeriFone board of directors has (1) reviewed and considered the terms and conditions of the merger agreement, (2) unanimously determined that the merger agreement and the merger are fair to, and in the best interests of, VeriFone and its stockholders and (3) unanimously approved the merger agreement and the merger. **The VeriFone board of directors unanimously recommends that you vote FOR the proposal to authorize the issuance of VeriFone common stock to be issued to Lipman shareholders and holders of Lipman share options pursuant to the merger agreement. In addition, Douglas G. Bergeron and investment funds affiliated with GTCR Golder Rauner have each agreed to vote their VeriFone common stock, representing in the aggregate approximately 39.1% of the outstanding VeriFone common stock, FOR the proposal to authorize the issuance of VeriFone common stock to be issued to**

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Lipman shareholders and holders of Lipman share options pursuant to the merger agreement.

The merger will not be completed unless the shareholders of both companies approve proposals related to the merger. **Your vote is very important, regardless of the number of shares you own. Whether or not you plan to attend either special meeting, please vote all proxy cards that you receive as soon as possible to ensure that your shares are represented at the applicable special meeting.**

**The attached proxy statement/prospectus provides you with detailed information about VeriFone, Lipman, the merger agreement and the merger. We encourage you to read the entire proxy statement/prospectus carefully, including the "Risk Factors" section beginning on page 38.**

Yours sincerely,

Douglas G. Bergeron  
Chairman and Chief Executive Officer  
VeriFone Holdings, Inc.

Jacob Perry  
Chairman of the Board  
Lipman Electronic Engineering Ltd.

**Neither the Securities and Exchange Commission nor the Israel Securities Authority or any state securities commission has approved or disapproved these securities or determined if the accompanying proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.**

This proxy statement/prospectus is dated \_\_\_\_\_, 2006, and is first being mailed to shareholders on or about \_\_\_\_\_, 2006.

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**Sources of Additional Information**

This proxy statement/prospectus incorporates important business and financial information about VeriFone and Lipman from documents that are not included in or delivered with this proxy statement/prospectus. Documents relating to VeriFone incorporated by reference are available from VeriFone without charge, excluding all exhibits unless VeriFone has specifically incorporated by reference an exhibit in this proxy statement/prospectus. You may obtain documents relating to VeriFone incorporated by reference in this proxy statement/prospectus by requesting them in writing or by telephone or e-mail from VeriFone at the following address:

VeriFone Holdings, Inc.  
Attention: Investor Relations  
2099 Gateway Place, Suite 600  
San Jose, California 95110  
ir@verifone.com  
(408) 232-7979

**If you would like to request documents from VeriFone, please do so by \_\_\_\_\_, 2006 in order to receive them before the VeriFone special meeting.**

Documents relating to Lipman incorporated by reference are available from Lipman without charge, excluding all exhibits unless Lipman has specifically incorporated by reference an exhibit in this proxy statement/prospectus. You may obtain documents incorporated by reference in this proxy statement/prospectus by requesting them in writing or by telephone from Lipman at the following address:

Lipman Electronic Engineering Ltd.  
Attention: Investor Relations  
11 Ha'amal Street, Park Afek  
Rosh Ha'ayin 48092 Israel  
+972 (3) 902-9730

**If you would like to request documents from Lipman, please do so by \_\_\_\_\_, 2006 in order to receive them before the Lipman special meeting.**

You also may obtain documents incorporated by reference into this proxy statement/prospectus by requesting them in writing or by telephone from Innisfree M&A Incorporated the information agent and proxy solicitor for the merger, at the following address and telephone numbers:

Innisfree M&A Incorporated  
501 Madison Avenue, 20<sup>th</sup> Floor  
New York, NY 10022  
(888) 750-5834 (from the U.S. and Canada)  
or  
00800 7710 9970 (from Europe)  
or  
00800 4664 7000 (from Israel)  
  
Banks and Brokers Call Collect:  
(212) 750-5833 (New York)  
or  
+44 20 7710 9972 (London)

For a more detailed description of the information incorporated by reference into this proxy statement/prospectus and how you may obtain it, see "Where You Can Find More Information" on page 145.

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**ABOUT THIS DOCUMENT**

This document, which forms part of a registration statement on Form S-4 filed with the SEC by VeriFone (File No. 333- ), constitutes a prospectus of VeriFone under Section 5 of the Securities Act of 1933, which we refer to as the Securities Act, with respect to the VeriFone common stock to be issued to Lipman shareholders as required by the merger agreement. This document also constitutes a proxy statement of VeriFone under Section 14(a) of the Securities Exchange Act of 1934, which we refer to as the Exchange Act, and a proxy statement for Lipman. As a "foreign private issuer," Lipman is not subject to the proxy requirements under Section 14(a) of the Exchange Act. It also constitutes a notice of meeting with respect to the special meeting of VeriFone stockholders, at which VeriFone's stockholders will be asked to consider and vote upon a proposal to authorize the issuance of VeriFone common stock required to be issued to Lipman shareholders and holders of Lipman share options pursuant to the merger agreement, and a notice of meeting with respect to the special meeting of Lipman shareholders, at which Lipman's shareholders will be asked to consider and vote upon proposals to approve the merger agreement, to approve the amendment of the Articles of Association and to approve the amendment of the indemnification agreements between Lipman and its directors.

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**VERIFONE HOLDINGS, INC.  
2099 GATEWAY PLACE, SUITE 600  
SAN JOSE, CALIFORNIA 95110**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To be held on \_\_\_\_\_, \_\_\_\_\_, 2006**

Dear VeriFone Stockholders:

A special meeting of stockholders of VeriFone Holdings, Inc., a Delaware corporation ("VeriFone"), will be held at \_\_\_\_\_ a.m. Pacific time on \_\_\_\_\_, 2006 at 2099 Gateway Place, Suite 600, San Jose, California 95110, for the following purposes:

1. To consider and vote upon a proposal to authorize the issuance of the shares of VeriFone common stock required to be issued (i) in the merger of Lion Acquisitions Ltd., an Israeli company and a wholly-owned subsidiary of VeriFone ("Merger Sub"), with and into Lipman Electronic Engineering Ltd., an Israeli company, as contemplated by the Agreement and Plan of Merger, dated as of April 10, 2006, by and among Lipman, VeriFone and Merger Sub, as that agreement may be amended and (ii) pursuant to outstanding Lipman share options which will be converted into options to purchase shares of VeriFone Common Stock; and
2. To conduct any other business as may properly come before the special meeting or any properly reconvened meeting following an adjournment or postponement of the special meeting.

Holders of record of VeriFone common stock at the close of business on \_\_\_\_\_, 2006, are entitled to vote at the special meeting and any adjournment or postponement of the special meeting. A list of these stockholders will be available for inspection during business hours from \_\_\_\_\_ through \_\_\_\_\_, 2006, at 2099 Gateway Place, Suite 600, San Jose, California, and will also be available at the special meeting.

Your vote is very important. Your proxy is being solicited by the VeriFone Board of Directors. The issuance of new shares of VeriFone common stock must be authorized by the stockholders of VeriFone in order for the merger to be completed.

By order of the Board of Directors of  
VeriFone Holdings, Inc.

\_\_\_\_\_  
David Turnbull  
Secretary

San Jose, California  
\_\_\_\_\_, 2006

---

**LIPMAN ELECTRONIC ENGINEERING LTD.  
11 HA'AMAL STREET, PARK AFEK  
ROSH HA'AYIN 48092 ISRAEL  
+972 (3) 902-9730**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD ON \_\_\_\_\_, 2006**

To all Lipman shareholders:

Notice is hereby given that a special general meeting of shareholders of Lipman Electronic Engineering Ltd., a corporation formed under the laws of the State of Israel, will be held at the principal executive offices of Lipman located at 11 Ha'amal Street, Park Afek, Rosh Ha'ayin 48092 Israel on \_\_\_\_\_ at \_\_\_\_\_ Israel time for the following purposes:

1. To consider and vote upon the proposal to approve, adopt and ratify the Agreement and Plan of Merger, dated as of April 10, 2006, by and among Lipman, VeriFone Holdings, Inc., a Delaware corporation, and Lion Acquisitions Ltd., a corporation formed under the laws of the State of Israel and a wholly owned subsidiary of VeriFone, and the merger of Lion Acquisitions into Lipman under the provisions of Israeli Companies Law-1999, so that Lipman will become a wholly owned subsidiary of VeriFone;
2. To approve an amendment to Article 25 of Lipman's Articles of Association in order to conform the provisions of Lipman's Articles of Association relating to exculpation, insurance and indemnity of directors and officers with recent amendments to the Israeli Companies Law, and to restate Lipman's Articles of Association accordingly;
3. Subject to the approval of the amendment of Lipman's Articles of Association under proposal 2 above, to approve corresponding amendments to the indemnification agreements entered into between Lipman and its directors and the inclusion of the merger contemplated under section 1 above as an indemnifiable event under such indemnification agreements; and
4. To transact any other business that properly comes before the special general meeting or any adjournment or postponement of the meeting.

Only shareholders of record on the close of business on \_\_\_\_\_, 2006, the record date, are entitled to notice of and to vote at the special general meeting and any adjournments or postponements of the meeting, in person or by proxy, provided that a letter of appointment shall be deposited at Lipman's registered office at least 48 hours prior to the special general meeting and subject further to the provision and authorization of such holdings as of the record date, as set forth by law. Alternatively, pursuant to Israeli law, Lipman shareholders may vote by way of written ballot, without attending the special meeting in person or appointing a proxy, provided that such written ballot is deposited at Lipman's registered office at least 72 hours prior to the special meeting and subject further to the authorization of share ownership as of the record date and proof of identification, as set forth by law. The form of written ballot, which is written in the Hebrew language, is also available on the website of the Israeli Securities Authorities at <http://www.magna.isa.gov.il>, on the website of the Tel-Aviv Stock Exchange Ltd. at <http://maya.tase.co.il>, or directly from the corporate secretary of Lipman at the address printed above. You are cordially invited to the meeting.

The presence of at least two shareholders, who have at least one-third (33<sup>1</sup>/<sub>3</sub>%) of the voting rights (including presence by proxy or by written ballot) at the special general meeting will constitute a quorum. Should no legal quorum be present one-half hour after the time scheduled for the special general meeting, the meeting shall be adjourned to one week from that day, at the same time and place. The quorum at the adjourned meeting shall be any number of shareholders.

By order of the Board of Directors of  
Lipman Electronic Engineering Ltd.

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Jacob Perry  
Chairman of the Board

Rosh Ha'ayin, Israel  
, 2006



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REGARDLESS OF THE NUMBER OF ORDINARY SHARES OF LIPMAN YOU OWN OR WHETHER YOU PLAN TO ATTEND THE MEETING, IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AND VOTED. THE MERGER CANNOT BE COMPLETED UNLESS THERE IS A QUORUM PRESENT OR REPRESENTED AT THE SPECIAL GENERAL MEETING AND THE HOLDERS OF 75% OF THE LIPMAN ORDINARY SHARES PRESENT AND VOTING IN PERSON, BY PROXY OR BY WRITTEN BALLOT AT THE MEETING (NOT INCLUDING ABSTENTIONS) VOTE FOR THE MERGER AND THE MERGER AGREEMENT. THEREFORE, WE URGE YOU TO COMPLETE, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD IN THE ENCLOSED PRE ADDRESSED POSTAGE-PAID ENVELOPE. RETURNING THE PROXY CARD DOES NOT DEPRIVE YOU OF YOUR RIGHT TO ATTEND THE MEETING AND TO VOTE YOUR SHARES IN PERSON. YOUR VOTE IS VERY IMPORTANT.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR ADOPTION OF THE MERGER AND THE MERGER AGREEMENT, FOR THE APPROVAL OF THE AMENDMENT OF THE ARTICLES OF ASSOCIATION AND FOR THE APPROVAL OF THE AMENDMENT OF THE INDEMNIFICATION AGREEMENTS.

PLEASE DO NOT RETURN YOUR LIPMAN SHARE CERTIFICATES WITH YOUR ENCLOSED PROXY OR WRITTEN BALLOT.

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**Questions and Answers About the Merger**

The following are some of the questions that you, as a stockholder of VeriFone or a shareholder of Lipman, may have, and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this proxy statement/prospectus, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this proxy statement/prospectus. We urge you to read this proxy statement/prospectus in its entirety prior to making any decision.

***Q: Why am I receiving this proxy statement/prospectus?***

**A:**

VeriFone and Lipman have entered into a merger agreement. Upon completion of the merger, Lipman will become a wholly-owned subsidiary of VeriFone. We have included in this proxy statement/prospectus important information about the merger, the merger agreement and the special meetings of VeriFone stockholders and Lipman shareholders. You should read this information carefully and in its entirety. We have attached a copy of the merger agreement as Annex A. The enclosed voting materials allow you to vote your shares without attending the applicable special meeting. **Your vote is very important and we encourage you to vote your proxy as soon as possible.**

In order to complete the merger, VeriFone stockholders and Lipman shareholders must each approve the proposals relating to the merger at their respective special meetings. VeriFone is holding a special meeting of its stockholders in order to obtain the approval necessary to issue VeriFone common stock in the merger and upon exercise of Lipman share options, as described in this proxy statement/prospectus. The VeriFone proposal to issue common stock must be approved by holders of a majority of the outstanding shares of VeriFone common stock.

Lipman is holding a special meeting of its shareholders in order to obtain shareholder approval of the merger agreement, and two other proposals. The Lipman proposal to approve the merger agreement and the merger must be approved by holders of 75% of the Lipman ordinary shares present or represented and voting at the special meeting called to approve the merger (not including abstentions).

Lipman's shareholders will also be asked to vote on an amendment to Article 25 of Lipman's Articles of Association relating to exculpation, insurance and indemnity of directors and officers of Lipman and corresponding amendments to the indemnification agreements entered between Lipman and its directors, as described in this proxy statement/prospectus. The second proposal at the Lipman special meeting, relating to the amendment of Lipman's Articles of Association and the third proposal, to the extent relating to the amendment of the indemnification agreements of Meir Shamir, Ishay Davidi and Mordechai Gorfung, must be approved by holders of majority of Lipman ordinary shares present or represented and voting at Lipman special meeting, subject to one of the following conditions: (i) the majority vote (not including abstentions) at the Lipman special meeting must include at least one-third of the votes of shareholders who have no personal interest in the proposal, participating at the meeting; or (ii) the total number of objecting votes of such shareholders mentioned in subsection (i) above, do not exceed 1% of the total voting rights in Lipman. The third proposal at the Lipman special meeting, relating to the amendment of the indemnification agreements relating to all other directors of Lipman, must be approved by holders of a majority of Lipman ordinary shares present or represented and voting at the Lipman special meeting. The completion of the merger is not conditioned upon approval of the second or third proposals by Lipman shareholders.

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**Q: What do I need to do now?**

A:

Read and consider the information contained in this proxy statement/prospectus carefully, and then please vote your shares as soon as possible by returning your proxy so that your shares may be represented at your special meeting.

**Q: When must Lipman shareholders make their election as to the type of consideration they want to receive?**

A:

If you are Lipman shareholder, you should also make your election as to the type of consideration you want to receive assuming approval of the merger. To be effective, this election must be received no later than \_\_\_\_\_, 2006. **You should make your election no matter how you vote or whether or not you vote.**

**Q: What will Lipman shareholders receive in the merger?**

A:

If the merger is completed, Lipman shareholders will receive, at their election and subject to the proration and allocation procedures described in this proxy statement/prospectus, for each Lipman ordinary share:

the mixed consideration, which consists of (i) one-half (0.50) share of VeriFone common stock and (ii) \$14.304 in cash, as reduced by the per share amount of the special cash dividend to be paid to Lipman shareholders prior to the completion of the merger.

Alternatively, Lipman shareholders may elect to receive for each Lipman ordinary share either:

the cash consideration, which consists of \$29.07 in cash, as reduced by the per share amount of the special cash dividend;

or

the stock consideration, which consists of 0.9844 shares of VeriFone common stock, as reduced by the per share value of the special cash dividend to be paid to Lipman shareholders.

All consideration to be received, whether pursuant to the mixed, cash or stock election, will be reduced by the amount or value of the special cash dividend to be paid by Lipman. Pursuant to the merger agreement, the special cash dividend is equal to the maximum amount of cash reserves of Lipman that may be distributed by Lipman in the form of a dividend pursuant to applicable law and without a tax being imposed on, or payable by, Lipman, provided however, that, pursuant to the merger agreement, the aggregate dividend will not be less than \$23 million. The amount of the special cash dividend is currently estimated at \$40 million in the aggregate, or approximately \$1.50 per Lipman ordinary share. The amount of the special cash dividend may be increased to the extent Lipman is able to distribute additional cash to its shareholders without a corporate tax being imposed on Lipman.

Pursuant to the merger agreement, the number of shares of VeriFone common stock that will be issued for each Lipman ordinary share as stock consideration will be equal to (i) \$29.07 minus the per share amount of the special cash dividend, divided by (ii) \$29.53. To illustrate the adjustment for the stock election, if the special cash dividend is \$1.50 per Lipman ordinary share, the ratio applicable to the stock consideration will be reduced to  $(\$29.07 - \$1.50)/\$29.53$ , or 0.9336 shares of VeriFone common stock per Lipman ordinary share.

Lipman shareholders who receive either the cash consideration or the stock consideration will be subject to proration and allocation, so that the aggregate stock and cash consideration paid by VeriFone in the merger will remain the same as for the mixed consideration. In other words, the ability of any Lipman shareholder to receive either the stock election consideration or the cash election consideration

will require that other shareholders making offsetting elections.

The consideration for the Lipman ordinary shares, including the exchange ratio for the VeriFone common stock component of the stock or mixed consideration, will not change even if the market prices of Lipman ordinary shares or VeriFone common stock fluctuate. However, if Lipman shareholders elect to receive the mixed consideration or stock consideration, the value of the VeriFone shares included in the mixed consideration or stock consideration will fluctuate up or down with fluctuations in the market price of VeriFone common stock.

***Q: What is the special cash dividend?***

A: VeriFone and Lipman structured the special cash dividend to reduce VeriFone's cash financing requirements, in light of the significant excess cash balance that would be held by the companies following the completion of the merger. In order to make efficient use of a portion of Lipman's existing cash to finance the acquisition, the special cash dividend will be paid to Lipman shareholders prior to closing. Payment of the dividend also enables VeriFone to reduce financing costs in connection with the merger.

***Q: When will the Lipman special cash dividend be paid?***

A: Assuming approval of the merger, after Lipman's special meeting and before the completion of the merger, Lipman's board of directors intends to declare and pay the special cash dividend to holders of Lipman ordinary shares as of a dividend record date to be set by Lipman's board of directors. Lipman does not expect to declare the special cash dividend if the merger is not approved by its shareholders, although it retains the ability to do so.

***Q: How will VeriFone fund the cash portion of the merger consideration?***

A: VeriFone intends to finance the cash portion of the merger agreement with its cash resources as well as through a new credit facility that VeriFone expects to enter into in connection with the merger that will replace its existing credit facility. VeriFone has received a commitment letter with respect to the new credit facility. The new credit facility is expected to have a new term loan component of \$500 million and a revolving credit component of \$40 million. VeriFone's obligation to complete the merger is not contingent on its ability to receive financing under this proposed new credit facility.

***Q: What will VeriFone stockholders receive in the merger?***

A: VeriFone stockholders will receive no consideration in connection with the merger and will simply continue to hold their VeriFone common stock which will include an indirect investment in Lipman after it becomes a subsidiary of VeriFone.

***Q: What is the aggregate consideration to be paid by VeriFone for all of the outstanding Lipman ordinary shares?***

A: VeriFone will issue in the aggregate an estimated 13.3 million shares of VeriFone common stock (to be determined as 0.50 of a share of VeriFone common stock multiplied by the number of Lipman ordinary shares issued and outstanding at the closing) and pay an estimated \$382 million in cash (to be determined as \$14.304 multiplied by the number of Lipman ordinary shares issued and outstanding at the closing), reduced by the aggregate amount of the special cash dividend.

***Q: What is the value of the consideration Lipman shareholders will receive if they elect to receive the mixed consideration or the stock consideration?***

A: If Lipman shareholders properly and timely elect to receive the mixed consideration or the stock consideration, the value of the consideration they will receive will depend in part upon the value of VeriFone common stock, which fluctuates. The following table, which assumes no proration



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allocation, illustrates the effect of changes in the value of VeriFone common stock on the value of the mixed consideration or the stock consideration.

| Price Per Share of<br>VeriFone Common<br>Stock | Value Per Lipman Ordinary Share(1) |                   |                  |
|--|------------------------------------|-------------------|------------------|
|  | Mixed<br>Election                  | Stock<br>Election | Cash<br>Election |
| \$ 33.000                                      | \$ 30.804                          | \$ 32.485         | \$ 29.070        |
| \$ 29.532(2)                                   | \$ 29.070                          | \$ 29.070         | \$ 29.070        |
| \$ 26.000                                      | \$ 27.304                          | \$ 25.594         | \$ 29.070        |

(1) Includes the value of the special cash dividend to be paid by Lipman prior to the completion of the merger.

(2) This amount is the price per share of VeriFone common stock at which the value of the mixed consideration and the stock consideration are equal to the value of the cash consideration.

The price of VeriFone common stock has fluctuated significantly. If Lipman shareholders receive the mixed consideration or the stock consideration in exchange for Lipman ordinary shares, the value of the VeriFone shares will increase and decrease with fluctuations in the market price of VeriFone common stock. The value of the consideration Lipman shareholders receive in the merger if they receive the mixed consideration or the stock consideration may be more or less than the \$29.07 that they would have received if they received the cash consideration. In addition, the trading price of VeriFone common stock on the day they receive the cash consideration, the mixed consideration or the stock consideration in exchange for their Lipman ordinary shares will likely be more or less than the trading price of VeriFone common stock on the day they make their election to receive the cash consideration, the stock consideration or the mixed consideration. This means that the then-current value of the stock consideration or the mixed consideration that they would receive for each Lipman ordinary share if they properly and timely elect to receive the stock consideration or the mixed consideration will likely be more or less than the value of the stock consideration or the mixed consideration on the day they make their election.

**Neither Lipman nor VeriFone is making any recommendation as to whether Lipman shareholders should elect to receive the cash consideration or stock consideration in lieu of the mixed consideration in connection with the merger.**

***Q: When do you expect the merger to be completed?***

A: We are working towards completing the merger as quickly as reasonably possible. Several conditions must be satisfied or waived before the merger is completed. See the section of this proxy statement/prospectus titled "The Merger Agreement Conditions to Completion of the Merger" for a summary description of these conditions. We hope to complete the merger promptly after the expiration of a 30-day waiting period required by Israeli law beginning after the approval of the merger at the Lipman special meeting to be held on \_\_\_\_\_, 2006.

***Q: Are Lipman shareholders entitled to dissenters' or appraisal rights?***

A: No. Under Israeli law, holders of Lipman ordinary shares are not entitled to statutory dissenters' or appraisal rights in connection with the merger.

***Q: Will Lipman shareholders continue to be able to trade their Lipman shares on the Tel Aviv Stock Exchange or the Nasdaq National Market following the shareholders meeting?***

A: Lipman shareholders are expected to be able to trade their Lipman ordinary shares on both the Tel Aviv Stock Exchange and the Nasdaq National Market until a date shortly before the closing and after they make their elections as to the type of consideration they

want to receive.

***Q: Will Lipman shareholders be able to trade any VeriFone common stock that they receive in the merger?***

A:

Yes. The VeriFone common stock Lipman shareholders will receive if they receive the stock consideration or the mixed consideration will be freely tradable, unless held by an affiliate of VeriFone or Lipman. VeriFone's common stock is listed on the New York Stock Exchange under the symbol "PAY." In addition, VeriFone has agreed to seek a listing of its common stock on the Tel Aviv Stock Exchange.

***Q: What will happen to unexercised Lipman share options?***

A:

Following the merger, each outstanding share option under Lipman's share option plans will be converted into an option to purchase an equal number of shares of VeriFone common stock, subject to certain adjustments that may be required to comply with U.S. tax law. Each option will otherwise continue to be governed by the same terms and conditions as applicable under Lipman's share option plan.

***Q: Are there any risks related to the proposed transaction or any risks related to owning VeriFone common stock?***

A:

Yes. You should carefully review the section entitled "Risk Factors" beginning on page 38.

***Q: If Lipman shareholders receive the stock consideration or the mixed consideration, will their rights as Lipman shareholders change as a result of the merger?***

A:

Yes. Lipman and VeriFone are incorporated in different jurisdictions having different corporate laws. In addition, the governing documents of the two companies are different. Additionally, Lipman is traded on, and subject to the corporate governance rules of, Nasdaq, while VeriFone is listed on, and subject to the corporate governance rules of, the New York Stock Exchange. As a result, a Lipman shareholder receiving shares of VeriFone common stock in connection with the merger will have different rights as a VeriFone shareholder than as a Lipman shareholder. If Lipman shareholders elect, or fail to properly make a timely election and are deemed to have elected, to receive the cash consideration for their Lipman ordinary shares, it is possible they may not receive any VeriFone common stock and in that event they will not have an investment in VeriFone following the merger.

***Q: If I make the stock election or the cash election in the merger will I necessarily receive the consideration I elect?***

A:

No. The cash election and the stock election are each subject to allocation and proration procedures that are designed to maintain the aggregate cash and stock paid by VeriFone at the fixed amounts agreed in the merger agreement. Therefore, Lipman shareholders making the stock election or the cash election will receive the separate consideration elected only to the extent that offsetting elections are made by other Lipman shareholders. In particular, if the value of VeriFone common stock increases so that the value of the stock election consideration is higher than the value of the cash election consideration, and all Lipman shareholders make the stock election, the proration and allocation provisions will operate so that each Lipman shareholder will receive the equivalent of the mixed consideration. A similar result will be realized if the value of VeriFone common stock declines and all Lipman shareholders make the cash election.

**Questions and Answers About the Special Meetings**

**Q: *When and where will the special meetings be held?***

A: The VeriFone special meeting is scheduled to be held at 2099 Gateway Place, Suite 600, San Jose, California 95110, at \_\_\_\_\_, on \_\_\_\_\_. The Lipman special meeting is scheduled to be held at 11 Ha'amal Street, Park Afek, Rosh Ha'ayin 48092 Israel, at \_\_\_\_\_, on \_\_\_\_\_.

**Q: *Who is entitled to vote at the VeriFone and Lipman special meetings?***

A: VeriFone has fixed \_\_\_\_\_, 2006 as the record date for the VeriFone special meeting. If you were a VeriFone stockholder at the close of business on the record date, you are entitled to vote on matters that come before the VeriFone special meeting. However, a VeriFone stockholder may only vote his or her shares if he or she is present in person or is represented by proxy at the VeriFone special meeting.

Lipman has fixed \_\_\_\_\_, 2006 as the record date for the Lipman special meeting. If you were a Lipman shareholder at the close of business on the record date, you are entitled to vote on matters that come before the Lipman special meeting. However, a Lipman shareholder may only vote his or her shares if he or she is present in person, is represented by proxy at the Lipman special meeting or has voted by way of written ballot.

**Q: *What are the recommendations of the VeriFone and Lipman boards of directors?***

A: Each board of directors has approved and adopted the merger agreement, approved the transactions contemplated by the merger agreement, including the merger, and determined that these transactions are in the best interests of its shareholders.

The VeriFone board of directors recommends that VeriFone stockholders vote FOR the proposal to authorize the issuance of VeriFone common stocks required to be issued pursuant to the merger agreement. See "The Merger VeriFone's Reasons for the Merger; Recommendation of the VeriFone Board of Directors" beginning on page 87.

The Lipman board of directors recommends that Lipman shareholders vote FOR the proposal to approve the merger agreement, FOR the approval of the amendment of the Articles of Association and FOR the approval of the amendment of the Indemnification Agreements. See "The Merger Lipman's Reasons for the Merger; Recommendation of the Lipman Board of Directors" on page 77 and "Information About the Lipman Special Meeting Other Proposals" on page 65.

**Q: *How can I vote?***

A: If you are entitled to vote at your company's special meeting, you can vote in person at the special meeting, or you can vote by proxy before the special meeting. Shareholders of Lipman may also vote by way of written ballot instead of being present at the special meeting or appointing a proxy. Even if you plan to attend your company's special meeting, we encourage you to vote your shares by proxy or written ballot as soon as possible. After carefully reading and considering the information contained in this proxy statement/prospectus, please submit your proxy in accordance with the instructions set forth on the enclosed proxy card. For detailed information, please see "Information About the VeriFone Special Meeting How to Vote" beginning on page 63 and "Information About the Lipman Special Meeting How to Vote" beginning on page 69.

**The vote required to approve the merger agreement at the Lipman special meeting is 75% of the Lipman ordinary shares present and voting (not including abstentions) at the Lipman special meeting.**

**The vote required to authorize the issuance of VeriFone common stock at the VeriFone special meeting is a majority of the outstanding VeriFone common stock. Accordingly, a VeriFone stockholder's failure to vote his or her VeriFone common stock will have the same effect as a vote of those shares against the proposal to authorize the issuance of VeriFone common stock.**

***Q: What happens if a Lipman shareholder does not indicate how to vote on the proxy card?***

A:

If Lipman shareholders do not include instructions on how to vote their properly signed and dated proxy card, their shares will be voted FOR the approval of the merger agreement and the merger, FOR the approval of the amendment to Article 25 to the Lipman Articles of Association and FOR the approval of the amendments to the Lipman indemnification agreements for directors and in the discretion of \_\_\_\_\_ and \_\_\_\_\_, as the proxy holders, on any other business that may properly come before the Lipman special meeting. However, if a Lipman shareholder does not indicate on a proxy card whether the shareholder is (i) a person or entity holding, directly or indirectly, 25% or more of either the voting power or the right to appoint a director of VeriFone or the merger subsidiary; (ii) a person or entity acting on behalf of VeriFone, the merger subsidiary or a person or entity described in (i); or (iii) a family member of, or entity controlled by, VeriFone, the merger subsidiary or any of the foregoing, that shareholder's vote on the proposal to approve the merger agreement will not be counted with respect to the approval of the merger agreement and the merger and will be treated as an abstention in determining whether or not the merger has been approved.

***Q: What happens if I do not vote?***

A:

Approval of the proposals to be presented at the special meetings requires the affirmative vote of specified percentages of the outstanding VeriFone common stock and of Lipman ordinary shares present and voting at the meeting at which a quorum is present. The presence in person or by proxy or written ballot of at least one-third (33 $\frac{1}{3}$ %) of Lipman's outstanding ordinary shares and a majority of VeriFone's outstanding common stock is required to constitute a quorum at the special meetings.

If a quorum is present at the Lipman meeting and Lipman shareholders do not (a) return their proxy cards, (b) vote in person at the meeting, or (c) return written ballots, then fewer shares will be present and voting at the meeting and, as a result, fewer shares will be required to defeat the proposal to approve the merger agreement and the other proposals to be presented at the special meeting. If a quorum is present at the VeriFone meeting and VeriFone stockholders do not return their proxy cards or vote in person at the meeting, then VeriFone might not succeed in having holders of a majority of the outstanding VeriFone common stock approve the issuance of VeriFone common stock in the merger.

***Q: If my shares are held in "street name" by my broker, will my broker vote my shares for me?***

A:

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the "beneficial holder" of the shares held for you in what is known as "street name." If this is the case, this proxy statement/prospectus has been forwarded to you by your brokerage firm, bank or other nominee, or their agent. As the beneficial holder, you have the right to direct your broker, bank or other nominee as to how to vote your shares. **If you do not provide your broker, bank or other nominee with instructions on how to vote your "street name" shares, your broker, bank or other nominee will not be permitted to vote them on the proposal to authorize the**

issuance of VeriFone common stock in the merger (if you are a VeriFone stockholder) or on the proposals to approve the merger agreement or an amendment to Article 25 of Lipman's Articles of Association and corresponding amendments to the indemnification agreements if you are a Lipman shareholder. You should therefore be sure to provide your broker, bank or other nominee with instructions on how to vote your shares.

**Q: How do Lipman shareholders elect to receive the cash consideration or the stock consideration or the mixed consideration for their Lipman ordinary shares?**

A:

A form for making an election is being delivered along with this proxy statement/prospectus. Additional copies of the election form may be obtained from the exchange agent. For an election to be effective, a properly completed election form, along with the Lipman share certificates or an appropriate guarantee of delivery, must be sent to and received by \_\_\_\_\_, the exchange agent, on or before, and the date that is \_\_\_\_\_ days prior to the closing date. **Do not send an election form or share certificates together with the proxy card or written ballot.** Instead, use the separate envelope specifically provided for the election form and the share certificates. Please read this proxy statement/prospectus carefully for more information about the procedures for electing to receive the cash consideration, stock consideration or mixed consideration.

If Lipman shareholders do not properly and timely send in their completed election form along with their Lipman share certificates or an appropriate guarantee of delivery, these shareholders may be deemed by VeriFone, in its sole and absolute discretion, to have elected any of the cash consideration or the stock consideration or the mixed consideration subject to the required proration so that VeriFone will (i) issue in the aggregate a number of shares of VeriFone common stock equal to the product of (x) 0.50 multiplied by (y) the number of Lipman ordinary shares issued and outstanding on the closing date and (ii) pay an amount in cash equal to the product of (x) \$14.304 multiplied by (y) the number of Lipman ordinary shares issued and outstanding on the closing date, as reduced by the aggregate amount of the special cash dividend. VeriFone may exercise its discretion, to the extent feasible, but subject to the required proration, to give effect to the elections made by other Lipman shareholders that have properly and timely sent in completed election forms. The exchange agent will send written instructions for surrendering certificates representing Lipman ordinary shares for the cash consideration, stock consideration or mixed consideration after the merger is completed.

**Q: Have any Lipman shareholders agreed to vote FOR the merger agreement and the merger?**

A:

Yes. Mivtach Shamir Holdings Ltd., Mez-Op Holdings Ltd., Isaac Angel, Mike Lilo, Yitzhak Cohen, Roy Neuman and Eliezer Yanay have each agreed to vote certain of their shares of Lipman ordinary shares, representing in the aggregate approximately 17.0% of the outstanding Lipman ordinary shares FOR the proposal to approve and adopt the merger agreement and approve the merger.

**Q: Have any VeriFone stockholders agreed to vote FOR the authorization of issuance of VeriFone common stock?**

A:

Yes. Douglas G. Bergeron and investment funds affiliated with GTCR Golder Rauner, or GTCR, have each agreed to vote shares of VeriFone common stock, representing in the aggregate approximately 39.1% of the outstanding shares of VeriFone common stock FOR the proposal to authorize the issuance of VeriFone common stock to be issued to Lipman shareholders and holders of Lipman share options pursuant to the merger agreement.

**Q: Can I change my vote after I have signed and returned my proxy card or voting instruction card?**

A:

Yes. You can change your vote at any time before your proxy is voted at the VeriFone or Lipman special meeting. You can do this in one of three ways:

you can send a written notice stating that you would like to revoke your proxy, provided that the notice is received at least 24 hours prior to the time set for the special meeting or is presented at the special meeting to the chairman of the meeting;

you can complete and submit a new proxy card dated later than the first proxy card, provided that the new proxy card is received at least 24 hours prior to the time set for the special meeting or is presented at the special meeting to the chairman of the meeting; or

you can attend the VeriFone or Lipman special meeting, and file a written or make an oral notice of revocation of your proxy with the chairman of the meeting and then vote in person.

Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow your broker's directions to change those instructions.

**Q: Can Lipman shareholders revoke their vote after they return their written ballot?**

A:

Yes. A written ballot can be revoked by notifying the corporate secretary of Lipman in writing and producing evidence of shareholder identity, provided it is done at least 24 hours prior to the time set for the special meeting. If a written ballot is revoked, the Lipman shareholder will be entitled to vote at the special meeting only by attending in person.

**Q: Why are Lipman shareholders being asked to indicate on the proxy card or the written ballot whether or not they are related to VeriFone or the merger subsidiary?**

A:

Under Israeli law, if VeriFone, the merger subsidiary or any person or entity holding 25% or more of either the voting power or the right to appoint a director of VeriFone or the merger subsidiary, holds shares in Lipman, then there is an additional requirement for the approval of the merger agreement. The additional requirement is that a majority of the shareholders who are present at the special meeting, excluding VeriFone, the merger subsidiary or any person or entity holding 25% or more of either the voting power or the right to appoint a director of VeriFone or the merger subsidiary, or anyone acting on their behalf, including their family members or entities under their control, shall not have voted against the merger. For this purpose, abstentions and broker non-votes are not considered to be votes against the merger.

**Q: Can Lipman shareholders elect to receive the cash consideration for some of their Lipman ordinary shares and the stock consideration or the mixed consideration for some of their Lipman ordinary shares held in the same account?**

A:

No. Lipman shareholders may only elect to receive one consideration alternative for all of their Lipman ordinary shares held in a single account. A holder of record of Lipman ordinary shares who holds such ordinary shares as a nominee, trustee or in another representative capacity may submit multiple election forms, provided that such record holder certifies that each such election form covers all the Lipman ordinary shares held by such record holder for a particular account or beneficial owner.

**Q: If a Lipman shareholder wants to change or revoke an election, what should he or she do?**

A:

Lipman shareholders may change their election at any time prior to \_\_\_\_\_, local time, on \_\_\_\_\_, 2006, by written notice accompanied by a properly completed and signed later-dated election form received by the exchange agent prior to that time. Lipman shareholders may revoke





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their election at any time prior to \_\_\_\_\_, local time, on \_\_\_\_\_, 2006 by withdrawing their share certificates by written notice received by the exchange agent prior to that time. All elections will be revoked automatically if the merger agreement is terminated.

**Q: If a shareholder purchased Lipman ordinary shares after the record date, may the shareholder vote these shares at the Lipman special meeting? How does the shareholder make an election with respect to these shares?**

A:

A shareholder is not entitled to vote shares purchased after the record date because the shareholder was not the record holder of those shares on the record date. However, the shareholder is entitled to make an election with respect to those shares at any time prior to a deadline to be announced by VeriFone and Lipman which is set approximately \_\_\_\_\_ days prior to the closing date. The shareholder may obtain an election form from the exchange agent by calling \_\_\_\_\_ at \_\_\_\_\_ from within the U.S. or \_\_\_\_\_ at \_\_\_\_\_ from outside the U.S. If the shareholder does not properly and timely send in the shareholder's completed election form along with the shareholder's Lipman share certificates or an appropriate guarantee of delivery, the shareholder may be deemed by VeriFone, in its sole and absolute discretion, but subject to the required proration, to have elected any of the cash consideration or the stock consideration or the mixed consideration.

**Q: What happens if the merger is completed and Lipman shareholders have not properly made a timely election to receive either the cash consideration or the stock consideration or the mixed consideration for their Lipman ordinary shares?**

A:

If Lipman shareholders do not properly make a timely election pursuant to the election procedures described in this proxy statement/prospectus:

those shareholders may be deemed by VeriFone, in its sole and absolute discretion, to have elected any of the cash consideration, the stock consideration or the mixed consideration, subject to the required proration. VeriFone may exercise its discretion, to the extent feasible, but subject to the required proration, to give effect to the elections made by other Lipman shareholders that have properly and timely sent in completed election forms; and

the exchange agent will send written instructions for surrendering the Lipman ordinary shares after the merger is completed.

**Q: Should Lipman shareholders send in their Lipman share certificates now?**

A:

**Do not send an election form or Lipman share certificates together with the proxy card or written ballot.** However, in order for Lipman shareholders to make an election to receive the cash consideration or the stock consideration or the mixed consideration in exchange for their Lipman ordinary shares, they must send their Lipman share certificates, or an appropriate guarantee of delivery, and their completed election form indicating their election of the cash consideration or the stock consideration or the mixed consideration to the exchange agent in the separate envelope specifically provided for the election form and share certificates. To be effective, the election form must be received by the exchange agent no later than \_\_\_\_\_, 2006.

**Q: What do Lipman shareholders do if they have questions?**

A:

If Lipman shareholders have any questions about the special meeting, the merger or this proxy statement/prospectus, or if they need additional copies of this proxy statement/prospectus or the

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enclosed proxy card, they should contact Lipman's information and proxy solicitation agent, Innisfree M&A Incorporated at:

(888) 750-5834 (from the U.S. and Canada)

or

00800 7710 9970 (from Europe)

or

00800 4664 7000 (from Israel)

Banks and Brokers Call Collect:

(212) 750-5833 (New York)

or

+44 20 7710 9972 (London)

In addition, if Lipman shareholders have any questions about the merger or if they need additional copies of this proxy statement/prospectus, they may contact:

Lipman Electronic Engineering Ltd.

Attention: Investor Relations

11 Ha'amal Street, Park Afek

Rosh Ha'ayin 48092 Israel

+972 (3) 902-9730

If their broker holds their shares, they may also call their broker for additional information.

VeriFone will also provide you with copies of the information relating to VeriFone, without charge, upon written or oral request to:

VeriFone Holdings, Inc.

Attention: Investor Relations

2099 Gateway Place, Suite 600

San Jose, California 95110

ir@verifone.com

(408) 232-7979

## Summary

*This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. To understand the merger fully, you should read carefully this entire proxy statement/prospectus and the documents we refer to. See "Where You Can Find More Information" on page 145. The merger agreement is attached as Annex A to this proxy statement/prospectus and is incorporated herein by reference. We encourage you to read it, as it is the most important legal document that governs the merger. We have included page references in parentheses to direct you to a more complete description contained elsewhere in this proxy statement/prospectus of the topics presented in this summary.*

### **The Companies (Page 72)**

**VeriFone Holdings, Inc.**  
2099 Gateway Place, Suite 600  
San Jose, California 95110  
(408) 232-7800

VeriFone is a leading global provider of technology that enables secure electronic payment transactions and value-added services at the point of sale. Since 1981, VeriFone has designed and marketed system solutions that facilitate the long-term shift toward electronic payment transactions and away from cash and checks. VeriFone has one of the leading electronic payment solutions brands and is one of the largest providers of electronic payment systems worldwide. VeriFone's net revenues grew by 24.4% and 15.0%, respectively, in the years ended October 31, 2005 and 2004, reaching \$485.4 million in the year ended October 31, 2005.

**Lipman Electronic Engineering Ltd.**  
11 Ha'amal Street, Park Afek,  
Rosh Ha'ayin 48092 Israel  
+ 972 (3) 902-9730

Lipman is a leading worldwide provider of electronic transaction systems and solutions for the payment industry. Lipman's systems and solutions are used mainly for processing debit and credit electronic payments and are also used for other electronic transactions such as prepaid cell-phone airtime, automated teller machine, or ATM, cash withdrawal, lottery ticket purchase, loyalty programs, gift cards and transportation ticketing. Lipman's products include landline and wireless point-of-sale, or POS, terminals, personal identification number, or PIN, pads, electronic cash registers and self-service systems that include ATMs. In addition, Lipman provides a range of software solutions for a variety of retail applications and other terminal and transaction-related applications such as prepaid systems and terminal fleet management. Lipman's electronic transaction systems are generally sold or leased under its NURIT brand name, as well as under the Dione brand. Lipman's systems are designed to be reliable, easy to use, cost-efficient and to provide its customers with a low total cost of ownership and additional revenue generating opportunities. Lipman has established itself as a technology leader in the electronic payment industry by developing and integrating advanced technologies and security features and applications into its products. In addition, Lipman is continuously developing new revenue sources through penetration into vertical markets, such as prepaid cellular air time and service of its terminals.

**Lion Acquisitions Ltd.**

c/o Herzog, Fox & Neeman  
Asia House  
4 Weizmann Street  
Tel-Aviv 64239 Israel  
+972 (3) 692-2020

Lion Acquisitions Ltd. is a newly-formed, wholly-owned subsidiary of VeriFone. VeriFone formed this subsidiary as an Israeli corporation solely to effect the merger, and this subsidiary has not conducted and will not conduct any business during any period of its existence. We refer to this subsidiary throughout this proxy statement/prospectus as the merger subsidiary.

**VeriFone's Reasons for the Merger; Recommendation of the VeriFone Board**  
**(Page 87)**

After careful consideration, the VeriFone board of directors resolved that the merger agreement and the transactions it contemplates are fair to and in the best interests of VeriFone's stockholders and approved the merger agreement. The VeriFone board of directors recommends that holders of VeriFone common stock vote FOR the proposal to authorize the issuance of VeriFone common stock to be issued to Lipman shareholders pursuant to the merger agreement.

In approving the merger agreement and making its recommendation, the VeriFone board of directors consulted with VeriFone's senior management and VeriFone's financial and legal advisors and considered a number of strategic, financial and other considerations referred to under "The Merger VeriFone's Reasons for the Merger; Recommendation of the VeriFone Board" beginning on page 87.

**Opinion of VeriFone's Financial Advisor**  
**(Page 87)**

Lehman Brothers Inc. rendered its opinion to the VeriFone board of directors that, as of April 8, 2006 and based upon and subject to the matters stated in its opinion, from a financial point of view, the consideration to be paid by VeriFone to Lipman shareholders in the merger was fair to VeriFone.

The full text of the written opinion of Lehman Brothers, dated April 10, 2006, which sets forth assumptions made, procedures followed, factors considered and limitations upon the review undertaken in rendering the opinion, is attached as Annex G to this proxy statement/prospectus. VeriFone stockholders should read this opinion in its entirety. Lehman Brothers is entitled to receive a transaction fee from VeriFone payable upon completion of the merger. **We encourage you to read the opinion of Lehman Brothers in its entirety.**

**Lipman's Reasons for the Merger; Recommendation of the Lipman Board**  
**(Page 77)**

After careful consideration, the Lipman board of directors approved and adopted the merger agreement. The Lipman board of directors recommends that Lipman shareholders vote FOR the approval of the merger agreement.

In reaching its decision to approve and adopt the merger agreement and to recommend that Lipman shareholders vote to approve the merger agreement, the Lipman board of directors consulted with Lipman's management and Lipman's financial and legal advisors and considered a number of strategic, financial and other considerations referred to under "The Merger Lipman's Reasons for the Merger; Recommendation of the Lipman Board of Directors" beginning on page 77.

**Opinion of Lipman's Financial Advisor  
(Page 79)**

Merrill Lynch & Co., Inc. delivered its opinion to the Lipman board of directors that, as of April 10, 2006 and based upon the assumptions made, matters considered and limits of the review, as set forth in its opinion, the merger consideration, which includes the special cash dividend to be paid by Lipman, was fair from a financial point of view to the holders of Lipman's ordinary shares. Merrill Lynch provided its opinion for the information and assistance of the Lipman board of directors in connection with its consideration of the merger. The Merrill Lynch opinion is not a recommendation as to how any holder of Lipman ordinary shares should vote with respect to the merger or whether to elect to receive the cash consideration, the stock consideration or the mixed consideration in connection with the merger and was not intended to address the propriety of every individual decision to elect to receive the per share cash consideration, the per share stock consideration or the per share mixed consideration.

The full text of the written opinion of Merrill Lynch, dated April 10, 2006, which sets forth the assumptions made, matters considered and qualifications and limitations on the scope of review undertaken by Merrill Lynch, is attached as Annex F and is incorporated into this proxy statement/prospectus by reference in its entirety. In accordance with the Merrill Lynch opinion, the term "merger consideration" when used in connection with that opinion refers to the aggregate of (i) one-half (0.50) share of VeriFone common stock, (ii) \$14.304 in cash, as reduced by the per share amount of the special cash dividend to be paid to Lipman's shareholders, and (iii) the per share amount of the special cash dividend to be paid to Lipman's shareholders. Merrill Lynch is entitled to receive a transaction fee from Lipman payable upon completion of the merger. **We encourage you to read the opinion of Merrill Lynch in its entirety.**

**Date, Time and Place  
(Page 65)**

The Lipman special meeting will be held on \_\_\_\_\_, 2006, at 11 Ha'amal Street, Park Afek, Rosh Ha'ayin 48092 Israel, commencing at \_\_\_\_\_, local time.

The VeriFone special meeting will be held on \_\_\_\_\_, 2006, at 2099 Gateway Place, Suite 600, San Jose, California 95110, commencing at \_\_\_\_\_, local time.

**Shareholders Entitled to Vote at the Special Meeting; Required Vote  
(Page 65)**

The close of business on \_\_\_\_\_, 2006 was the record date for the Lipman special meeting. Only Lipman shareholders on the record date are entitled to notice of and to vote at the special meeting. On the record date, there were \_\_\_\_\_ shares of Lipman ordinary shares outstanding. Each share of Lipman ordinary shares will be entitled to one vote on each matter to be acted upon at the special meeting.

The affirmative vote of holders of 75% of the shares of Lipman ordinary shares present and voting (not including abstentions) at the Lipman special meeting is required to approve and adopt the merger agreement and approve the merger.

The amendment to Article 25 of Lipman's Articles of Association relating to exculpation, insurance and indemnity of directors and officers of Lipman and the corresponding amendments to the indemnification agreements entered between Lipman and each of Meir Shamir, Ishay Davidi and Mordechai Gorfung requires the approval of holders of a majority of Lipman ordinary shares present or represented and voting at the Lipman special meeting provided that either: (i) the majority vote (not including abstentions) at the Lipman special meeting must include at least one-third of the votes of

shareholders who have no personal interest in the proposals, participating at the meeting; or (ii) the total number of objecting votes of the shareholders mentioned in clause (i) above, does not exceed 1% of the total voting rights in Lipman.

The amendments to the indemnification agreements entered between Lipman and all other directors of Lipman requires the approval of holders of a majority of Lipman ordinary shares present or represented and voting at the Lipman special meeting.

Mivtach Shamir Holdings Ltd., Mez-Op Holdings Ltd., Isaac Angel, Mike Lilo, Roy Neuman and Eliezer Yanay have each agreed to vote certain of their shares of Lipman ordinary shares, representing in the aggregate approximately 17.0% of the outstanding Lipman ordinary shares, FOR the proposal to approve and adopt the merger agreement and approve the merger.

The close of business on \_\_\_\_\_, 2006 was the record date for the VeriFone special meeting. Only VeriFone stockholders on the record date are entitled to notice of and to vote at the special meeting. On the record date, there were \_\_\_\_\_ shares of VeriFone common stock outstanding. Each share of VeriFone common stock will be entitled to one vote on each matter to be acted upon at the special meeting.

The affirmative vote of holders of a majority of the shares of VeriFone common stock outstanding on the record date is required to approve the issuance of VeriFone common stock to Lipman shareholders pursuant to the merger agreement.

Douglas G. Bergeron and GTCR have each agreed to vote their shares of VeriFone common stock, representing in the aggregate approximately 39.1% of the outstanding shares of VeriFone common stock FOR the proposal to authorize the issuance of VeriFone common stock to be issued to Lipman shareholders pursuant to the merger agreement.

**Interests of Certain Persons/Share Ownership by Directors and Executive Officers of Lipman  
(Page 100)**

When considering the recommendation by Lipman's board of directors to vote FOR the proposal to approve and adopt the merger agreement and approve the merger, you should be aware that some officers of Lipman have interests in the merger that may be different from your interests. Some executive officers of Lipman have executed employment terms sheets with VeriFone, which are expected to be replaced by employment letters that will become effective upon completion of the merger. Lipman's board of directors was aware of these interests and considered them in approving the merger agreement and the merger. The arrangements with Lipman's officers were further approved by Lipman's audit committee.

As of the record date for the special meeting, the directors and executive officers of Lipman and their affiliates, as a group, beneficially owned approximately 17.0% of the outstanding Lipman ordinary shares. The vote of holders of 75% of the shares of Lipman ordinary shares present and voting (not including abstentions) at the Lipman special meeting is required to approve and adopt the merger agreement and approve the merger. The amendment to Article 25 of Lipman's Articles of Association relating to exculpation, insurance and indemnity of directors and officers of Lipman and corresponding amendments to the indemnification agreements entered between Lipman and each of Meir Shamir, Ishay Davidi and Mordechai Gorfung requires the approval of holders of a majority of Lipman ordinary shares present or represented and voting at the Lipman special meeting and either: (i) the majority vote (not including abstentions) at the Lipman special meeting must include at least one-third of the votes of shareholders who have no personal interest in the proposals, participating at the meeting; or (ii) the total number of objecting votes of the shareholders mentioned in subsection (i) above, does not exceed 1% of the total voting rights in Lipman. The amendments to the indemnification agreements entered between Lipman and all other directors of Lipman requires the

approval of holders of a majority of Lipman ordinary shares present or represented and voting at the Lipman special meeting.

**Ownership of VeriFone Following the Merger**

Lipman shareholders collectively will receive an estimated 13.3 million shares of VeriFone common stock in the merger based on the number of shares of Lipman ordinary shares outstanding, excluding shares issuable upon exercise of options outstanding, on June 1, 2006.

Based on the number of shares of VeriFone common stock outstanding as of June 1, 2006, existing Lipman shareholders will own 16.5% of the shares of VeriFone common stock outstanding immediately after the merger.

**Stock Exchange Listings**  
**(Page 99)**

If the merger is completed, Lipman shareholders will be able to trade the shares of VeriFone common stock they receive in the merger on the New York Stock Exchange. In addition, VeriFone has agreed to seek a listing of its common stock on the Tel Aviv Stock Exchange. If the merger is completed, Lipman ordinary shares will no longer be quoted on the Nasdaq National Market or listed on the Tel Aviv Stock Exchange.

**The Merger Agreement**  
**(Page 102)**

The merger agreement is attached as Annex A to this proxy statement/prospectus. You should read the merger agreement in its entirety. It is the most important legal document governing the merger.

**The Merger**  
**(Page 73)**

In the merger, Lion Acquisitions Ltd. will be merged with and into Lipman. Lipman will be the surviving corporation and will become a wholly-owned subsidiary of VeriFone.

**Consideration**  
**(Page 73)**

If the merger agreement is approved and adopted and the merger is completed, each holder of ordinary shares of Lipman will receive for each such share (i) one-half (0.50) share of VeriFone common stock and (ii) \$14.304 in cash, as reduced by the per share amount of the special cash dividend to be paid to Lipman shareholders prior to the closing of the acquisition. Alternatively, Lipman shareholders may elect to receive for each Lipman ordinary share, either \$29.07 in cash, as reduced by the per share amount of the special cash dividend, or 0.9844 shares of VeriFone common stock, as reduced by the per share value of the special cash dividend. The total merger consideration is subject to proration so that VeriFone will (i) issue a number of shares of VeriFone common stock equal to the product of (x) 0.50 multiplied by (y) the number of Lipman ordinary shares issued and outstanding on the closing date and (ii) pay an amount in cash equal to the product of (x) \$14.304 multiplied by (y) the number of Lipman ordinary shares issued and outstanding on the closing date, as reduced by the aggregate amount of the special cash dividend. VeriFone currently estimates that the total consideration to be paid by Verifone will consist of approximately 13.3 million shares and approximately \$382 million in cash, less the aggregate amount of the special cash dividend.

**Special Cash Dividend  
(Page 103)**

After Lipman's special meeting and before the completion of the merger, Lipman's board of directors intends to declare and pay the special cash dividend to holders of Lipman ordinary shares as of the dividend record date to be set by Lipman's board of directors. The amount of the special cash dividend is currently estimated at \$40 million in the aggregate, or approximately \$1.50 per Lipman ordinary share. The amount of the dividend may be increased to the extent Lipman is able to distribute cash to its shareholders without incurring a corporate level tax. Lipman does not expect to declare the special cash dividend if the merger is not approved.

**VeriFone Financing  
(Page 115)**

VeriFone intends to finance the cash portion of the merger consideration with its cash resources as well as through a new credit facility that VeriFone expects to enter into in connection with the merger that will replace its existing credit facility. VeriFone has received a commitment letter with respect to the new credit facility from JP Morgan Securities Inc. and Lehman Brothers Inc. The new credit facility is expected to have a new term loan component of \$500 million and a revolving credit component of \$40 million. The new credit facility is expected to have terms and conditions substantially similar to those contained in VeriFone's existing credit facility. VeriFone's obligation to complete the merger is not contingent on its ability to receive financing under this proposed new credit facility.

**Fractional Shares (Page 103)**

You will not receive fractional shares of VeriFone common stock. Instead, you will receive the cash value, without interest, of any fractional share of VeriFone common stock that you might otherwise have been entitled to receive.

**Conditions to the Merger  
(Page 109)**

VeriFone will complete the merger only if the parties satisfy or waive several conditions. The conditions include:

approval and adoption of the merger agreement by the holders of 75% of the Lipman ordinary shares present and voting (not including abstentions) at the Lipman special meeting;

expiration or termination of the U.S. antitrust waiting period;

all filings, consents, registrations, approvals and authorizations required to be made to or obtained from any governmental entity prior to the completion of the merger by VeriFone and Lipman in connection with the execution and delivery of the merger agreement and the completion of the merger having been made or obtained without the imposition of any term, condition or consequence that would be reasonably likely to have a material adverse effect on VeriFone or Lipman or could reasonably be expected to substantially impair the benefits to VeriFone expected to be realized from the merger;

no court or governmental entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, law, ordinance, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the merger or the other transactions contemplated by the merger agreement, and no governmental entity shall have instituted any proceeding seeking any such order; and



accuracy of representations and warranties of VeriFone and Lipman contained in the merger agreement without regard to any materiality qualification, except that this condition will be deemed to have been satisfied even if such a representation and warranty is not accurate unless the failure of that representation and warranty, individually or in the aggregate, has, or is reasonably likely to have, a material adverse effect on the company.

**Termination, Amendment or Waiver  
(Page 111)**

VeriFone and Lipman can agree to terminate the merger agreement at any time prior to the effective time of the merger, whether before or after approval by VeriFone's stockholders or Lipman's shareholders. In addition, either VeriFone or Lipman can terminate the merger agreement, if any of the following occurs:

the merger is not completed by November 30, 2006;

Lipman's shareholders do not approve the merger at the Lipman special meeting;

VeriFone's stockholders do not approve the issuance of VeriFone common stock at the VeriFone special meeting; or

any order permanently restraining, enjoining or otherwise prohibiting consummation of the merger becomes final and non-appealable.

In addition, Lipman may terminate the merger agreement, whether before or after approval by Lipman shareholders, if there has been a breach of a representation, warranty, covenant or agreement made by VeriFone or Lion Acquisitions Ltd. in the merger agreement, or any of those representations or warranties becomes untrue after the date of the merger agreement, so that certain conditions to Lipman's obligation to complete the merger would not be satisfied and the breach or failure is not curable or, if curable, is not cured by November 30, 2006.

In addition, VeriFone may terminate the merger agreement at any time prior to the effective time of the merger, if:

Lipman's board of directors has withdrawn or adversely qualified or modified its approval or recommendation of the merger agreement; or

there has been a breach of any representation, warranty, covenant or agreement made by Lipman in the merger agreement, or any representations and warranties become untrue after the date of the merger agreement, so that certain conditions to closing of VeriFone would not be satisfied and the breach or condition is not curable or, if curable, is not cured by November 30, 2006.

In addition, VeriFone and Lipman may terminate the merger agreement in certain other circumstances not described above.

**Termination Fee and Expense Reimbursement  
(Page 113)**

Lipman will be required to pay a termination fee of \$23.3 million to VeriFone if (i) prior to the Lipman shareholder vote, the Lipman board of directors approves a superior proposal and authorizes Lipman to enter into a binding written agreement or (ii) VeriFone terminates the merger agreement after Lipman's board of directors has withdrawn or adversely changed its approval or recommendation of the merger agreement in the absence of an acquisition proposal or has recommended to the Lipman shareholders any other acquisition proposal and within one year of termination, Lipman enters into a definitive agreement with respect to the acquisition proposal.

Lipman will be required to pay an expense reimbursement of \$7 million to VeriFone if Lipman shareholders do not approve the merger. This expense reimbursement is not required to be paid if VeriFone is unable to obtain a ruling from the Israel Tax Authority that withholding will not apply to the merger proceeds with respect to non-Israeli residents; VeriFone has notified Lipman that it has determined that it is required to withhold Israeli Tax at source and Lipman shareholders do not approve the merger.

Under the merger agreement, an acquisition proposal is any proposal or offer with respect to a merger, joint venture, partnership, consolidation, dissolution, liquidation, tender offer, recapitalization, reorganization, share exchange, business combination or similar transaction involving, or any purchase of 20% or more of the equity securities in, or 20% or more of the assets of, Lipman or any of its subsidiaries. A superior proposal is an unsolicited *bona fide* acquisition proposal that involves all or a substantial majority of the assets or at least 50% of the equity securities of Lipman and that the Lipman board of directors determines is more favorable to Lipman shareholders than the merger transaction.

**Regulatory Approvals**  
**(Page 96)**

The Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, prohibits VeriFone and Lipman from completing the merger until VeriFone and Lipman have furnished certain information and materials to the Antitrust Division of the Department of Justice, or the DOJ, and the Federal Trade Commission, or the FTC, and the required waiting period has ended.

VeriFone and Lipman are also required to receive Israeli regulatory approvals, including from the Investment Center of the Israeli Ministry of Trade and Industry and the Israeli Land Authority and to make certain regulatory filings, including filings with the Office of the Chief Scientist of the Israel Ministry of Trade and Industry. The merger will only take effect after the making of certain filings with the Israel Registrar of Companies regarding the provision of notices to creditors and the receipt of shareholder approval of the merger from each of the merging companies. Some of these filings have been made and the remaining filings will be made prior to or promptly after the special meetings.

**No Dissenters' or Appraisal Rights**  
**(Page 99)**

Under Israeli law, no dissenters' or appraisal rights are available to Lipman shareholders.

**Material U.S. Federal and Israeli Income Tax Consequences**  
**(Page 93)**

Dividend income as well as gain or loss may be recognized for U.S. federal income tax purposes and, subject to certain exceptions, for Israeli tax purposes. See the section of this proxy statement/prospectus titled "The Merger Material U.S. Federal and Israeli Income Tax Consequences" for a summary discussion of material U.S. federal income tax consequences of the merger to U.S. holders and material Israeli tax considerations in connection with the merger.

**You should consult your tax advisor about the particular tax consequences of the merger to you.**

**Risk Factors and Cautionary Statement Concerning Forward-Looking Statements**  
**(Page 38)**

Both companies have made forward-looking statements in this proxy statement/prospectus and have made forward-looking statements in the documents that are incorporated by reference. Forward-looking statements are subject to risks and uncertainties. Forward-looking statements include

information concerning possible or assumed future results of operations of VeriFone, Lipman or the expanded VeriFone. When words such as "expects", "anticipates", "intends" and "plans" and similar expressions are used, we are making forward-looking statements.

If you are a Lipman shareholder, you should note that an investment in VeriFone common stock involves risks and uncertainties. You should consider these risk factors in evaluating how to vote your Lipman ordinary shares at the Lipman special meeting. Similarly, if you are a VeriFone stockholder, the acquisition of Lipman and the issuance of VeriFone common stock to Lipman shareholders involve risks and uncertainties. You should consider these risk factors in evaluating how to vote your VeriFone common stock at the VeriFone special meeting.

**Comparison of Rights of Lipman Shareholders and VeriFone Stockholders**  
**(Page 132)**

Lipman's articles of association and Israeli Companies Law govern the rights of Lipman shareholders. VeriFone's charter and bylaws and Delaware corporate law will govern your rights as a stockholder of VeriFone following the merger. Your rights under VeriFone's charter and bylaws will differ in some respects from your rights under Lipman's articles of association.

**Voting Agreements**  
**(Page 114)**

Douglas G. Bergeron and GTCR, who collectively beneficially own approximately 39.1% of VeriFone's outstanding shares of common stock as of \_\_\_\_\_, 2006, the record date for the VeriFone special meeting, have entered into voting undertakings to vote their shares in favor of approval of the authorization of issuance of VeriFone common stock in connection with the merger.

Certain of Lipman's directors, each in his or her capacity as a shareholder, officers and other affiliated shareholders who collectively beneficially own approximately 17.0% of Lipman's outstanding ordinary shares as of \_\_\_\_\_, 2006, the record date for the Lipman special meeting, have entered into voting undertakings, and have agreed to grant VeriFone irrevocable proxies, to vote their shares in favor of approval of the merger agreement and the merger. These Lipman shareholders were not paid additional consideration in connection with the voting undertakings and the irrevocable proxies. The Lipman shareholder form of voting agreement is attached as Annex B to this proxy statement/prospectus.

**Investment Agreements**  
**(Page 115)**

Contemporaneously with the execution and delivery of the merger agreement, VeriFone entered into investment agreements with Mivtach Shamir Holdings Ltd. and Isaac Angel. Under their investment agreements, Mivtach Shamir Holdings Ltd. and Isaac Angel agree to elect to receive either the mixed consideration or the stock consideration, and also agree that subject to certain exceptions, they will not, without the prior written consent of VeriFone, during the period commencing on April 10, 2006 and ending 180 days after the closing date of the merger, transfer any of their shares of VeriFone common stock, or any options or warrants to purchase any shares of VeriFone common stock, or any securities convertible into, exchangeable for or that represent the right to receive shares of VeriFone common stock, whether then owned or thereafter acquired by them. The form of investment agreements is attached as Annex D to this proxy statement/prospectus.

**Affiliate Agreements**  
**(Page 112)**

Each member of Lipman's board of directors, in his or her capacity as a shareholder, and specified officers and affiliated shareholders of Lipman, have executed affiliate agreements. By executing the affiliate agreements, these persons have acknowledged the resale restrictions imposed by Rule 145 under the Securities Act on shares of VeriFone common stock that they may receive in the merger. Under the affiliate agreements, VeriFone will be entitled to place appropriate legends on the certificates evidencing any shares of VeriFone common stock to be received by each of the persons who have entered into an affiliate agreement and to issue stop transfer instructions to the transfer agent for those shares of VeriFone common stock. The form of affiliate agreement is attached to this proxy statement/prospectus as Annex E and you are urged to read it in its entirety.

**Employment Letters**  
**(Page 115)**

In connection with the merger, four executive officers of Lipman, Isaac Angel, Lipman's president and chief executive officer; Mike Lilo, Lipman's chief financial officer; Roy Neuman, Lipman's chief operating officer; and Eliezer Yanay, Lipman's vice president, sales and marketing, have entered into employment terms sheets with VeriFone. These employment terms sheets generally provide for compensation arrangements following the merger, severance if the executive officers' employment with VeriFone or Lipman is terminated under specified circumstances following the merger, and non-competition terms. The employment terms sheets are expected to be replaced by employment letters that will become effective upon completion of the merger.

### Summary of VeriFone Selected Financial Data

The following selected financial information of VeriFone is provided to aid your analysis of the financial aspects of the merger. When you read this summary historical financial data, it is important that you also read VeriFone's historical consolidated financial statements and related notes incorporated by reference into this proxy statement/prospectus, as well as the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in VeriFone's annual and quarterly reports incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information" on page 145.

The selected consolidated balance sheet data as of April 30, 2006 and the selected consolidated statement of operations data for the six months ended April 30, 2006 and 2005 have been derived from unaudited financial statements incorporated by reference in this proxy statement/prospectus. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which VeriFone considers necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the six months ended April 30, 2006 are not necessarily indicative of the results that may be expected for the entire year ending October 31, 2006.

The selected historical consolidated financial data as of October 31, 2005 and 2004 and for the years ended October 31, 2005, 2004 and 2003 have been derived from audited consolidated financial statements and related notes incorporated by reference in this proxy statement/prospectus. The selected historical consolidated financial data as of October 31, 2003 and 2002 and the period from July 1, 2002 to October 31, 2002 have been derived from audited consolidated financial statements and related notes not incorporated by reference in this proxy statement/prospectus. The selected historical consolidated financial data for the period from November 1, 2001 to June 30, 2002 have been derived from the audited consolidated financial statements and related notes of VeriFone's predecessor, which are not incorporated by reference in this proxy statement/prospectus. The selected historical consolidated financial data as of October 31, 2001 and for the year ended October 31, 2001 have been derived from the unaudited consolidated financial statements of VeriFone's predecessor, which are not incorporated by reference in this proxy statement/prospectus.

| Year Ended<br>October 31,<br>2001     | Predecessor(1)  |  | Successor(2)            |      |      |                               |      |  |
|---------------------------------------|---|--|-------------------------|------|------|-------------------------------|------|--|
|                                       | Period from<br>November 1,<br>2001 to<br>June 30,<br>2002 | Period from<br>July 1,<br>2002 to<br>October 31,<br>2002 | Years Ended October 31, |      |      | Six Months Ended<br>April 30, |      |  |
|                                       |   |  | 2003                    | 2004 | 2005 | 2005                          | 2006 |  |
| (in thousands, except per share data) |   |  |                         |      |      |                               |      |  |

#### Consolidated Statements of Operations Data:

|  |            |            |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Net revenues   | \$ 349,187 | \$ 184,356 | \$ 111,237 | \$ 339,331 | \$ 390,088 | \$ 485,367 | \$ 229,176 | \$ 276,820 |
| Cost of net revenues:  |            |            |            |            |            |            |            |            |
| Cost of net revenues excluding amortization of purchased core and developed technology assets(3) | 258,891    | 125,542    | 80,479     | 200,291    | 231,892    | 281,607    | 135,467    | 150,807    |
| Amortization of purchased core and developed technology assets                                   |            |            | 4,679      | 14,148     | 9,745      | 6,935      | 3,655      | 3,012      |
| Total cost of net revenues   | 258,891    | 125,542    | 85,158     | 214,439    | 241,637    | 288,542    | 139,122    | 153,819    |
| Gross profit   | 90,296     | 58,814     | 26,079     | 124,892    | 148,451    | 196,825    | 90,054     | 123,001    |
| Operating expenses:(3)   |            |            |            |            |            |            |            |            |
| Research and development   | 47,352     | 20,037     | 10,322     | 28,193     | 33,703     | 41,830     | 19,951     | 23,628     |
| Sales and marketing  | 57,331     | 26,848     | 13,925     | 40,024     | 44,002     | 52,231     | 24,976     | 28,605     |
| General and administrative   | 30,578     | 26,093     | 10,342     | 25,039     | 25,503     | 29,609     | 13,491     | 19,691     |
| Amortization of purchased intangible assets  |            |            | 3,399      | 10,200     | 10,200     | 4,967      | 2,650      | 2,318      |

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|  |             |             |             |            |          |           |           |           |  |
|--|-------------|-------------|-------------|------------|----------|-----------|-----------|-----------|--|
| In-process research and development  |             |             | 17,934      |            |          |           |           |           |  |
| Total operating expenses   | 135,261     | 72,978      | 55,922      | 103,456    | 113,408  | 128,637   | 61,068    | 74,242    |  |
| Operating income (loss)  | (44,965)    | (14,164)    | (29,843)    | 21,436     | 35,043   | 68,188    | 28,986    | 48,759    |  |
| Interest expense, net  | (2,630)     | (2,407)     | (3,794)     | (12,456)   | (12,597) | (14,786)  | (8,762)   | (4,862)   |  |
| Other income (expense), net  | 7,031       | 1,694       | (4,904)     | 3,557      | (11,869) | (6,673)   | (171)     | 266       |  |
| Income (loss) before income taxes  | (40,564)    | (14,877)    | (38,541)    | 12,537     | 10,577   | 46,729    | 20,053    | 44,163    |  |
| Provision (benefit) for income taxes   | 23,196      | 4,593       | (4,509)     | 12,296     | 4,971    | 13,490    | 5,409     | 15,333    |  |
| Net income (loss)  | (63,760)    | (19,470)    | (34,032)    | 241        | 5,606    | 33,239    | 14,644    | 28,830    |  |
| Accrued dividends and accretion on preferred stock                               |             |             | 5,218       | 6,916      | 4,959    |           |           |           |  |
| Net income (loss) attributable to common stockholders                            | \$ (63,760) | \$ (19,470) | \$ (39,250) | \$ (6,675) | \$ 647   | \$ 33,239 | \$ 14,644 | \$ 28,830 |  |
| Net income (loss) per common share:(4)   |             |             |             |            |          |           |           |           |  |
| Basic  | \$ (2.13)   | \$ (0.81)   | \$ (0.14)   | \$ 0.01    | \$ 0.57  | \$ 0.27   | \$ 0.44   |           |  |
| Diluted  | \$ (2.13)   | \$ (0.81)   | \$ (0.14)   | \$ 0.01    | \$ 0.54  | \$ 0.26   | \$ 0.42   |           |  |
| Weighted-average shares used in computing net income (loss) per common share:(4) |             |             |             |            |          |           |           |           |  |
| Basic  | 9,121       | 48,459      | 48,869      | 50,725     | 58,318   | 53,389    | 65,751    |           |  |
| Diluted  | 9,121       | 48,459      | 48,869      | 56,588     | 61,460   | 57,022    | 68,887    |           |  |
| Cash dividends per common share(4)   | \$          | \$          | \$          | \$ 1.72    | \$       | \$        | \$        |           |  |

Predecessor(1)

Successor(2)

As of October 31,

|  | 2001 | 2002 | 2003 | 2004 | 2005 | As of April 30, 2006 |
|--|------|------|------|------|------|----------------------|
|--|------|------|------|------|------|----------------------|

(in thousands)

**Consolidated Balance Sheet Data:**

|  |           |          |          |           |           |           |
|--|-----------|----------|----------|-----------|-----------|-----------|
| Cash and cash equivalents                                    | \$ 20,881 | \$ 3,040 | \$ 5,877 | \$ 12,705 | \$ 65,065 | \$ 91,218 |
| Total assets   | 127,577   | 248,041  | 235,490  | 244,212   | 327,352   | 383,391   |
| Long-term debt and capital leases, including current portion | 33,934    | 66,565   | 62,634   | 262,187   | 182,806   | 181,775   |
| Class A redeemable convertible preferred stock               |           | 74,294   | 81,210   |           |           |           |
| Total stockholders' equity (deficit)                         | (15,921)  | (32,659) | (39,141) | (135,387) | 26,538    | 59,818    |

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|  | Predecessor(1)  |  | Successor(2)            |                 |                 |                               |                 |
|--|---|--|-------------------------|-----------------|-----------------|-------------------------------|-----------------|
|  | Period from<br>November 1,<br>2001 to<br>June 30,<br>2002 | Period from<br>July 1,<br>2002 to<br>October 31,<br>2002 | Years Ended October 31, |                 |                 | Six Months Ended<br>April 30, |                 |
|  |   |  | 2003                    | 2004            | 2005            | 2005                          | 2006            |
| (in thousands)                         |   |  |                         |                 |                 |                               |                 |
| <b>Other Data:</b>                     |   |  |                         |                 |                 |                               |                 |
| EBITDA, as adjusted (5)                | \$ (12,174)   | \$ 2,770   | \$ 49,854               | \$ 57,247       | \$ 86,423       | \$ 37,544                     | \$ 59,039       |
| <b>Capital expenditures:</b>           |   |  |                         |                 |                 |                               |                 |
| Purchase of equipment and improvements | \$  | \$ 542   | \$ 2,196                | \$ 2,430        | \$ 3,121        | \$ 1,410                      | \$ 2,161        |
| Software development costs capitalized |   | 122  | 1,955                   | 2,555           | 863             | 235                           | 1,078           |
| Purchase of other assets               |   |  |                         | 288             | 863             |                               | 1,114           |
| <b>Total capital expenditures</b>      | <b>\$</b>   | <b>\$ 664</b>  | <b>\$ 4,151</b>         | <b>\$ 5,273</b> | <b>\$ 4,847</b> | <b>\$ 1,645</b>               | <b>\$ 4,353</b> |

- (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) VeriFone 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 VeriFone 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 in VeriFone's Annual Report on Form 10-K filed on December 20, 2005 incorporated by reference in this proxy statement/prospectus. The portion of stock-based compensation allocated to each category of expenses for each period is presented below.

|                            | Predecessor(1)  |  | Successor(2)            |               |                 |                               |                 |
|----------------------------|---|--|-------------------------|---------------|-----------------|-------------------------------|-----------------|
|                            | Period from<br>November 1,<br>2001 to<br>June 30,<br>2002 | Period from<br>July 1,<br>2002 to<br>October 31,<br>2002 | Years Ended October 31, |               |                 | Six Months Ended<br>April 30, |                 |
|                            |   |  | 2003                    | 2004          | 2005            | 2005                          | 2006            |
| (in thousands)             |   |  |                         |               |                 |                               |                 |
| Cost of net revenues       | \$  | \$   | \$                      | \$            | \$ 187          | \$                            | \$ 315          |
| Research and development   |   |  |                         |               | 358             |                               | 390             |
| Sales and marketing        |   |  |                         |               | 663             |                               | 740             |
| General and administrative |   | 17   | 81                      | 400           | 479             | 52                            | 667             |
|                            | <b>\$</b>   | <b>\$ 17</b>   | <b>\$ 81</b>            | <b>\$ 400</b> | <b>\$ 1,687</b> | <b>\$ 52</b>                  | <b>\$ 2,112</b> |

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

(5) VeriFone defines 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) income 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 its principal stockholder. EBITDA, as adjusted, is a primary component of the financial covenants to which VeriFone is subject under its credit agreement. If VeriFone fails to maintain required levels of EBITDA, as adjusted, VeriFone could have a default under its credit agreement, potentially resulting in an acceleration of all of its outstanding indebtedness. In addition, VeriFone's management uses EBITDA, as adjusted, as a primary measure to review and assess its operating performance and to compare its current results with those for prior periods as well as with the results of other companies in its 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 VeriFone. 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 VeriFone's operating performance, you should not consider these data in isolation or as a substitute for its net income



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calculated in accordance with U.S. GAAP. VeriFone's 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 VeriFone's cash expenditures or future requirements for capital expenditures or contractual commitments;

it does not reflect changes in, or cash requirements for, VeriFone's working capital needs;

it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on VeriFone's 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; VeriFone may incur similar charges and losses in the future; and

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

A reconciliation of net income, the most directly comparable U.S. GAAP measure, to EBITDA, as adjusted, for the year ended October 31, 2005 is as follows:

|   | Predecessor(1)  |  | Successor(2)            |                  |                  |                               |                  |
|---|---|--|-------------------------|------------------|------------------|-------------------------------|------------------|
|   | Period from<br>November 1,<br>2001 to<br>June 30,<br>2002 | Period from<br>July 1, 2002<br>to<br>October 31,<br>2002 | Years Ended October 31, |                  |                  | Six months Ended<br>April 30, |                  |
|   |   |  | 2003                    | 2004             | 2005             | 2005                          | 2006             |
|   |   |  | (in thousands)          |                  |                  |                               |                  |
| U.S. GAAP net income (loss)                                 | \$ (19,470)   | \$ (34,032)  | \$ 241                  | \$ 5,606         | \$ 33,239        | \$ 14,644                     | \$ 28,830        |
| Provision (benefit) for income taxes                        | 4,593   | (4,509)  | 12,296                  | 4,971            | 13,490           | 5,409                         | 15,333           |
| Interest expense, net                                       | 2,407   | 3,794  | 12,456                  | 12,597           | 14,786           | 8,762                         | 4,862            |
| Depreciation and amortization of equipment and improvements |   | 337  | 1,333                   | 2,451            | 3,691            | 1,437                         | 1,651            |
| Amortization of capitalized software                        |   |  | 108                     | 698              | 1,173            | 523                           | 598              |
| In-process research and development                         |   | 17,934   |                         |                  |                  |                               |                  |
| Amortization of purchased intangible assets                 |   | 8,078  | 24,348                  | 19,945           | 11,902           | 6,305                         | 5,330            |
| Amortization of step-up in inventories on acquisition       |   | 10,087   |                         |                  |                  |                               |                  |
| Amortization of step-up in deferred revenue on acquisitions |   | 981  | 1,561                   | 519              | 700              | 287                           | 323              |
| Stock-based compensation                                    |   | 17   | 81                      | 400              | 1,687            | 52                            | 2,112            |
| Management fees to majority stockholder                     | 2,045   | 83   | 250                     | 250              | 125              | 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            | 5,630            |                               |                  |
| <b>EBITDA, as adjusted</b>                                  | <b>\$ (12,174)</b>  | <b>\$ 2,770</b>  | <b>\$ 49,854</b>        | <b>\$ 57,247</b> | <b>\$ 86,423</b> | <b>\$ 37,544</b>              | <b>\$ 59,039</b> |

Supplemental information:

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|   | Predecessor(1) |       | Successor(2) |            |          |          |          |          |
|---|----------------|-------|--------------|------------|----------|----------|----------|----------|
| Foreign currency transaction losses (gains) | \$             | (185) | \$ 5,198     | \$ (1,246) | \$ (252) | \$ (428) | \$ (534) | \$ (172) |
| Foreign currency contract losses            |                |       |              | 1,145      | 2,425    | 1,227    | 739      | 189      |

(a)

For the year ended October 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 VeriFone's June 2004 recapitalization. For the year ended October 31, 2005, consists of a \$2.2 million cash payment for early retirement fees and \$2.9 million for non-cash write offs of the unamortized debt issuance costs associated with VeriFone's prepayment of its Senior Secured Credit Facility and \$0.5 million debt repricing fee.

### Summary of Lipman Selected Financial Data

The following selected financial information of Lipman is provided to aid your analysis of the financial aspects of the merger. When you read this summary historical financial data, it is important that you also read Lipman's historical consolidated financial statements and related notes incorporated by reference into this proxy statement/prospectus, as well as the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Lipman's annual reports incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information" on page 145.

The table below presents summary selected historical consolidated financial data of Lipman. These financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The selected consolidated balance sheet data as of March 31, 2006 and the selected consolidated statement of operations data for the three months ended March 31, 2006 and 2005 have been derived from unaudited financial statements incorporated by reference in this proxy statement/prospectus. Stock-based compensation has been allocated to the relevant line items in the consolidated statement of operations in order to conform to VeriFone's presentation in its consolidated statement of operations. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which Lipman considers necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2006.

The selected consolidated balance sheet data as of December 31, 2005 and 2004 and the selected consolidated statement of operations data for the fiscal years ended December 31, 2005, 2004 and 2003 have been derived from audited financial statements incorporated by reference in this proxy statement/prospectus. The selected consolidated balance sheet data as of December 31, 2003, 2002 and 2001 and the selected consolidated statement of operations data for the fiscal years ended December 31, 2002 and 2001 have been derived from audited financial statements not incorporated by reference in this proxy statement/prospectus.

|  | Years Ended December 31, |           |            |            |            | Three Months Ended March 31, |           |
|--|--------------------------|-----------|------------|------------|------------|------------------------------|-----------|
|  | 2001                     | 2002      | 2003       | 2004       | 2005       | 2005                         | 2006      |
| (in thousands, except per share data)  |                          |           |            |            |            |                              |           |
| <b>Consolidated Statements of Operations Data:</b>   |                          |           |            |            |            |                              |           |
| Net revenues   | \$ 62,958                | \$ 85,534 | \$ 117,667 | \$ 180,553 | \$ 235,400 | \$ 54,208                    | \$ 57,632 |
| Cost of net revenues:  |                          |           |            |            |            |                              |           |
| Cost of net revenues excluding amortization of purchased core and developed technology assets(1) | 27,781                   | 37,116    | 58,413     | 99,370     | 135,396    | 31,426                       | 33,199    |
| Amortization of purchased core and developed technology assets                                   |                          |           |            | 260        | 985        | 283                          | 265       |
| Total cost of net revenues   | 27,781                   | 37,116    | 58,413     | 99,630     | 136,381    | 31,709                       | 33,464    |
| Gross profit   | 35,177                   | 48,418    | 59,254     | 80,923     | 99,019     | 22,499                       | 24,168    |
| Operating expenses:(1)   |                          |           |            |            |            |                              |           |
| Research and development   | 4,241                    | 4,697     | 5,028      | 8,940      | 16,054     | 3,770                        | 3,568     |
| Sales and marketing  | 12,037                   | 12,840    | 16,548     | 21,569     | 31,908     | 7,546                        | 8,823     |
| General and administrative   | 7,446                    | 7,070     | 8,173      | 12,966     | 11,826     | 3,286                        | 2,636     |
| Amortization of purchased intangible assets  | 1,844                    | 206       | 206        | 699        | 2,223      | 590                          | 604       |
| Impairment of goodwill   |                          |           |            |            | 10,493     |                              |           |
| Total operating expenses   | 25,568                   | 24,813    | 29,955     | 44,174     | 72,504     | 15,192                       | 15,631    |
| Operating income   | 9,609                    | 23,605    | 29,299     | 36,749     | 26,515     | 7,307                        | 8,537     |
| Financial income, net  | 221                      | 160       | 3,627      | 3,099      | 2,909      | 250                          | 802       |
| Other income (expenses), net   | (2,712)                  | (472)     | 189        | 62         | 44         | (31)                         | 19        |

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|  |          |           |           |           |           |          |          |
|--|----------|-----------|-----------|-----------|-----------|----------|----------|
| Income before income taxes   | 7,118    | 23,293    | 33,115    | 39,910    | 29,468    | 7,526    | 9,358    |
| Provision for income taxes   | 2,017    | 1,366     | 3,750     | 9,167     | 9,384     | 2,252    | 2,732    |
| Net income before cumulative effect of accounting changes                | 5,101    | 21,927    | 29,365    | 30,743    | 20,084    | 5,274    | 6,626    |
| Cumulative effect of accounting changes, net of taxes                    |          |           |           |           |           |          | 1,338    |
| Net income after the effect of an accounting change                      | \$ 5,101 | \$ 21,927 | \$ 29,365 | \$ 30,743 | \$ 20,084 | \$ 5,274 | \$ 7,964 |
| Net income per ordinary share:   |          |           |           |           |           |          |          |
| Basic before the effect of an accounting change                          | \$ 0.26  | \$ 1.09   | \$ 1.44   | \$ 1.20   | \$ 0.75   | \$ 0.20  | \$ 0.25  |
| Basic after the effect of an accounting change                           | \$ 0.26  | \$ 1.09   | \$ 1.44   | \$ 1.20   | \$ 0.75   | \$ 0.20  | \$ 0.30  |
| Diluted before the effect of an accounting change                        | \$ 0.26  | \$ 1.06   | \$ 1.38   | \$ 1.15   | \$ 0.73   | \$ 0.19  | \$ 0.24  |
| Diluted after the effect of an accounting change                         | \$ 0.26  | \$ 1.06   | \$ 1.38   | \$ 1.15   | \$ 0.73   | \$ 0.19  | \$ 0.29  |
| Weighted-average shares used in computing net income per ordinary share: |          |           |           |           |           |          |          |
| Basic  | 20,056   | 20,078    | 20,422    | 25,599    | 26,835    | 26,587   | 26,899   |
| Diluted  | 20,098   | 20,742    | 21,354    | 26,680    | 27,475    | 27,459   | 27,325   |
| Cash dividend per ordinary share   | \$       | \$ 0.24   | \$ 0.225  | \$ 0.196  | \$        | \$       |          |

As of

| December 31,   |      |      |      |      |  | March 31, |
|----------------|------|------|------|------|--|-----------|
| 2001           | 2002 | 2003 | 2004 | 2005 |  | 2006      |
| (in thousands) |      |      |      |      |  |           |

**Consolidated Balance Sheet Data:**

|  |           |           |           |            |            |            |
|--|-----------|-----------|-----------|------------|------------|------------|
| Cash and cash equivalents                                    | \$ 22,802 | \$ 35,522 | \$ 57,465 | \$ 117,396 | \$ 124,413 | \$ 120,039 |
| Total assets   | 64,547    | 86,300    | 134,172   | 304,123    | 325,042    | 325,120    |
| Working capital  | 38,505    | 59,534    | 91,362    | 155,234    | 189,822    | 188,696    |
| Long-term debt and capital leases, including current portion | 1,262     | 1,268     | 1,264     |            |            |            |
| Total shareholders' equity                                   | 52,992    | 73,658    | 106,391   | 239,593    | 260,049    | 260,845    |

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|   |  |
|---|--|
| <b>Year Ended<br/>December 31,<br/>2005</b> | <b>Six Months<br/>Ended<br/>March 31,<br/>2006</b> |
|---|--|

(in thousands)

**Other Data:**

|                        |    |        |    |        |
|------------------------|----|--------|----|--------|
| EBITDA, as adjusted(2) | \$ | 47,571 | \$ | 24,944 |
| Capital expenditures   |    | 5,222  |    | 3,531  |

(1) Stock-based compensation included above:

|                            | Years Ended December 31, |                 |                 |                 |                 | Three Months Ended<br>March 31, |               |
|----------------------------|--------------------------|-----------------|-----------------|-----------------|-----------------|---------------------------------|---------------|
|                            | 2001                     | 2002            | 2003            | 2004            | 2005            | 2005                            | 2006          |
|                            | (in thousands)           |                 |                 |                 |                 |                                 |               |
| Cost of net revenues       | \$ 65                    | \$ 70           | \$ 39           | \$ 358          | \$ 467          | \$ 114                          | \$ 67         |
| Research and development   | 1,026                    | 654             | 258             | 1,111           | 1,326           | 345                             | 185           |
| Sales and marketing        | 235                      | 418             | 231             | 904             | 1,084           | 278                             | 159           |
| General and administrative | 2,927                    | 1,604           | 2,051           | 2,410           | 2,406           | 600                             | 390           |
|                            | <b>\$ 4,253</b>          | <b>\$ 2,746</b> | <b>\$ 2,579</b> | <b>\$ 4,783</b> | <b>\$ 5,283</b> | <b>\$ 1,337</b>                 | <b>\$ 801</b> |

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(2)

Lipman defines 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 and (5) non-cash charges, including non-cash share-based compensation expense and purchase accounting items. Upon consummation of the merger, EBITDA, as adjusted, will become an important measurement of Lipman's results as it is a primary component of the financial covenants to which the expanded VeriFone will be subject under VeriFone's credit agreement. In addition, Lipman's management believes it is important to present EBITDA, as adjusted, to shareholders in the context of deciding whether to approve the merger. 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 Lipman's operating performance you should not consider this data in isolation or as a substitute for its net income calculated in accordance with U.S. GAAP. Lipman's 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 Lipman's cash expenditures or future requirements for capital expenditures or contractual commitments;

it does not reflect changes in, or cash requirements for, Lipman's working capital needs;

it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on Lipman's 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; Lipman may incur similar charges and losses in the future; and

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

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

|   | <b>Year Ended<br/>December 31,<br/>2005</b> | <b>Six Months<br/>Ended<br/>March 31,<br/>2006</b> |
|---|---|--|
| <b>(in thousands)</b>   |   |  |
| U.S. GAAP net income before cumulative effect of accounting changes | \$ 20,084                                   | \$ 6,266   |
| Provision for income taxes  | 9,384                                       | 4,841  |
| Interest income   | (2,909)                                     | (1,723)  |
| Depreciation and amortization of equipment and improvements         | 2,028                                       | 1,245  |
| Amortization of purchased intangible assets                         | 3,208                                       | 1,621  |
| Stock-based compensation  | 5,283                                       | 2,201  |
| Impairment of goodwill  | 10,493                                      | 10,493   |
|   | <b>\$ 47,571</b>                            | <b>\$ 24,944</b>                                   |
| EBITDA, as adjusted   | <b>\$ 47,571</b>                            | <b>\$ 24,944</b>                                   |

**Selected Unaudited Pro Forma Condensed Combined Financial Data**

The following selected unaudited pro forma condensed combined financial information is based on the historical financial statements of VeriFone Holdings, Inc. ("VeriFone") and Lipman Electronic Engineering Ltd. ("Lipman") after giving effect to the proposed merger between VeriFone and Lipman, the estimated additional borrowings under the proposed debt refinancing used to finance a portion of the merger consideration and the assumption and adjustments described in the accompanying notes to the unaudited pro forma condensed financial information included elsewhere in this proxy statement/prospectus.

VeriFone's fiscal year ends on October 31 while Lipman's fiscal year ends on December 31. The selected unaudited pro forma condensed combined balance sheet data as of April 30, 2006 is based on the historical balance sheet of VeriFone as of April 30, 2006 and of Lipman as of March 31, 2006 and has been prepared to reflect the merger and the estimated additional borrowings under the proposed new credit facility as if they had been consummated on April 30, 2006. The selected unaudited pro forma condensed combined statement of operations data for the six months ended April 30, 2006 combines the results of operations of VeriFone for the six months ended April 30, 2006 and of Lipman for the six months ended March 31, 2006 as though the merger and the estimated additional borrowings under the proposed debt refinancing had been consummated on November 1, 2004. The selected unaudited pro forma condensed combined statement of operations data for the year ended October 31, 2005 combines the results of operations of VeriFone for the year ended October 31, 2005 and of Lipman for the year ended December 31, 2005 as if the merger and the estimated additional borrowings under the proposed new credit facility had been consummated on November 1, 2004. Lipman's net revenues of \$68,753,000 and net loss from continuing operations of \$360,000 for the three months ended December 31, 2005 is included in the selected unaudited pro forma condensed combined statements of operations data for both the year ended October 31, 2005 and the six months ended April 30, 2006.

The selected unaudited pro forma financial data has been prepared on the basis that, Lipman shareholders will receive aggregate consideration consisting of a number of shares of VeriFone common stock equal to the product of 0.50 times the number of Lipman shares outstanding on the closing date of the merger and an amount of cash equal to the product of \$14,304 times the number of Lipman shares outstanding on the closing date of the merger, as reduced by the aggregate amount of the special cash dividend currently estimated at \$40 million, or \$1.50 per share, to be paid by Lipman to its shareholders prior to the closing of the transaction. The estimated number of shares of VeriFone common stock to be issued in the proposed merger is approximately 13.3 million shares and the total purchase price is estimated to be approximately \$795 million, including \$25 million in transaction costs and \$15 million related to the fair value of vested stock options assumed. VeriFone has estimated additional borrowings of \$318 million under the proposed refinancing to finance a component of the cash portion of the acquisition and expenses of the merger.

The preliminary allocation of the purchase price used in the selected unaudited pro forma condensed combined financial data is based on preliminary estimates and currently available information. These assumptions and estimates, some of which cannot be finalized prior to the consummation of the merger, will be revised as additional information becomes available, upon consummation of the merger and finalization of the valuation of Lipman's assets and liabilities. The final determination of the allocation of the purchase prices will be based on the actual intangible assets, net tangible assets and in-process research and development of Lipman existing as of the date of acquisition.

The selected unaudited pro forma condensed combined financial data does not include the effects of restructuring certain activities affecting pre-merger VeriFone or Lipman operations. These restructuring liabilities, once determined, may be material and may include costs for severance, costs of

vacating facilities and costs to exit or terminate other duplicative activities. Liabilities related to restructuring Lipman's operations will be recorded as an adjustment to the purchase price and result in an increase in goodwill. Liabilities related to restructuring VeriFone's operations will be recorded as expenses in VeriFone's statement of operations in the period that the costs are incurred. VeriFone expects to be able to quantify estimated restructuring expenses upon completion of the merger or shortly thereafter.

The selected unaudited pro forma condensed combined financial data is not intended to represent what VeriFone's financial position or results of operations would actually have been if the merger had occurred on those dates. Since VeriFone and Lipman were not under common control or management for any period presented, the selected unaudited pro forma condensed combined financial data may not be comparable to, or indicative of, future performance. The selected unaudited pro forma condensed combined financial data does not include any adjustments for liabilities resulting from integration planning. Management of VeriFone is in the process of assessing the costs associated with integration.

The selected unaudited pro forma condensed combined financial data should be read in conjunction with the summary selected historical consolidated financial data and the unaudited pro forma condensed combined consolidated financial information and accompanying notes contained elsewhere in this proxy statement/prospectus and the separate historical consolidated financial statements and accompanying notes of VeriFone and Lipman incorporated by reference into this proxy statement/prospectus. See the section entitled "Where You Can Find More Information" on page 145.

| Year Ended<br>October 31,<br>2005 | Six Months Ended<br>April 30, 2006 |
|-----------------------------------|------------------------------------|
|-----------------------------------|------------------------------------|

(in thousands, except per share data)

**Selected Unaudited Pro Forma Condensed Combined Statement of Operations Data:**

|   |            |            |
|---|------------|------------|
| Net revenues  | \$ 715,558 | \$ 402,971 |
| Cost of net revenues                                    | 454,967    | 243,506    |
| Gross profit  | 260,591    | 159,465    |
| Total operating expenses                                | 214,744    | 123,930    |
| Operating income  | 45,847     | 35,535     |
| Interest expense, net                                   | (34,991)   | (14,696)   |
| Other income (expense), net                             | (6,629)    | 369        |
| Income before income taxes                              | 4,227      | 21,208     |
| Provision for income taxes                              | 11,194     | 16,058     |
| Net income (loss) from continuing operations            | \$ (6,967) | \$ 5,150   |
| Net income from continuing operations per common share: |            |            |
| Basic   | \$ (0.10)  | \$ 0.07    |
| Diluted   | \$ (0.10)  | \$ 0.06    |

As of  
April 30, 2006

(in thousands)

**Selected Unaudited Pro Forma Condensed Combined Balance Sheet Data:**

|  |            |
|--|------------|
| Cash and cash equivalents                                    | \$ 112,304 |
| Total assets   | 1,220,004  |
| Long-term debt and capital leases, including current portion | 500,147    |
| Total stockholders' equity                                   | 475,534    |



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Year Ended  
October 31,  
2005                      Six Months Ended  
April 30, 2006

(in thousands)

**Selected Unaudited Pro Forma Other Data:**

|                               |            |           |
|-------------------------------|------------|-----------|
| <u>EBITDA, as adjusted(1)</u> | \$ 133,994 | \$ 83,983 |
|-------------------------------|------------|-----------|

(1) A reconciliation of pro forma net income (loss) from continuing operations to EBITDA, as adjusted, for the year ended October 31, 2005 and the six months ended April 30, 2006 is as follows:

|   | Historical                                    |   |                          |                       |
|---|---|---|--------------------------|-----------------------|
|   | VeriFone<br>Year Ended<br>October 31,<br>2005 | Lipman<br>Year Ended<br>December 31, 2005 | Pro Forma<br>Adjustments | Pro Forma<br>Combined |
|   | (in thousands)                                |   |                          |                       |
| Net income from continuing operations                       | \$ 33,239                                     | \$ 20,084                                 | \$ (60,290)              | \$ (6,967)            |
| Provision for income taxes                                  | 13,490  | 9,384                                     | (11,680)                 | 11,194                |
| Interest expense, net                                       | 14,786  | (2,909)                                   | 23,114                   | 34,991                |
| Depreciation and amortization of equipment and improvements | 3,691   | 2,028                                     |                          | 5,719                 |
| Amortization of capitalized software                        | 1,173   |   |                          | 1,173                 |
| Amortization of purchased intangible assets                 | 11,902  | 3,208                                     | 38,160                   | 53,270                |
| Amortization of step-up deferred revenue on acquisitions    | 700   |   | 5,209                    | 5,909                 |
| Stock-based compensation                                    | 1,687   | 5,283                                     | 5,487                    | 12,457                |
| Management fees to majority stockholder                     | 125   |   |                          | 125                   |
| Loss on debt extinguishment and debt repricing fee          | 5,630   |   |                          | 5,630                 |
| Impairment of goodwill                                      |   | 10,493                                    |                          | 10,493                |
| EBITDA as adjusted  | \$ 86,423                                     | \$ 47,571                                 | \$                       | 133,994               |

|   | Historical  |  |                          |                       |
|---|---|--|--------------------------|-----------------------|
|   | VeriFone<br>Six Months<br>Ended<br>April 30, 2006 | Lipman<br>Six Months<br>Ended<br>March 31,<br>2006 | Pro Forma<br>Adjustments | Pro Forma<br>Combined |
|   | (in thousands)                                    |  |                          |                       |
| Net income from continuing operations                       | \$ 28,830   | \$ 6,266   | \$ (29,946)              | \$ 5,150              |
| Provision for income taxes                                  | 15,333  | 4,841  | (4,116)                  | 16,058                |
| Interest expense, net                                       | 4,862   | (1,723)  | 11,557                   | 14,696                |
| Depreciation and amortization of equipment and improvements | 1,651   | 1,245  |                          | 2,896                 |
| Amortization of capitalized software                        | 598   |  |                          | 598                   |
| Amortization of purchased intangible assets                 | 5,330   | 1,621  | 19,081                   | 26,032                |

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Historical

|   |           |           |       |           |
|---|-----------|-----------|-------|-----------|
| Amortization of step-up in deferred revenue on acquisitions | 323       |           | 234   | 557       |
| Stock-based compensation                                    | 2,112     | 2,201     | 3,190 | 7,503     |
| Impairment of goodwill                                      |           | 10,493    |       | 10,493    |
| EBITDA as adjusted  | \$ 59,039 | \$ 24,944 | \$    | \$ 83,983 |

**Exchange Rate Information**

The financial statements of Lipman are prepared in U.S. dollars. For foreign subsidiaries whose functional currency has been determined to be their local currency, assets and liabilities are translated at year-end exchange rates and statement of income items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component of accumulated other comprehensive income in shareholders' equity. The following table sets forth, for the periods indicated, information concerning the exchange rate as reported on oanda.com, a comprehensive online currency converter, expressed in U.S. dollars per New Israeli Shekels per U.S. dollar. The annual average rates are calculated from the closing rates for each month across the relevant period. On June 8, 2006, the exchange rate was NIS 4.49190 per \$1.00.

|                                 | <b>Low</b> | <b>High</b> | <b>End</b> | <b>Average<br/>Rate</b> |
|---------------------------------|------------|-------------|------------|-------------------------|
| October 2005                    | 4.66300    | 4.56770     | 4.66300    | 4.63200                 |
| November 2005                   | 4.74650    | 4.58600     | 4.67450    | 4.70764                 |
| December 2005                   | 4.67250    | 4.52900     | 4.59470    | 4.62266                 |
| January 2006                    | 4.64830    | 4.51150     | 4.65370    | 4.62729                 |
| February 2006                   | 4.72900    | 4.59350     | 4.72230    | 4.71189                 |
| March 2006                      | 4.72130    | 4.60200     | 4.68570    | 4.70139                 |
| April 2006                      | 4.69780    | 4.43350     | 4.49640    | 4.59841                 |
|                                 | <b>Low</b> | <b>High</b> | <b>End</b> | <b>Average<br/>Rate</b> |
| Six months ended April 30, 2006 | 4.74650    | 4.43350     | 4.49640    | 4.66081                 |
|                                 | <b>Low</b> | <b>High</b> | <b>End</b> | <b>Average<br/>Rate</b> |
| Year ended October 31,          |            |             |            |                         |
| 2005                            | 4.66300    | 4.28240     | 4.66300    | 4.44988                 |
| 2004                            | 4.62700    | 4.32800     | 4.47110    | 4.50273                 |
| 2003                            | 4.94300    | 4.27360     | 4.50600    | 4.59504                 |
| 2002                            | 5.00500    | 4.20300     | 4.78000    | 4.66441                 |
| 2001                            | 4.40800    | 4.04000     | 4.29700    | 4.18359                 |

### Comparative Historical and Pro Forma Per Share Data

The following tables set forth certain historical per share data of VeriFone and Lipman and combined per share data on an unaudited pro forma basis after giving effect to the merger using the purchase method of accounting assuming that all Lipman shareholders will receive the mixed consideration of 0.5 shares of VeriFone common stock plus \$14.304 in cash, as reduced by the per share amount of the special cash dividend to be paid to Lipman shareholders, for each ordinary share of Lipman outstanding as of June 5, 2006. The following data should be read in conjunction with the separate historical consolidated financial statements of VeriFone and the historical consolidated financial statements of Lipman incorporated by reference into this proxy statement/prospectus. The unaudited pro forma combined per share data do not necessarily indicate the operating results that would have been achieved had the merger been completed as of the beginning of the earliest period presented and should not be taken as representative of future operations. Since becoming a public company VeriFone has not declared or paid any cash dividends on VeriFone common stock. Lipman paid cash dividends of \$0.24 per share in 2005, \$0.225 per share in 2004 and \$0.196 in 2003 to holders of its ordinary shares. Following the approval of the merger agreement and the merger by Lipman's shareholders, Lipman will declare the special cash dividend in an amount equal to the maximum amount of cash reserves of Lipman that may be distributed by Lipman in the form of a dividend and without tax being imposed on or payable by Lipman. The special cash dividend is currently estimated at \$40 million, or approximately \$1.50 per share.

| VeriFone  |    |      | Lipman  |    |                              |
|---|----|------|---|----|------------------------------|
| <b>Net income from continuing operations per share (basic):</b>   |    |      | <b>Net income from continuing operations per share (basic):</b>   |    |                              |
| Year ended October 31, 2005                                       | \$ | 0.57 | Year ended December 31, 2005                                      | \$ | 0.75                         |
| Six months ended April 30, 2006                                   | \$ | 0.44 | Six months ended March 31, 2006                                   | \$ | 0.23                         |
| <b>Net income from continuing operations per share (diluted):</b> |    |      | <b>Net income from continuing operations per share (diluted):</b> |    |                              |
| Year ended October 31, 2005                                       | \$ | 0.54 | Year ended December 31, 2005                                      | \$ | 0.73                         |
| Six months ended April 30, 2006                                   | \$ | 0.42 | Six months ended March 31, 2002                                   | \$ | 0.23                         |
| <b>Book value per share(1):</b>                                   |    |      | <b>Book value per share(1):</b>                                   |    |                              |
| October 31, 2005  | \$ | 0.39 | December 31, 2005   | \$ | 9.58                         |
| April 30, 2006  | \$ | 0.88 | March 31, 2006  | \$ | 9.76                         |
|   |    |      |   |    |                              |
|   |    |      | <b>VeriFone</b>   |    | <b>Lipman Equivalent</b>     |
|   |    |      | <b>Pro Forma Combined(2)</b>                                      |    | <b>Pro Forma Combined(3)</b> |
| <b>Net income from continuing operations per share (basic):</b>   |    |      |   |    |                              |
| Year ended October 31, 2005                                       | \$ |      | (0.10)  | \$ | (0.05)                       |
| Six months ended April 30, 2006                                   | \$ |      | 0.07  | \$ | 0.03                         |
| <b>Net income from continuing operations per share (diluted):</b> |    |      |   |    |                              |
| Year ended October 31, 2005                                       | \$ |      | (0.10)  | \$ | (0.05)                       |
| Six months ended April 30, 2006                                   | \$ |      | 0.06  | \$ | 0.03                         |
| <b>Book value per share:</b>                                      |    |      |   |    |                              |
| October 31, 2005  | \$ |      | 5.46  | \$ | 2.73                         |
| April 30, 2006  | \$ |      | 5.86  | \$ | 2.93                         |

- (1) Historical book value per share is computed by dividing stockholders' equity by the number of shares of VeriFone common stock or Lipman ordinary shares outstanding at the end of each period.

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- (2) Because of the different fiscal period ends, financial information for VeriFone as of or for the year ended October 31, 2005 has been combined with financial information relating to Lipman as of or for the year ended December 31, 2005 and financial information for VeriFone as of or for the six months ended April 30, 2006 has been combined with financial information relating to Lipman as of or for the six months ended March 31, 2006. Pro forma book value per share is computed by dividing pro forma stockholders' equity by the pro forma number of shares of VeriFone common stock outstanding at the end of each period.
- (3) The Lipman equivalent pro forma combined per share amounts are calculated by multiplying VeriFone pro forma per share amounts by the exchange ratio in the merger agreement of 0.5 shares of VeriFone common stock for each share of Lipman ordinary shares.

**Comparative Per Share Market Price Data**

Lipman ordinary shares have traded on the Nasdaq National Market since January 29, 2004 and the Tel Aviv Stock Exchange since May 17, 1993 under the symbol "LPMA". VeriFone common stock has traded on the New York Stock Exchange under the symbol "PAY" since April 29, 2005, the date of its initial public offering.

The following table shows, for each company's fiscal quarters indicated, the high and low sale prices per share, adjusted for stock splits and the like, of Lipman ordinary shares and VeriFone common stock as reported on the Tel Aviv Stock Exchange, the Nasdaq National Market and the New York Stock Exchange.

VeriFone's fiscal year ends on October 31 and Lipman's fiscal year ends on December 31.

| Fiscal Quarters                     | Lipman ordinary shares  |              |                        |       | VeriFone common stock   |       |
|-------------------------------------|-------------------------|--------------|------------------------|-------|-------------------------|-------|
|                                     | Tel Aviv Stock Exchange |              | Nasdaq National Market |       | New York Stock Exchange |       |
|                                     | High                    | Low          | High                   | Low   | High                    | Low   |
| 2003:                               |                         |              |                        |       |                         |       |
| First Quarter                       | NIS 4,677.99            | NIS 3,937.31 | \$                     | \$    | \$                      | \$    |
| Second Quarter                      | 7,102.44                | 4,556.16     |                        |       |                         |       |
| Third Quarter                       | 7,082.61                | 5,060.43     |                        |       |                         |       |
| Fourth Quarter                      | 8,093.71                | 5,774.14     |                        |       |                         |       |
| 2004:                               |                         |              |                        |       |                         |       |
| First Quarter                       | 10,903.95               | 8,237.44     | 24.42                  | 20.11 |                         |       |
| Second Quarter                      | 11,944.79               | 9,590.52     | 26.52                  | 20.38 |                         |       |
| Third Quarter                       | 11,647.41               | 8,972.96     | 25.55                  | 19.08 |                         |       |
| Fourth Quarter                      | 12,790                  | 10,100       | 29.90                  | 22.91 |                         |       |
| 2005:                               |                         |              |                        |       |                         |       |
| First Quarter                       | 13,810                  | 11,980       | 32.05                  | 27.20 |                         |       |
| Second Quarter                      | 14,790                  | 12,250       | 33.65                  | 27.90 | 11.30                   | 10.00 |
| Third Quarter                       | 15,020                  | 9,374        | 33.52                  | 19.15 | 22.33                   | 10.80 |
| Fourth Quarter                      | 11,470                  | 9,280        | 24.77                  | 20.06 | 23.36                   | 17.99 |
| 2006:                               |                         |              |                        |       |                         |       |
| First Quarter                       | 13,050                  | 10,140       | 28.63                  | 22.55 | 28.55                   | 21.70 |
| Second Quarter                      |                         |              |                        |       | 33.56                   | 22.85 |
| Third Quarter (through _____, 2006) |                         |              |                        |       |                         |       |

The following table shows the closing sale prices per share of VeriFone common stock as reported on the New York Stock Exchange and of Lipman ordinary shares as reported on the Tel Aviv Stock Exchange and the Nasdaq National Market on:

March 21, 2006, the trading day of the New York Stock Exchange, the Nasdaq National Market and the Tel Aviv Stock Exchange next preceding an article appearing in *Globes*, an Israeli financial publication, leaking news about the proposed transaction;

April 7, 2006, the trading day of the Nasdaq National Market and the New York Stock Exchange next preceding public announcement that VeriFone and Lipman had entered into the merger agreement; and

\_\_\_\_\_, 2006, the last full trading day for which closing prices were available as of the date of this proxy statement/prospectus.

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The table also includes the equivalent price per Lipman ordinary share on those dates. This equivalent per share price reflects the \$29.07 in cash that Lipman shareholders will receive for each Lipman ordinary share surrendered for the cash consideration. In the case of the stock consideration, these equivalent high and low sales prices per share reflect 0.9844 shares of VeriFone common stock that Lipman shareholders will receive for each Lipman ordinary share surrendered for the stock consideration. In the case of the mixed consideration, these equivalent high and low sales prices per share reflect the 0.5 of a share of VeriFone common stock plus the \$14.304 in cash that Lipman shareholders will receive for each Lipman ordinary share surrendered for the mixed consideration if the merger had been completed on either of these dates. In each instance, the consideration paid to Lipman shareholders will be reduced by the per share amount or per share value of the special cash dividend to be paid to Lipman shareholders.

|                | VeriFone                                   |          | Lipman   |          |                            |              | Equivalent Price Per Share(1) |          |                        |          |                        |          |
|----------------|--|----------|--|----------|----------------------------|--------------|-------------------------------|----------|------------------------|----------|------------------------|----------|
|                | Common Stock<br>New York<br>Stock Exchange |          | Ordinary<br>Shares<br>Nasdaq<br>National<br>Market |          | Tel Aviv<br>Stock Exchange |              | Cash<br>Consideration         |          | Stock<br>Consideration |          | Mixed<br>Consideration |          |
|                | High                                       | Low      | High   | Low      | High                       | Low          | High                          | Low      | High                   | Low      | High                   | Low      |
| March 21, 2006 | \$ 29.41                                   | \$ 28.86 | \$ 25.40   | \$ 25.05 | NIS118.60(2)               | NIS115.80(2) | \$ 29.07                      | \$ 29.07 | \$ 28.95               | \$ 28.41 | \$ 29.01               | \$ 28.73 |
| April 7, 2006  | \$ 29.74                                   | \$ 29.35 | \$ 29.33   | \$ 28.69 | NIS135.50                  | NIS130.80    | \$ 29.07                      | \$ 29.07 | \$ 29.28               | \$ 28.89 | \$ 29.17               | \$ 28.98 |
| , 2006         | \$   | \$       | \$   | \$       |                            |              | \$                            | \$       | \$                     | \$       | \$                     | \$       |

(1) Based on the price per shares of VeriFone Common Stock on each day reported.

(2) The exchange rate on March 21, 2006, April, 2006 and , 2006 was NIS 4.6590, NIS 4.61840 and NIS per \$1.00, respectively.

The above table only shows historical comparisons. These comparisons may not provide meaningful information in determining whether to approve the merger agreement and the merger or whether to elect to receive the cash consideration or the stock consideration or the mixed consideration for the Lipman ordinary shares. VeriFone and Lipman urge you to obtain current market quotations for VeriFone common stock and Lipman ordinary shares and to review carefully the information contained in this proxy statement/prospectus or incorporated by reference into this proxy statement/prospectus in considering whether to approve the merger agreement and the merger and whether to elect to receive the cash consideration, the stock consideration or the mixed consideration for the Lipman ordinary shares. You should also review carefully the other information contained in or incorporated by reference into this proxy statement/prospectus.

As of the record date, there were approximately holders of record of Lipman ordinary shares.

**Dividend Data**

***VeriFone***

Since becoming a public company, VeriFone has not declared or paid a cash dividend on its common stock. VeriFone currently intends to retain any future earnings to fund the growth and development of its business and does not anticipate paying any cash dividends in the foreseeable future although its board of directors may do so subject to applicable legal requirements and contractual restrictions, if any.

***Lipman***

Lipman paid cash dividends of \$0.24 per share in 2002, \$0.225 per share in 2003 and \$0.196 per share in 2004 to holders of its ordinary shares. Contingent on the approval of the merger by Lipman's shareholders, Lipman will declare the special cash dividend in an amount equal to the maximum amount of cash reserves of Lipman that may be distributed by Lipman in the form of a dividend and without tax being imposed on or payable by Lipman. The amount of the special cash dividend is currently estimated at \$40 million in the aggregate, or approximately \$1.50 per Lipman ordinary share. The amount of the dividend may be increased to the extent Lipman is able to distribute additional cash to its shareholders without a tax being imposed on or payable by Lipman.



### Risk Factors

*If Lipman shareholders properly make a timely election, or are deemed to have elected, to receive the stock consideration or the mixed consideration for their Lipman ordinary shares in the merger, they will be choosing to exchange their current investment in Lipman ordinary shares for, in part, an investment in VeriFone common stock.*

*An investment in VeriFone common stock involves a high degree of risk. In addition to the other information contained in or incorporated by reference into this proxy statement/prospectus, you should carefully consider the following risk factors in deciding whether to vote in favor of the proposal to approve and adopt the merger agreement and approve the merger.*

#### Risks Related to the Merger

*VeriFone's stock price may be volatile in the future, and if you elect or are deemed to have elected to receive the stock consideration or the mixed consideration in the merger, you could lose the value of your investment in VeriFone common stock.*

There has only been a public market for VeriFone's common stock since April 29, 2005. The market price of VeriFone's common stock may fluctuate significantly, and if you elect to receive the stock consideration or the mixed consideration in the merger, you could lose the value of your investment in VeriFone common stock. The market price of VeriFone's common stock may be adversely affected by a number of factors, including:

announcements of VeriFone's quarterly operating results or those of its competitors or its customers;

rumors, announcements or press articles regarding changes in VeriFone's management, organization, operations or prior financial statements;

inquiries by the Securities and Exchange Commission, NYSE or other regulatory bodies;

changes in earnings estimates by securities analysts;

announcements of planned acquisitions by VeriFone or by its competitors;

the gain or loss of a significant customer;

announcements of new products by VeriFone, its competitors or its customers; and

acts of terrorism, the threat of war and economic slowdowns in general.

The stock market in general, and the market prices of stocks of other technology companies in particular, experience price volatility, which may adversely affect the market price of VeriFone's common stock for reasons unrelated to VeriFone's business or operating results.

***If a Lipman shareholder does not make an election of cash, stock or mixed merger consideration, VeriFone will have discretion to determine what consideration the shareholder will receive.***

According to the terms of the merger agreement, if a Lipman shareholder does not make an election of cash, stock or mixed consideration, VeriFone will have the discretion to make such election on behalf of the shareholder. In doing so, VeriFone may consider the elections made by other Lipman shareholders. Any such elections will be subject to the required proration so that the aggregate consideration paid by VeriFone is equal to (i) a number of shares of VeriFone common stock equal to the product of (x) 0.50 multiplied by (y) the number of Lipman ordinary shares issued and outstanding at the closing date and (ii) an amount in cash equal to the product of (x) \$14.304 multiplied by (y) the number of Lipman ordinary shares issued and outstanding at the closing, as reduced by the aggregate amount of the special cash dividend. If VeriFone elects to grant a Lipman shareholder stock instead of



cash when the stock price is relatively high or cash instead of stock if the share price relatively low, a Lipman shareholder may not realize the best value in exchange for his or her Lipman ordinary shares.

The cash election and stock election available to Lipman shareholders in the merger are subject to proration to ensure that the total amount of cash paid, and the total number of shares of VeriFone common stock issued, as a whole, will equal the mixed consideration. As a result, the consideration that any particular Lipman shareholder receives if he or she makes the cash election or the stock election will not be known at the time that he or she makes the election because the consideration will depend on the total number of Lipman shareholders who make the cash election and the total number of Lipman shareholders who make the stock election. If the cash election is oversubscribed, then Lipman shareholders who have made the cash election will receive some shares of VeriFone common stock in lieu of the full amount of cash sought for their Lipman ordinary shares. Likewise, if the stock election is oversubscribed, then Lipman shareholders who have made the stock election will receive some cash in lieu of the full number of shares of VeriFone common stock sought for their Lipman ordinary shares. Accordingly, if Lipman shareholders make the cash election or the stock election with respect to their Lipman ordinary shares, they may not receive exactly the amount and type of consideration that they elected to receive in the merger, which could result in, among other things, tax consequences that differ from those that would have resulted if they had received the form of consideration that they had elected.

***While VeriFone's and Lipman's share prices have been volatile in recent periods, the merger consideration, including the exchange ratio for the VeriFone common stock component of the stock consideration and the mixed consideration, is fixed.***

Upon completion of the merger, each ordinary share of Lipman will be exchanged for either a combination of 0.50 of a share of VeriFone common stock and \$14.304 in cash, as reduced by the per share amount of the special cash dividend to be paid to Lipman shareholders prior to the closing of the acquisition, or \$29.07 in cash, as reduced by the per share amount of the special cash dividend, or 0.9844 shares of VeriFone common stock, as reduced by the per share value of the special cash dividend. All amounts to be received will be reduced by the amount or value of the special cash dividend. The merger consideration, including the exchange ratio for the VeriFone common stock component of the stock consideration and the mixed consideration, will not change even if the market price of either or both the Lipman ordinary shares and VeriFone common stock fluctuates. Neither Lipman nor VeriFone may withdraw from the merger, and Lipman may not resolicit the vote of its shareholders, solely because of changes in the market price of Lipman ordinary shares or VeriFone common stock. If you elect to receive the stock consideration or the mixed consideration for your Lipman ordinary shares in the merger, the specific dollar value of VeriFone common stock you will receive upon completion of the merger will depend on the market value of VeriFone common stock at the time of the merger, which may be different from the closing price of VeriFone common stock on the last full trading day preceding public announcement of the merger agreement, the last full trading day prior to the date of this proxy statement/prospectus, the date you make your election or the date of the Lipman special meeting. The stock consideration or the mixed consideration may ultimately represent more or less value than the cash consideration, depending on fluctuations in VeriFone's stock price.

***Certain officers of Lipman have a personal interest that could have affected their decision to support the merger.***

The personal interest of officers of Lipman in the merger and their participation in arrangements that are different from, or are in addition to, those of Lipman shareholders generally could have affected those officers' decision to support the merger. These interests include the following:

VeriFone's assumption of Lipman share options in the merger; and

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severance compensation and in certain cases additional accelerated option vesting under new employment letters if the officer's employment is terminated by VeriFone without cause or for good reason.

As a result of these interests, these officers may be more likely to support the merger than they might be if they did not have these interests.

***Any delay in completing the merger may reduce or eliminate the benefits expected.***

In addition to the required regulatory approvals, the merger is subject to a number of other conditions beyond either company's control that may prevent, delay or otherwise materially adversely affect its completion. Neither VeriFone nor Lipman can predict whether and when these other conditions will be satisfied. Further, the requirements for obtaining the required clearances and approvals could delay the completion of the merger for a significant period of time or prevent it from occurring. Any delay in completing the merger could cause the expanded VeriFone not to realize some or all of the synergies that are expected to be achieved if the merger is successfully completed within its expected timeframe.

***The merger agreement restricts Lipman's ability to pursue alternatives to the merger.***

The merger agreement contains "no shop" provisions that, subject to limited exceptions, restrict Lipman's ability to solicit, facilitate, discuss or commit to competing third-party proposals to acquire all or a significant part of Lipman. Further, there are only limited exceptions to Lipman's agreement that the Lipman board of directors will not withdraw or qualify in a manner that could reasonably be understood as adverse to VeriFone its recommendation of the merger agreement, and VeriFone generally has a right to match any competing acquisition proposals that may be made. Although the Lipman board of directors is permitted to take actions in response to a superior proposal if it determines that doing so is necessary to comply with its fiduciary duties, doing so in specified situations could entitle VeriFone to terminate the merger agreement and to be paid by Lipman a termination fee of \$23.3 million. Also, if the Lipman board of directors withdraws or adversely qualifies or changes its approval or recommendation of the merger agreement or recommends to the Lipman shareholders any acquisition proposal within one year of termination and Lipman enters into a definitive agreement during the 12 months following the termination with respect to the acquisition proposal, Lipman would be required to pay VeriFone a termination fee of \$23.3 million. If the Lipman shareholders do not approve the merger, Lipman has to pay an expense reimbursement fee of \$7 million to VeriFone. The expense reimbursement is not required to be paid if VeriFone is unable to obtain a ruling from the Israel Tax Authority that withholding will not apply to the merger proceeds with respect to non-Israeli residents, VeriFone notifies Lipman that it has determined that it is required to withhold Israeli Tax at source and Lipman shareholders do not approve the merger.

These provisions could discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of Lipman from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share cash or market value than that proposed to be paid in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Lipman than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable to Lipman in certain circumstances.

***Regulatory agencies must approve the merger and could impose conditions on, delay or refuse to approve the merger.***

VeriFone and Lipman are subject to the securities and antitrust laws of the United States, and any other jurisdiction in which the merger is subject to review, as well as with Israeli regulatory requirements. Governmental entities with which filings are made may seek regulatory concessions as

conditions for granting approval of the merger. Under the merger agreement, VeriFone and Lipman have both agreed to use reasonable best efforts to complete the merger, including to gain clearance from antitrust and competition authorities and to obtain other required regulatory approvals. For this purpose, if any objections are asserted with respect to the transactions contemplated by the merger agreement under any antitrust laws which would prevent, materially impede or materially delay the completion of the merger, each of VeriFone and Lipman is required to use reasonable efforts to resolve any such objections so as to permit the completion of the merger. These actions may have a material adverse effect on VeriFone or Lipman or a material adverse effect on the combined businesses. In addition, either party may terminate the merger agreement if the regulatory agencies refuse to approve the merger.

These U.S. and foreign regulatory authorities may challenge the merger on antitrust grounds and, if such a challenge is made, they may succeed in enjoining the merger as presently contemplated.

***Although VeriFone and Lipman expect that the merger will result in benefits to the expanded VeriFone, those benefits may not occur because of integration and other challenges.***

Achieving the expected benefits of the merger will depend in part on the integration of VeriFone's and Lipman's technology, operations and personnel in a timely and efficient manner. VeriFone and Lipman cannot assure you, however, that the integration will be completed as quickly as expected or that the merger will achieve the expected benefits. The challenges involved in this integration include:

incorporating Lipman's technology and products into VeriFone's next generation of products;

integrating Lipman's products into VeriFone's business because VeriFone does not currently sell Lipman products and VeriFone's sales personnel have no experience selling Lipman's products;

integrating Lipman's technical team in Israel with VeriFone's larger and more widely dispersed engineering organization;

coordinating research and development activities to enhance introduction of new products, services and technologies;

integrating Lipman's in-house manufacturing model with the outsource model employed by VeriFone;

inability to migrate both companies to a common enterprise resource planning information system to integrate all operations, sales and administrative activities for the combined VeriFone in a timely and cost effective way;

integrating Lipman's international operations with those of VeriFone;

coordinating the efforts of the Lipman sales organization with VeriFone's larger and more widely dispersed sales organization;

demonstrating to Lipman customers that the merger will not result in adverse changes in client service standards or products support;

persuading the employees in various jurisdictions that the business cultures of VeriFone and Lipman are compatible, maintaining employee morale and retaining key employees; and

timely release of products to market.

In addition, VeriFone's sales personnel will require significant training in order to begin selling Lipman's products to new and existing VeriFone customers.

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The integration of VeriFone and Lipman will be international in scope, complex, time consuming and expensive, and may disrupt VeriFone's and Lipman's businesses or result in the loss of customers

or key employees or the diversion of the attention of management. Some of Lipman's suppliers, distributors, customers and licensors are VeriFone's competitors or work with VeriFone's competitors and may terminate their business relationships with Lipman as a result of the merger. In addition, the integration process may strain the expanded VeriFone's financial and managerial controls and reporting systems and procedures. This may result in the diversion of management and financial resources from the expanded VeriFone's core business objectives. There can be no assurance that VeriFone and Lipman will successfully integrate their businesses or that the expanded VeriFone will realize any of the anticipated benefits of the merger.

***The combination of VeriFone and Lipman may result in a loss of common customers.***

VeriFone and Lipman operate in a highly competitive market, and the future performance will be affected by the expanded VeriFone's ability to retain the customers of both VeriFone and Lipman before the merger. VeriFone and Lipman currently sell to several of the same large customers to which each company provides products and services. The expanded VeriFone's ability to maintain the current level of sales by VeriFone and Lipman to these common customers may be limited by the desire of these customers to minimize their dependence on a single supplier. If, following the merger, common customers seek alternative suppliers for at least a portion of the products and services currently provided by both VeriFone and Lipman, the business of the expanded VeriFone may be materially and adversely impacted.

***Third parties may terminate or alter existing contracts or relationships with Lipman or VeriFone.***

Lipman has contracts with some of its suppliers, distributors, customers, licensors and other business partners. Some of these contracts require Lipman to obtain consent from these other parties in connection with the merger. If these consents cannot be obtained, Lipman may suffer a loss of potential future revenue and may lose rights that are material to Lipman's business and the business of the expanded VeriFone. In addition, third parties with whom Lipman or VeriFone currently have relationships may terminate or otherwise reduce the scope of their relationship with Lipman or VeriFone in anticipation of the merger.

***General uncertainty related to the merger could harm the expanded VeriFone.***

VeriFone's or Lipman's customers may, in response to the announcement of the proposed merger, delay or defer purchasing decisions. If VeriFone's or Lipman's customers delay or defer purchasing decisions, the expanded VeriFone revenues following the merger could materially decline or any increases in revenue could be lower than expected. Similarly, VeriFone and Lipman employees may experience or perceive uncertainty about their future roles with the expanded VeriFone following the merger. This may harm VeriFone and Lipman's ability to attract and retain key management, marketing, sales and technical personnel. Also, speculation regarding the likelihood of the completion of the merger could increase the volatility of VeriFone's and Lipman's share prices prior to the closing.

***The rights of Lipman shareholders who elect to receive the stock consideration or the mixed consideration will change when they become stockholders of VeriFone upon completion of the merger.***

When the merger is complete, Lipman shareholders who elect or are deemed to have elected to receive the stock consideration or the mixed consideration will become VeriFone stockholders. There are numerous differences between the rights and responsibilities of a shareholder of Lipman, an Israeli corporation, and the rights and responsibilities of a stockholder of VeriFone, a Delaware corporation. In particular, a shareholder of an Israeli company has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters, which will not be the case with VeriFone. There are also differences in the types of disclosures required by the two companies;

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Lipman is a foreign private issuer subject to the rules of the exchange on which it is traded, the Nasdaq National Market, while VeriFone is a U.S. reporting company subject to the rules of the NYSE.

***If the merger is not completed, Lipman's future business and operations could be harmed.***

If the merger is not completed, Lipman may be subject to the following material risks, among others:

if the merger is terminated and Lipman's board of directors determines to seek another merger or business combination, Lipman may not be able to find a partner willing to pay an equivalent or more attractive price than that which would be paid in the merger;

Lipman may be required to pay VeriFone a termination fee of \$23.3 million or an expense reimbursement fee of \$7 million;

the price of Lipman ordinary shares may decline to the extent that the current market price of Lipman ordinary shares reflects an assumption that the merger will be completed;

Lipman's costs related to the merger, such as legal fees, accounting fees and expenses of its financial advisor must be paid by Lipman even if the merger is not completed;

Lipman may be required to record as expenses in its statement of operations items related to the proposed merger that would otherwise be reflected on its balance sheets;

Lipman would not realize the benefits it expects by being part of the expanded VeriFone;

the diversion of management attention from Lipman's day-to-day business and the unavoidable disruption to its employees and its relationships with users and partners as a result of efforts and uncertainties relating to Lipman's anticipated merger with VeriFone may detract from Lipman's ability to grow revenues and minimize costs, which, in turn may lead to a loss of market position that Lipman could be unable to regain if the merger does not occur; and

Lipman may not be able to continue its present level of operations, may need to scale back its business and may not be able to take advantage of future opportunities or effectively respond to competitive pressures, any of which could have a material adverse effect on its business and results of operations.

***Shareholders may sell substantial amounts of Lipman ordinary shares on the public market, which is likely to depress the price of Lipman ordinary shares.***

Any substantial sales of Lipman ordinary shares on the public market by current shareholders may cause the market price of Lipman ordinary shares to decline.

If Lipman's current shareholders sell Lipman ordinary shares in the public market prior to the merger, it is likely that arbitrageurs will acquire those shares. These arbitrageurs will likely sell all those shares on the public market immediately following any announcement, or anticipated announcement, that the merger with VeriFone failed, or will likely fail, to close for regulatory or other reasons, which, in turn will likely cause the market price of Lipman ordinary shares to decline.

In addition to the other negative effects on Lipman, those sales of Lipman ordinary shares might make it more difficult for Lipman to sell equity or equity-related securities in the future if the merger with VeriFone is not completed.

***A delay in closing the planned merger could have an adverse effect on Lipman's revenues in the near-term.***



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To the extent a prolonged delay in completing the planned merger creates uncertainty among users of Lipman's products, there could an adverse effect on Lipman's results of operations, and quarterly

revenues could be substantially below the expectations of market analysts which could cause a reduction in the stock price of Lipman ordinary shares.

***If the merger is not completed, a number of factors may cause VeriFone's and Lipman's actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements.***

If the merger is completed, the risks associated with the expanded VeriFone are described below under "Risks Related to an Expanded VeriFone After the Merger." If the merger is not completed, both VeriFone and Lipman expect to continue to operate their businesses substantially as presently operated. Accordingly, a number of factors may continue to cause both VeriFone's and Lipman's actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements. These factors include, without limitation, the following:

VeriFone and Lipman face strong competition and their industry evolves rapidly. If VeriFone or Lipman does not compete effectively, the demand for its products may decline, and its business would suffer;

if customers stop using its products, VeriFone's or Lipman's business would suffer;

VeriFone's or Lipman's inability to manage growth could adversely affect its businesses;

VeriFone's or Lipman's quarterly operating results fluctuate and may not predict its future performance accurately. Variability in VeriFone's or Lipman's future performance could cause its stock price to fluctuate and decline;

VeriFone or Lipman may not protect its proprietary technology effectively, which would allow competitors to duplicate its products. This would make it more difficult for VeriFone or Lipman to compete with them; and

VeriFone's or Lipman's product features may infringe claims of third-party patents, which could affect the respective business and profitability adversely.

#### **Risks Related to an Expanded VeriFone After the Merger**

*The risks and uncertainties described below are not the only ones facing an expanded VeriFone following the merger. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair the business operations of an expanded VeriFone. If any of the following risks or such other risks actually occurs, our business could be harmed. When we use the terms "we", "us" or "our" in this section or in the section entitled "Risks Related to the Industry" of this proxy statement/prospectus, we mean the combination of VeriFone and Lipman after giving effect to the completion of the merger, which we also refer to as the "expanded VeriFone".*

***If the expanded VeriFone experiences lower than anticipated revenues in any particular quarter or if the expanded VeriFone announces that it expects lower revenues or earnings than previously forecasted, the market price of the expanded VeriFone's securities could decline.***

The expanded VeriFone's revenue is difficult to forecast and is likely to fluctuate from quarter to quarter due to many factors outside of its control. Any significant revenues shortfall or lowered forecasts could cause the market price of the expanded VeriFone's securities to decline substantially. Factors that could affect the expanded VeriFone's revenues include, but are not limited to:

the possibility that the expanded VeriFone's customers may cancel or limit purchases as a result of reduced information technology budgets or the current weak and uncertain economic and industry conditions;

the possibility that the expanded VeriFone's customers may defer purchases of the expanded VeriFone's products in anticipation of new products or product updates from the expanded VeriFone or its competitors;

the possibility that original equipment manufacturers will introduce, market and sell products that compete with the expanded VeriFone's products;

the mix of products the expanded VeriFone sells, as the gross margins the expanded VeriFone realizes on its various products differ;

the mix of sales into different countries, as the gross margins the expanded VeriFone realizes in various countries differ;

the unpredictability of the timing and magnitude of the expanded VeriFone's sales through direct sales channels, value-added resellers and distributors, which tend to occur later in a quarter than sales through original equipment manufacturers;

the timing of new product introductions by the expanded VeriFone and the market acceptance of new products, which may be delayed as a result of weak and uncertain economic and industry conditions;

the seasonal nature of the expanded VeriFone's sales;

changes in the expanded VeriFone's pricing and distribution terms or those of its competitors; and

the possibility that the expanded VeriFone's business will be adversely affected as a result of the threat of terrorism or military actions taken by the United States or its allies.

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

***The expanded VeriFone will depend upon third parties to manufacture many of its products and to supply the components necessary to manufacture its products.***

VeriFone currently does not manufacture the physical devices that it designs which form part of VeriFone system solutions; and Lipman does not manufacture a majority of the products designed by its Dione subsidiary. Both companies arrange for a limited number of third parties to manufacture these devices. Both VeriFone and Lipman currently purchase some key components used in our products from only one source and purchase others from only a limited number of sources. Components such as application-specific integrated circuits, or ASICs, payment processors, wireless modules, modems and printer mechanisms that are necessary to manufacture and assemble these

devices are sourced either directly or through contract manufacturers from a variety of component suppliers.

If our suppliers are unable to produce the quantities of ASICs or microprocessors we require, we would be faced with a shortage of critical components. We also experience from time to time an increase in the lead time for delivery of some of our key components. We may not be able to find alternative sources in a timely manner if suppliers of our key components become unwilling or unable to provide us with adequate supplies of these key components when we need them or increase their prices. The inability to obtain sufficient key components as required, or to develop alternative sources if and as required in the future, or to replace our plastic injection molds used to make the plastic casings for our products in a timely manner if they are damaged or destroyed, could cause delays or reductions in product shipments. This could cause our relationships with customers to suffer and our revenues to decline. Even if we are able to secure alternative sources of supply or replace our plastic injection molds in a timely manner, our costs could increase. In the year ended October 31, 2005 and six months ended April 30, 2006, over half of VeriFone's spending on manufacturing system solutions were for system solutions it sourced from a single supplier or a small number of suppliers. These contract manufacturers may, in turn, source components from a limited number of suppliers. In addition, we usually build one plastic injection mold to make the plastic casings for each of our products. If the plastic injection mold used to manufacture the plastic casing of a particular product is damaged or destroyed, our ability to deliver that product in a timely manner will be adversely affected. In 2004, for example, certain Synchronous Random Access Memory, or SRAM, components were in short supply in the marketplace, and VeriFone's requirements exceeded the available supply from its vendor. To cover this shortage, VeriFone procured these components in the spot market at prices in excess of its historical purchase price, which had a negative impact on its gross profit for the year ended October 31, 2004 of approximately \$2.0 million.

***The expanded VeriFone will depend on its manufacturing and warehouse facility in Israel. If operations at this facility is interrupted for any reason, there could be a material adverse effect on the expanded VeriFone's results of operations.***

Lipman currently assembles and tests a majority of its NURIT products and some of its Dione products at its manufacturing facility located in Israel. Component and finished product inventories are also stored at this facility. Disruption of the manufacturing process at this facility or damage to it, whether as a result of fire, natural disaster, act of war, terrorist attack or otherwise, could materially affect the expanded VeriFone's ability to deliver products on a timely basis and could materially adversely affect results of operations of the expanded VeriFone. Lipman has also begun to assemble some of its NURIT products in Brazil and Turkey and is reviewing the possibility of manufacturing in other countries. To the extent products are manufactured by third parties in additional countries, we may become more dependent on third party manufacturers to produce and deliver products sold in these markets on a timely basis and at an acceptable cost.

***Both VeriFone and Lipman depend on a limited number of customers, including distributors and resellers, for sales of a large percentage of their payment system solutions. If the expanded VeriFone does not effectively manage its relationships with them, its net revenues and operating results will suffer.***

Both VeriFone and Lipman sell a significant portion of their payment system solutions through third parties such as independent distributors, independent sales organizations, or ISOs, value-added resellers and payment processors. Both companies depend on those third parties' active marketing and sales efforts. These third parties also provide after-sales support and related services to end user customers. When new applications and solutions are introduced, they also provide critical support for developing and supporting the custom software applications to run on the various electronic payment systems and, internationally, in obtaining requisite certifications in the markets in which they are active. Accordingly, the pace at which the expanded VeriFone is able to introduce new solutions in markets in

which these parties are active depends on the resources they dedicate to these tasks. Moreover, current arrangements with these third parties typically do not prevent them from selling products of other companies, including the expanded VeriFone's competitors, and they may elect to market the expanded VeriFone competitors' products and services in preference to the expanded VeriFone's system solutions. If one or more of the expanded VeriFone's major resellers terminates or otherwise adversely changes its relationship with the expanded VeriFone, the expanded VeriFone may be unsuccessful in replacing it. The loss of one of the expanded VeriFone's major resellers could impair its ability to sell 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.

***Both VeriFone and Lipman depend on a small number of large customers and the loss of one or more of these customers, or a significant decrease in sales to any of these customers, could significantly reduce revenues and income.***

A significant percentage of both VeriFone's and Lipman's net revenues is attributable to a limited number of customers, including distributors and ISOs. In the year ended October 31, 2005 and the first six months of fiscal 2006, VeriFone's ten largest customers accounted for approximately 33.1% and 36.0% of its net revenues and sales to First Data Corporation and its affiliates represented 12.0% of VeriFone's net revenues for both periods. In the year ended December 31, 2005 and the first three months of 2006, Lipman's ten largest customers accounted for approximately 46.3% and 47.2% of its revenues. If any of the expanded VeriFone's large customers significantly reduces or delays purchases from it or if the expanded VeriFone is required to sell products to them at reduced prices or on other terms less favorable to the expanded VeriFone's, our revenues and income could be materially adversely affected.

***A significant portion of VeriFone's and Lipman's net revenues are generated outside of the United States and this percentage is expected to increase after the merger is consummated. The expanded VeriFone intends to continue to expand its operations internationally. The expanded VeriFone's results of operations could suffer if the expanded VeriFone is unable to manage its international expansion and operations effectively.***

VeriFone's net revenues generated outside of the United States were 42.3% during the year ended October 31, 2005 and 45.3% for the first six months of fiscal 2006. Lipman's revenues generated outside of the United States were 70.0% during the year ended December 31, 2005 and 79.9% for the first three months of 2006. Part of the strategy of the expanded VeriFone will be to expand its penetration in existing foreign markets and to enter new foreign markets. The expanded VeriFone's ability to penetrate some international markets may be limited due to different technical standards, protocols or product requirements. Expansion of the expanded VeriFone's international business will require significant management attention and financial resources. The expanded VeriFone's international net revenues will depend on its continued success in the following areas:

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

hiring and training personnel capable of marketing, installing and integrating the expanded VeriFone's solutions, supporting customers and managing operations in foreign countries;

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

building the expanded VeriFone's brand names and awareness of its services among foreign customers; and

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

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In addition, the expanded VeriFone is 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 the expanded VeriFone enters;

tariffs and trade barriers;

laws and business practices that favor local competitors;

fluctuations in currency exchange rates;

extended payment terms and the ability to collect account receivables;

economic and political instability in foreign countries;

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

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

greater difficulty in safeguarding intellectual property in areas such as China, Russia and Latin America.

If the expanded VeriFone fails to address the challenges and risks associated with international expansion, it may encounter difficulties implementing its strategy, which could impede its growth or harm its operating results.

***North American and international operations are not equally profitable, which may result in volatility in the expanded VeriFone's earnings and may adversely impact future growth in its earnings.***

International sales tend to carry lower prices and therefore have lower gross margins than its sales in North America. As a result, if the expanded VeriFone successfully expands its international sales, any improvement in its results of operations will likely not be as favorable as an expansion of similar magnitude in the United States and Canada. In addition, it is impossible to predict for any future period the expanded VeriFone's proportion of revenues that will result from international sales versus sales in North America. Variations in this proportion from period to period, which is likely to increase as a result of the merger, may lead to volatility in the expanded VeriFone's results of operations which, in turn, may depress the trading price of its common stock.

***Fluctuations in currency exchange rates may adversely affect the expanded VeriFone's results of operations.***

A substantial part of the expanded VeriFone's business will consist of sales made to customers outside the United States. A portion of the net revenues it receives from these sales is denominated in currencies other than the U.S. dollar. Additionally, portions of the expanded VeriFone's cost of net revenues and its other operating expenses will be incurred by its international operations and denominated in local currencies. The expanded VeriFone cannot assure you that adverse currency exchange rate fluctuations will not have a material impact in the future. In addition, the expanded VeriFone's balance sheet will reflect non-U.S. dollar denominated assets and liabilities, primarily inter-company balances, which can be adversely affected by fluctuations in currency exchange rates. VeriFone has entered into foreign currency forward contracts and other arrangements intended to hedge its 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, the expanded VeriFone



might suffer significant losses. Additionally, hedging programs will expose the expanded VeriFone to risks that could adversely affect its operating results, including the following:

the expanded VeriFone may be unable to hedge currency risk for some transactions because of a high level of uncertainty or the inability to reasonably estimate its foreign exchange exposures; and

the expanded VeriFone may be unable to acquire foreign exchange hedging instruments in some of the geographic areas where it does business, or where these derivatives are available, it may not be able to acquire enough of them to fully offset its exposure.

***Security will be vital to the expanded VeriFone's customers and end users and therefore breaches in the security of its solutions could adversely affect its reputation and results of operations.***

Protection against fraud will be of key importance to the purchasers and end users of the expanded VeriFone's solutions. The expanded VeriFone will incorporate security features, such as encryption software and secure hardware, into its solutions to protect against fraud in electronic payment transactions and to ensure the privacy and integrity of consumer data. The expanded VeriFone's 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 its solutions. If the security of the expanded VeriFone's solutions is compromised, its reputation and marketplace acceptance of its solutions will be adversely affected, which would cause its business to suffer, and the expanded VeriFone may become subject to damage claims.

***The expanded VeriFone's solutions may have defects that could result in sales delays, delays in its collection of receivables and claims against it.***

The expanded VeriFone will offer complex system 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 the expanded VeriFone's solutions and adversely affect its business and reputation. Any significant returns or warranty claims could result in significant additional costs to the expanded VeriFone and could adversely affect its results of operations. The expanded VeriFone's customers may also run third-party software applications on its electronic payment systems. Errors in third-party applications could adversely affect the performance of its solutions.

The existence of defects and delays in correcting them could result in negative consequences, including the following: harm to the expanded VeriFone's brand; delays in shipping solutions; loss of market acceptance for the expanded VeriFone's 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 VeriFone 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 it reached a settlement agreement to resolve this issue with that customer in early 2005, VeriFone had incurred aggregate costs and reserves of approximately \$10.2 million in respect of cartridge replacement, extended warranty costs and customer rebates.

***The expanded VeriFone may accumulate excess or obsolete inventory that could result in unanticipated price reductions and write-downs and adversely affect its financial condition.***

In formulating their solutions, VeriFone and Lipman have focused their efforts on providing solutions with higher levels of functionality, which requires both VeriFone and Lipman to develop and



incorporate cutting edge and evolving technologies. This approach tends to increase the risk of obsolescence for products and components in inventory and may compound the difficulties posed by other factors that affect the expanded VeriFone's 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, the expanded VeriFone may run the risk of maintaining excess inventory levels. This risk may be enhanced to the extent the expanded VeriFone increases 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 the expanded VeriFone's results of operations. VeriFone has incurred an obsolescence cost of \$1.4 million in the six months ended April 30, 2006, primarily as a result of the customers shifting to its new Vx Solutions, VeriFone's latest generation of system solutions, employing a 32-bit ARM9 System-on-Chip running its Verix operating system which provides a consistent user interface and secure multi-application platform across several payment systems. [During the third quarter of 2005, Lipman substantially increased inventories of finished goods primarily in anticipation of sales orders for its Dione subsidiary that did not materialize. The expanded VeriFone may find it difficult to sell these products to other customers and could be required to reduce prices of these products and/or write down the value of this inventory.] Technological changes and evolving technological and industry standards are resulting in shorter life cycles for inventory. Shorter life cycles could also cause decreases in selling price, inventory write-offs and a lower rate of return on our research and development expenditures, all of which could adversely affect our results of operations.

***Both VeriFone's and Lipman's proprietary technology are difficult to protect and unauthorized use of the proprietary technology by third parties may impair the expanded VeriFone's ability to compete effectively.***

The expanded VeriFone may not be able to protect its proprietary technology, which could enable competitors to develop services that compete with the expanded VeriFone's services. The expanded VeriFone will rely on patent, copyright, trademark and trade secret laws, as well as confidentiality, licensing and other contractual arrangements to establish and protect the proprietary aspects of its solutions. The laws of some countries in which the expanded VeriFone will sell its solutions and services, such as China, Russia and Latin America, may not protect software and intellectual property rights to the same extent as the laws in the United States. If the expanded VeriFone is unable to prevent misappropriation of its technology, competitors may be able to use and adapt its technology.

The expanded VeriFone's failure to protect its technology could diminish its competitive advantage and cause the expanded VeriFone to lose customers to competitors.

***The expanded VeriFone's business may suffer if it is sued for infringing the intellectual property rights of third parties, or if it is unable to obtain rights to third party intellectual property on which the expanded VeriFone depends.***

Third parties have in the past asserted and may in the future assert claims that the expanded VeriFone is infringing their proprietary rights. Such infringement claims may cause the expanded VeriFone to incur significant costs in defending those claims. The expanded VeriFone 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, the expanded VeriFone will depend on its ability to license intellectual property from third parties. These

or other third parties may become unwilling to license to the expanded VeriFone on acceptable terms intellectual property that is necessary to its business. In either case, the expanded VeriFone may be unable to acquire licenses for other technology on reasonable commercial terms or at all. As a result, the expanded VeriFone may find that it is unable to continue to offer the solutions and services upon which its business depends.

Both VeriFone and Lipman have received, and have currently pending, third-party claims and may receive additional notices of such claims of infringement in the future. Infringement claims may cause the expanded VeriFone to incur significant costs in defending those claims. For example, VeriFone incurred approximately \$1.2 million and Lipman incurred approximately \$1.5 million in expenses in connection with the defense and settlement of proceedings brought by Verve L.L.C. Infringement claims are expensive and time consuming to defend, regardless of the merits or ultimate outcome. Similar claims may result in additional protracted and costly litigation. There can be no assurance that the expanded VeriFone will continue to prevail in any actions or that any license required under any patent or other intellectual property would be made available on commercially acceptable terms, if at all.

***Both VeriFone and Lipman are exposed to various risks related to legal proceedings or claims that may harm the expanded VeriFone's operating results or financial condition.***

In the ordinary course of business, both VeriFone and Lipman are subject to periodic lawsuits, investigations and claims. Although neither VeriFone nor Lipman can predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against either companies, they do not believe that any currently pending legal proceeding to which either company is a party is likely to have a material adverse effect on the expanded VeriFone's business, results of operations, cash flows or financial condition.

VeriFone's Brazilian subsidiary has been notified of a tax assessment regarding Brazilian state value added tax, or VAT, for the periods from January 2000 to December 2001 and related to products supplied to VeriFone by a contract manufacturer. The assessment relates to an asserted deficiency of 6.5 million Brazilian reais (approximately \$3.2 million) including interest and penalties. The tax assessment was based on a clerical error in which VeriFone's Brazilian subsidiary omitted the required tax exemption number on its invoices. On May 25, 2005, VeriFone had an administrative hearing with respect to this audit. In the event VeriFone receives an adverse ruling from the administrative body, the expanded VeriFone will decide whether or not to appeal and would reexamine the determination as to whether an accrual is necessary.

***The expanded VeriFone will depend on a limited number of key members of its senior management who would be difficult to replace. If the expanded VeriFone loses the services of these individuals or is unable to attract new talent, its business will be adversely affected.***

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

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

Although VeriFone has a limited history of making acquisitions or strategic investments, a part of the expanded VeriFone's strategy will be to acquire or make investments in related businesses, technologies or products in the future. Acquisitions or investments, including the acquisition of Lipman, 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 its 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 the expanded VeriFone entering markets in which it has limited prior experience.

For example, the consolidation of the results of Dione's operations into Lipman's financial statements contributed to Lipman's lower gross margin percentage in 2004 and 2005 and is expected to do so again in 2006. In addition, weaker performance by Dione resulted in Lipman's inability to achieve expected result for 2005 and in a goodwill impairment charge of \$10.5 million in 2005. Future acquisitions and investments could also result in substantial cash expenditures, potentially dilutive issuance of the expanded VeriFone's equity securities, the expanded VeriFone incurring of additional debt and contingent liabilities, and amortization expenses related to other intangible assets that could adversely affect its business, operating results and financial condition.

***Both VeriFone and Lipman have experienced a period of rapid growth, and if the expanded VeriFone cannot adequately manage its growth, its result of operations will suffer.***

Both VeriFone and Lipman have experienced rapid growth in their operations, both internally and from Lipman's acquisition of Dione, and will grow further as a result of the merger. The anticipated future growth of the expanded VeriFone may place a significant strain on managerial, operational and financial resources. The expanded VeriFone cannot be sure that it has made adequate allowances for the costs and risks associated with its expansion, or that its systems, procedures and managerial controls will be adequate to support its operations. Any delay in implementing, or transitioning to, new or enhanced systems, procedures or controls may adversely affect its ability to manage its product inventory and record and report financial and management information on a timely and accurate basis. The expanded VeriFone believes its growth will require it to hire additional engineering, technical support, sales, administrative and operational personnel. Competition for qualified personnel can be intense in the areas where it operates. The process of locating, training and successfully integrating qualified personnel into its operations can be lengthy and expensive. If the expanded VeriFone is unable to successfully manage its expansion, the expanded VeriFone may not grow its business, its expenses may increase and its results of operations may be adversely affected.

***Shipments of electronic payment systems may be delayed by factors outside of the expanded VeriFone's control, which can harm its reputation and its relationships with its customers.***

The shipment of payment systems will require the expanded VeriFone or its manufacturers, distributors or other agents to obtain customs or other government certifications and approvals, and, on occasion, to submit to physical inspection of its 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 the expanded VeriFone's solutions to its direct or indirect customers. Delays and unreliable delivery by the expanded VeriFone may harm its reputation in the industry and its relationships with its customers.

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

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

***VeriFone and Lipman have not yet evaluated their internal controls over financial reporting in compliance with Section 404 of the Sarbanes-Oxley Act. As a result, the expanded VeriFone will be exposed to risks relating to the evaluations and may have a material adverse effect on the combined business, operating results and stock price.***

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, VeriFone, beginning with its Annual Report on Form 10-K for the year ended October 31, 2006, and Lipman, beginning with its Annual Report on Form 20-F for the year ended December 31, 2006, will be required to furnish a report by their management on their internal controls over financial reporting. Assuming we complete the merger before October 31, 2006, VeriFone will be required to file a report by its management, which would reflect the expanded VeriFone's internal controls over financial reporting in its Annual Report on Form 10-K commencing in the year ended October 31, 2006. That report is required to contain, among other matters, an assessment of the effectiveness of its internal control over financial reporting as of the end of its fiscal year, including a statement as to whether or not its internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in its internal control over financial reporting identified by management. That report must also contain a statement that its auditors have issued an attestation report on management's assessment of these internal controls. If the merger is consummated during VeriFone's fourth quarter, the expanded VeriFone may elect to exclude Lipman's internal controls from management's report on internal control over financial reporting. Management may omit an assessment of an acquired business's internal control over financial reporting from its assessment for one year from the date of acquisition.

As the expanded VeriFone, any failure to implement in a timely manner and maintain the improvements in the controls over the expanded VeriFone's financial reporting that VeriFone and Lipman are currently putting in place, or difficulties encountered in the implementation of these improvements in the expanded VeriFone's controls, could cause it to fail to meet its reporting obligations, to fail to produce reliable financial reports or to prevent fraud. The merger of VeriFone and Lipman could adversely affect each company's ability to timely evaluate its internal control over financing reporting, and may subject the expanded VeriFone to sanctions or investigation by regulatory

authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of its financial statements. In addition, the expanded VeriFone may be required to incur costs in improving its internal control system and the hiring of additional personnel. Any such action could negatively affect the expanded VeriFone's results.

***If VeriFone is unable to improve and maintain the quality of its internal controls, any weaknesses could materially and adversely affect its ability to provide timely and accurate information about itself, which could harm the expanded VeriFone's reputation and share price.***

On several occasions since VeriFone's separation from Hewlett-Packard, VeriFone's independent registered public accounting firm has identified deficiencies in VeriFone's internal controls which rose to the level of material weakness. VeriFone cannot be certain that the measures it has taken will ensure that it will maintain adequate controls over its financial processes and reporting in the future. Any failure to maintain adequate controls or to adequately implement required new or improved controls could harm its operating results or cause VeriFone to fail to meet its reporting obligations. Inferior internal controls could also cause investors to lose confidence in its reported financial information, which could adversely affect the trading price of its common stock.

***Both VeriFone and Lipman are investing for RoHS but there can be no assurance that the expanded VeriFone will be in compliance in every respect.***

Both VeriFone and Lipman are subject to other legal and regulatory requirements, including a European Union directive that places restrictions on the use of hazardous substances (RoHS) in electronic equipment. RoHS sets a framework for producers' obligations in relation to manufacturing (including the amounts of named hazardous substances contained in products sold), labeling, and treatment, recovery and recycling of electronic products in the European Union which may require both VeriFone and Lipman to alter the manufacturing of the physical devices that include their 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 of the European Union. In addition, similar legislation could be enacted in other jurisdictions, including in the United States. If the expanded VeriFone does not comply with the RoHS directive, the expanded VeriFone may suffer a loss of revenue, be unable to sell in certain markets and/or countries, be subject to penalties and enforced fees and/or suffer a competitive disadvantage. Furthermore, the expanded VeriFone cannot be assured that the costs to comply with RoHS, or with current and future environmental and worker health and safety laws will not have a material adverse effect on its results of operation, expenses and financial condition.

***A growing percentage of Lipman's business is being executed towards the end of its fiscal quarters. This trend could negatively impact the expanded VeriFone's business and results of operations after the merger.***

Lipman's fiscal quarters are becoming increasingly back end loaded. This means that sales orders are being received more and more towards the latter part of each fiscal quarter. If this trend continues, it could negatively impact the expanded VeriFone's business and results of operations as a result of the following factors:

the manufacturing processes at Lipman's facility in Israel could become concentrated in a shorter time period. The concentration of manufacturing into a shorter time period could increase labor and other manufacturing costs and negatively impact gross margins. The risk of inventory write offs could also increase if we were to hold higher inventory levels to counteract this;

the back-end loading of orders may cause difficulties in forecasting component requirements and, as a result, Lipman could experience a shortage of the components needed for its production, possibly delaying shipments and causing lost orders; and

if Lipman is unable to fill orders at the end of a quarter shipments may be delayed. This could increase the fluctuation of quarterly results if shipments are delayed from one fiscal quarter to the next or orders are cancelled by customers.

***An adverse outcome in the securities class action lawsuit that has been filed against Lipman and some of its officers and directors may harm the expanded VeriFone. Defending against this type of lawsuit is expensive and may divert the attention of management.***

A purported class action lawsuit claiming violations of U.S. securities laws was filed in October 2005 in the United States District Court for the Eastern District of New York against Lipman and some of Lipman's officers and directors. The complaint alleges that the defendants violated federal securities laws by issuing a series of materially false and misleading statements throughout the purported class period of October 4, 2004 through September 27, 2005. The complaint seeks, among other things, unspecified damages and costs associated with the litigation.

Lipman cannot predict with certainty the eventual outcome of this lawsuit. Lipman will have to incur expenses in connection with this lawsuit, which may be substantial. Responding to and defending this lawsuit could also result in a significant diversion of management's attention and resources. In the event of an adverse outcome, the expanded VeriFone's financial condition could be materially harmed.

***Lipman is headquartered in Israel and therefore its results of operations may be adversely affected by political, economic and military instability in Israel.***

Lipman's principal offices and manufacturing facility and many of its suppliers are located in Israel. Therefore, political, economic and military conditions in Israel directly affect its operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. Since September 2000, there has been a marked increase in hostilities between Israel and the Palestinians, characterized by terrorist attacks on civilian targets, suicide bombings and military incursions by the Israeli army into areas under the control of the Palestinian Authority. The future of relations between the Palestinian Authority and Israel is uncertain. Israel's disengagement from the Gaza Strip and some parts of the West Bank in 2005 may serve to further disrupt the balance within the Palestinian Authority and affect the overall stability of the region. The election of a majority of Hamas-supported candidates in the January 2006 elections held in the Palestinian territories and the subsequent nomination of a Hamas government is widely considered to be a major obstacle to relations between Israel and the Palestinian Authority, as well as to stability in the Middle East as a whole. Hamas does not recognize Israel's right to exist as a state and Hamas is considered to be a terrorist organization.

The expanded VeriFone cannot predict the effect on it of any increase in the degree of violence against Israel or the effect of military action elsewhere in the Middle East. The future of peace efforts between Israel and its Arab neighbors remains uncertain. Any armed conflicts or political instability in the region would likely negatively affect business conditions and adversely affect the expanded VeriFone's results of operations. Furthermore, several countries continue to restrict or ban business with Israel and Israeli companies. These restrictive laws and policies may seriously limit the expanded VeriFone's ability to make sales in those countries.

***The expanded VeriFone's results of operations may be negatively affected by the obligation of Lipman's personnel to perform military service.***

Many of Lipman's male executive officers and employees in Israel are obligated to perform at least 30 days and up to 40 days, depending on rank and position, of military reserve duty annually and are subject to being called for active duty under emergency circumstances. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. The expanded VeriFone's operations could be disrupted by the absence for a significant period of one or

more of its executive officers or key employees or a significant number of other employees due to military service. Any disruption in the expanded VeriFone's operations could adversely affect its business.

***The government tax benefits that Lipman currently receives require it to meet several conditions and may be terminated or reduced in the future, which would increase the expanded VeriFone's costs.***

Lipman receives tax benefits under Israeli law for capital investments that are designated as "Approved Enterprises." Lipman received such tax benefits of approximately \$5.0 million in 2005 and \$6.4 million in 2004. To maintain its eligibility for these tax benefits, the expanded VeriFone must continue to meet conditions, including making specified investments in property, plant and equipment, and continuing to manufacture in Israel. If the expanded VeriFone fails to comply with these conditions in the future, the benefits received could be cancelled or reduced and it could be required to pay increased taxes or refund the amounts of the tax benefits Lipman received in the past, together with interest and penalties. Also, an increase in the expanded VeriFone's assembly of products outside of Israel may be construed as a failure to comply with these conditions. These tax benefits may not continue in the future at the current levels or at any level. The termination or reduction of these tax benefits, or the expanded VeriFone's inability to qualify for new programs, could adversely affect its results of operations. After payment of the special cash dividend, Lipman expects to have retained earnings of approximately \$71.0 million, the vast majority of which would be attributable to Lipman's Approved Enterprise programs. As such these earnings were not subject to Israeli corporate tax at the time they were generated. To the extent that, following completion of the merger, such retained earnings are distributed to VeriFone, Lipman would be subject to corporate tax at the rate ordinarily applicable to such earnings (currently between 10% and 25%).

***VeriFone's secured credit facility contains restrictive and financial covenants and, if it is unable to comply with these covenants, it will be in default. A default could result in the acceleration of its outstanding indebtedness, which would have an adverse effect on its business and stock price.***

In connection with the merger, VeriFone's principal operating subsidiary, VeriFone, Inc., will enter into a secured credit facility under which, after consummation of the merger, VeriFone, Inc. will have outstanding indebtedness of approximately \$500 million. The new credit facility will replace VeriFone's existing secured credit facility with a syndicate of banks, under which approximately \$181.6 million in indebtedness is outstanding.

This new secured credit facility will contain customary covenants that require VeriFone's 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. Therefore, as a practical matter, these covenants may restrict the expanded VeriFone's ability to engage in or benefit from such activities. In addition, VeriFone has, in order to secure repayment of its secured credit facility, pledged substantially all of its assets and properties. This pledge may reduce the expanded VeriFone's operating flexibility because it restricts the expanded VeriFone's ability to dispose of these assets or engage in other transactions that may be beneficial to the expanded VeriFone.

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

***The expanded VeriFone's indebtedness and debt service obligations will increase under the new secured credit facility, which may adversely affect its cash flow, cash position and stock price.***

VeriFone intends to fulfill its debt service obligations under its new secured credit facility from existing cash, investments and operations. In the future, if the expanded VeriFone is unable to generate cash or raise additional cash financings sufficient to meet these obligations and needs to use more of its existing cash than planned or to liquidate investments in order to fund these obligations, it may have to delay or curtail the development and or the sales and marketing of new payment systems.

The expanded VeriFone's new indebtedness could have significant additional negative consequences, including, without limitation:

requiring the dedication of a significant portion of its expected cash flow to service the indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures;

increasing the expanded VeriFone's vulnerability to general adverse economic conditions;

limiting the expanded VeriFone's ability to obtain additional financing; and

placing the expanded VeriFone at a possible competitive disadvantage to less leveraged competitors and competitors that have better access to capital resources.

***GTCR has substantial influence over operations and will continue to have substantial influence over the expanded VeriFone, which will limit other stockholders' ability to influence corporate activities and may adversely affect the market price of the expanded VeriFone's common stock.***

GTCR beneficially owns or controls shares representing, in the aggregate, an approximate 33.1% voting interest in VeriFone and is expected to beneficially own or control an approximate 27.7% voting interest in the expanded VeriFone. Two representatives of GTCR will continue to be among the eight members of VeriFone's board of directors. Accordingly, GTCR may exercise substantial influence over the expanded VeriFone's operations and business strategy. In addition, GTCR will have substantial influence over the outcome of votes on all matters requiring approval by the expanded VeriFone's 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 the expanded VeriFone, under a stockholders agreement among VeriFone, 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 Transactions" in VeriFone's 2006 proxy statement which is incorporated herein by reference. Shares subject to the stockholders agreement represent a majority of the voting power of the expanded VeriFone's capital stock. Currently, shares will be released from the stockholders agreement as they are sold. To the extent that shares subject to the stockholders agreement continue to represent a majority of the voting power of the expanded VeriFone's capital stock, GTCR will retain the practical ability to sell the expanded VeriFone in its sole discretion, because GTCR currently controls a majority of the shares subject to the stockholders agreement.

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



***Conflicts of interest may arise because some of the expanded VeriFone's directors will also be principals of the expanded VeriFone's significant stockholder.***

Two principals of GTCR currently serve on VeriFone's board of directors, which currently has seven members but will be expanded to eight members on July 1, 2006. These same members will also serve on the expanded VeriFone's board of directors. GTCR and its affiliates may invest in entities that directly or indirectly compete with the expanded VeriFone or companies in which they currently invest may begin competing with the expanded VeriFone. As a result of these relationships, when conflicts between the interests of GTCR and the interests of the expanded VeriFone's other stockholders arise, these directors may not be disinterested. Although the expanded VeriFone's directors and officers have a duty of loyalty to the expanded VeriFone, under Delaware law and the expanded VeriFone's future certificate of incorporation, transactions that the expanded VeriFone enters into in which a director or officer that is a representative of GTCR has a conflict of interest will generally be 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 the expanded VeriFone's board of directors and a majority of the expanded VeriFone's 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 the expanded VeriFone's stockholders and a majority of the expanded VeriFone's disinterested stockholders approves the transaction, or (3) the transaction is otherwise fair to the expanded VeriFone. GTCR's representatives will not be required to offer to the expanded VeriFone 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 expanded VeriFone.

***Some provisions of the expanded VeriFone's certificate of incorporation and bylaws may delay or prevent transactions that many stockholders may favor.***

Some provisions of the expanded VeriFone's certificate of incorporation and bylaws, may have the effect of delaying, discouraging, or preventing a merger or acquisition that the expanded VeriFone's 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 the expanded VeriFone's organizational documents only by the affirmative vote of the holders of two-thirds of the shares of its 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.

***VeriFone's common stock has only been publicly traded since April 29, 2005 and the price of its common stock may fluctuate substantially.***

There has only been a public market for VeriFone's common stock since April 29, 2005. Broad market and industry factors may adversely affect the market price of its common stock, regardless of its

actual operating performance. Factors that could cause fluctuations in VeriFone's 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 VeriFone's stock, or VeriFone's failure to meet the estimates made by securities analysts;

changes in the market valuations of other companies operating in VeriFone's industry;

announcements by VeriFone or its competitors of significant acquisitions, strategic partnerships or divestitures;

additions or departures of key personnel;

sales of VeriFone's common stock by Lipman shareholders receiving VeriFone common stock in the merger; and

other sales of VeriFone's common stock, including sales by VeriFone's directors and officers, or by GTCR or any other principal stockholders.

#### **Risks Related to the Industry**

*The markets of both VeriFone and Lipman are highly competitive and subject to price erosion.*

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

The expanded VeriFone expects to continue to experience significant and increasing levels of competition in the future. The expanded VeriFone will 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. The expanded VeriFone 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 the expanded VeriFone.

*If the expanded VeriFone does not continually enhance its existing solutions and develop and market new solutions and enhancements, its 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, the expanded VeriFone must continually enhance its existing solutions and develop and market new solutions.

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

***The expanded VeriFone must adhere to industry and government regulations and standards and therefore sales will suffer if it cannot comply with them.***

The expanded VeriFone's 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. The expanded VeriFone's 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. The expanded VeriFone cannot be sure that it will be able to design its 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 its solutions. New products designed to meet any new standards need to be introduced to the market and ordinarily need to be certified by the credit card associations and the expanded VeriFone's customers before being purchased. The certification process is costly and time consuming and increases the amount of time it takes to sell the expanded VeriFone's products. The expanded VeriFone's business and financial condition could be adversely affected if it cannot comply with new or existing industry standards, or obtain or retain necessary regulatory approval or certifications in a timely fashion, or if compliance results in increasing the cost of its products. Selling products that are non-compliant may result in fines against the expanded VeriFone or its customers, which the expanded VeriFone may be liable to pay.

**Cautionary Statement Concerning Forward-Looking Statements**

This proxy statement/prospectus and the documents incorporated by reference into this proxy statement/prospectus contain forward-looking statements that involve risks and uncertainties, such as statements of VeriFone's, Lipman's and the expanded VeriFone's plans, objectives, expectations and intentions. When used in this proxy statement/prospectus and the documents incorporated by reference into this proxy statement/prospectus, the words "may", "might", "should", "expects", "anticipates", "believes", "estimates", "intends" and "plans" and similar expressions are intended to identify certain of these forward-looking statements. Because these forward-looking statements involve risks and uncertainties, the actual results of VeriFone, Lipman and the expanded VeriFone could differ materially from those expressed or implied by the forward-looking statements in this proxy statement/prospectus and the documents incorporated by reference into this proxy statement/prospectus. You should specifically consider those factors discussed under the caption entitled "Risk Factors" on page 38 and the other cautionary statements made in this proxy statement/prospectus. The cautionary statements made in this proxy statement/prospectus should be read as being applicable to all related forward-looking statements wherever they appear in this proxy statement/prospectus and the documents incorporated by reference into this proxy statement/prospectus.

### Information About the VeriFone Special Meeting

#### General; Date; Time and Place

This proxy statement/prospectus is furnished in connection with the solicitation of proxies by VeriFone's board of directors for use at the VeriFone special meeting. The meeting will be held at \_\_\_\_\_ a.m. local time on \_\_\_\_\_, 2006, at 2099 Gateway Place, Suite 600, San Jose, California 95110, unless it is postponed or adjourned.

#### Purpose of the VeriFone Special Meeting

The purpose of the VeriFone special meeting is to consider and vote upon the issuance of approximately 13.3 million shares of VeriFone common stock, which will be exchanged for the outstanding Lipman ordinary shares as required by the merger agreement, and any other procedural matters incident to the conduct of the VeriFone special meeting.

This proxy statement/prospectus is the document used by VeriFone's board of directors to solicit proxies to be used at the VeriFone special meeting. Proxies are solicited to give all VeriFone stockholders of record an opportunity to vote on the matter to be presented at the VeriFone special meeting, even if they cannot attend the VeriFone special meeting.

The VeriFone special meeting has been called only to consider the proposal to issue VeriFone common stock to be issued to Lipman shareholders pursuant to the merger agreement. Under VeriFone's by-laws, no other matters may be considered at the VeriFone special meeting, other than procedural matters incident to the VeriFone special meeting. The grant of a proxy will confer discretionary authority on the persons named in the proxy as proxy appointees to vote in accordance with their best judgment on procedural matters incident to the conduct of the VeriFone special meeting.

#### Record Date; Voting Power

The proxy statement/prospectus and the accompanying proxy card are being mailed beginning on or about \_\_\_\_\_, 2006, to holders of record of shares of VeriFone's common stock at the close of business on \_\_\_\_\_, 2006. Each share of VeriFone common stock entitles the registered holder thereof to one vote. As of the record date, there were \_\_\_\_\_ shares of VeriFone common stock outstanding. As of that date, less than \_\_\_\_\_% of the outstanding shares of VeriFone common stock were held by directors and executive officers of VeriFone and their respective affiliates.

You are entitled to vote if you were a holder of record of VeriFone common stock as of the close of business on \_\_\_\_\_, 2006. Your shares may be voted at the meeting only if you are present or represented by a valid proxy.

#### Required Vote

The proposal to issue VeriFone common stock to be issued to Lipman shareholders pursuant to the merger agreement will be approved upon the affirmative vote of a majority of the votes cast on the proposal, provided that the total vote cast must represent at least 50% of all of the outstanding shares of VeriFone common stock.

The obligation of VeriFone and Lipman to complete the merger is subject, among other things, to the condition that the VeriFone stockholders approve the issuance of VeriFone common stock required to be issued pursuant to the merger agreement. If VeriFone's stockholders fail to approve the issuance of VeriFone common stock at the VeriFone special meeting, or at an adjournment or postponement thereof, each of VeriFone and Lipman will have the right to terminate the merger agreement. See "The Merger Agreement Termination of the Merger Agreement" beginning on page 112.

### **Recommendation of VeriFone's Board of Directors**

The VeriFone's board of directors recommends that you vote FOR the approval of the issuance of VeriFone common stock required to be issued to Lipman shareholders pursuant to the merger agreement.

### **Quorum**

In accordance with VeriFone's corporate by-laws, VeriFone stockholders who represent a majority of the VeriFone outstanding of stock entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the VeriFone special meeting. **However, regardless of corporate quorum requirements, under NYSE rules for purposes of the vote on the proposal to authorize the issuance of VeriFone common stock required to be issued pursuant to the merger agreement, at least 50% of VeriFone's outstanding shares must have been voted.** A list of eligible voters will be available at the VeriFone special meeting. Presence may be in person or by proxy. You will be considered part of the quorum if you return a signed and dated proxy card or if you vote in person at the VeriFone special meeting.

### **How to Vote**

#### *Submitting Proxies or Voting Instructions*

VeriFone stockholders of record may vote their shares by attending the special meeting of stockholders and voting their shares in person at the special meeting of stockholders, or by completing their proxy cards and signing, dating and mailing them in the enclosed self-addressed envelopes. If a proxy card is signed by a stockholder of record of VeriFone and returned without voting instructions, the shares represented by the proxy will be voted FOR the proposal to authorize the issuance of VeriFone common stock to Lipman shareholders pursuant to the merger agreement, and in the discretion of \_\_\_\_\_ and \_\_\_\_\_, as the proxy holders, on any other business that may properly come before the special meeting of stockholders or any adjournment or postponement of the VeriFone special meeting of stockholders.

VeriFone stockholders whose shares are held in the name of a broker or nominee must either direct the record holder of their shares as to how to vote their shares of VeriFone common stock or obtain a proxy from the record holder to vote at the special meeting of stockholders. Beneficial holders of VeriFone common stock should check the voting instruction cards used by their brokers or nominees to see if they may vote by using the telephone or the Internet.

#### *Revoking Proxies or Voting Instructions*

VeriFone stockholders of record may revoke their proxies at any time prior to the time their proxies are voted at the special meeting of stockholders. Proxies may be revoked by written notice to the corporate secretary of VeriFone, by a later-dated proxy signed and returned by mail, or by attending the special meeting of stockholders and voting in person.

VeriFone stockholders whose shares are held in the name of a broker or nominee may change their votes by submitting new voting instructions to their brokers or nominees. Those VeriFone stockholders may not vote their shares in person at the special meeting of stockholders unless they obtain a signed proxy from the record holder giving them the right to vote those shares.

**To Attend the VeriFone Special Meeting**

If you plan to attend the meeting in person, please bring the admission ticket (which is attached to the proxy card) to the VeriFone special meeting. If you do not have an admission ticket, you will be admitted upon presentation of identification at the door.

**Your vote is important. Please sign, date and return your proxy card or submit your proxy and/or voting instructions promptly.**

**Contact for Questions and Assistance in Voting**

Any VeriFone stockholder who has a question about the merger or how to vote or revoke a proxy should contact:

VeriFone Holdings, Inc.  
2099 Gateway Place, Suite 600  
San Jose, California 95110  
Attention: Investor Relations  
ir@verifone.com  
Telephone: (408) 232-7979

Any VeriFone stockholder who needs additional copies of this proxy statement/prospectus or voting materials should contact \_\_\_\_\_ as described above or send an e-mail to \_\_\_\_\_.

**Other Matters**

VeriFone is not aware of any other business to be acted upon at the special meeting. If, however, other matters are properly brought before the special meeting or any adjournment or postponement of the special meeting, the persons named as proxy holders, \_\_\_\_\_ and \_\_\_\_\_, will each have discretion to act on those matters, or to adjourn or postpone the special meeting.



### Information About the Lipman Special Meeting

#### General; Date; Time and Place

This proxy statement/prospectus is furnished in connection with the solicitation of proxies by Lipman's board of directors for use at the Lipman special meeting. The meeting will be held at \_\_\_\_\_ a.m. local time on \_\_\_\_\_, 2006, at 11 Ha'amal Street, Park Afek, Rosh Ha'ayin 48092 Israel, unless it is postponed or adjourned.

#### Purpose of the Special Meeting

At the special meeting, you will be asked to consider and vote upon the following proposals:

1. to approve and adopt the merger agreement and approve the merger;
2. to approve an amendment to Article 25 of Lipman's Articles of Association relating to exculpation, insurance and indemnity of directors and officers; and
3. subject to approval of such amendment of the Articles of Association, to approve corresponding amendments to the indemnification agreements entered between Lipman and its directors and the inclusion of the merger contemplated under section 1 above as one of the indemnifiable events under such indemnification agreements.

You also will consider any other business that may properly come before the special meeting of shareholders or any adjournment or postponement of the special meeting of shareholders. Lipman currently does not contemplate that any other matters will be considered at the special meeting.

#### Record Date; Voting Power

The proxy statement/prospectus and the accompanying proxy card are being mailed beginning on or about \_\_\_\_\_, 2006, to holders of record of Lipman's ordinary shares at the close of business on \_\_\_\_\_, 2006. Each Lipman ordinary share entitles the registered holder thereof to one vote. As of the record date, there were \_\_\_\_\_ Lipman ordinary shares outstanding. As of that date, less than \_\_\_\_\_% of the outstanding Lipman ordinary shares were held by directors and executive officers of Lipman and their respective affiliates.

You are entitled to vote if you were a holder of record of Lipman ordinary shares as of the close of business on \_\_\_\_\_, 2006. Your shares may be voted at the meeting only if you are present or represented by a valid proxy or if you have completed and sent to Lipman a written ballot in accordance with Israeli law.

#### Recommendation of the Board of Directors of Lipman Concerning the Merger

After careful consideration, the board of directors of Lipman determined that the merger is in the best interests of Lipman and its shareholders and approved the merger agreement, the merger and all of the transactions contemplated by the merger agreement. Accordingly, the board of directors of Lipman recommends that you vote FOR the proposal to approve and adopt the merger agreement and approve the merger and all of the transactions contemplated by the merger agreement. For a discussion of the merger and the merger agreement, see "The Merger" beginning on page 73 and "The Merger Agreement" beginning on page 102.

#### Other Proposals

##### *Amendment of Articles of Association*

In March 2005, the Israeli legislature adopted an amendment to the Israeli Companies Law, 1999 that codified a company's ability to provide indemnification to officers and directors for expenses

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incurred in connection with certain kinds of governmental investigations in certain circumstances. The proposed amendment to Lipman's Articles of Association is aimed at incorporating these new provisions into the Articles of Association. In addition, a number of other language and phrasing amendments were included in the proposed amendment in order to make the provisions with respect to exemption, insurance and indemnity in the Articles of Association more closely parallel the provisions of the Israeli Companies Law, 1999, as amended. Accordingly, Article 25 of Lipman's Articles of Association would be replaced in its entirety with the following proposed Article 25:

### "Article 25. Exemption, Insurance and Indemnity

25.1 The Company may exempt, in advance, an officer of the Company from his liability, in whole or in part, in respect of damage following breach of his duty of care towards the Company, except for a breach of his duty of care towards the Company in case of distribution.

25.2 Subject to the provisions of the Companies Law, the Company may engage in a contract to insure the liability of an officer of the Company, including an officer of the Company who is serving or has served on its behalf or at its request as a director of another company in which the Company holds shares, directly or indirectly, or in which the Company has any interest (hereinafter: "Director of Another Company") in respect of any liability imposed upon him following an act which he carried out in his capacity as an officer of the Company, in any one of the following events:

25.2.1 Breach of the duty of care towards the Company or towards any other person.

25.2.2 Breach of fiduciary duty towards the Company, provided that the officer acted in good faith and had reasonable grounds to assume that the act would not prejudice the Company's interests.

25.2.3. Financial liability which shall be imposed upon him in favor of another person.

25.3 The Company may indemnify an officer of the Company on account of a liability or expense as specified in paragraphs 25.3.1 to 25.3.3 below, which was imposed upon him following an act which he carried out in his capacity as an officer of the Company.

25.3.1 Financial liability imposed upon him in favor of another person pursuant to a judgment, including a compromise judgment, or an arbitrator's award approved by a court.

25.3.2 Reasonable litigation expenses, including attorney's fees, expended by the Office Holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded either (a) without the filing of an indictment against him and without the imposition of any financial liability in lieu of criminal proceedings, or (B) without the filing of an indictment against him but with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent; and

25.3.3 Reasonable litigation expenses, including legal fees paid by an officer or which he was required to pay by a court, in a proceeding filed against him by the Company or on its behalf or by another person, or in criminal charges from which he was acquitted, or in criminal charges in which he was convicted of an offense which does not require proof of mens rea.

25.4 The Company may give an undertaking in advance to indemnify an officer in respect of a liability or expense as specified in Article 25.3 above, provided that in respect of the circumstances set forth in Article 25.3.1 above the undertaking is limited to types of events which, in the opinion of the Board of Directors, are foreseeable in light of the Company's actual operations at the time of giving the undertaking for indemnity, and to such amount or criteria as

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the Board of Directors shall determine to be reasonable given the circumstances of the matter, and that such types of events and such amounts or criteria are set forth in the undertaking to indemnify, and provided that the total amount of the indemnity shall not exceed 25% of the shareholders' equity of the Company at the time of the indemnity, according to the last financial statements, as of the date of making the actual payment of the indemnity.

25.5 The Company may also indemnify an officer of the Company retroactively.

25.6 Subject to the provisions of the Companies Law, the Company may also indemnify any person, including an officer of the Company, who is serving or has served on its behalf or at its request as a director of another company in which the Company holds shares, directly or indirectly, or in which the Company has any interest (hereinafter: "Director of Another Company") in respect of any liability or expense as specified in Article 25.3 above which shall be imposed on him following an act which he carried out in his capacity as a Director of Another Company, by means of retroactive indemnity or by means of giving an undertaking to indemnify such person in accordance with the provisions of Article 25.4 above.

25.7 Sections 25.1 to 25.6 shall not apply in respect of any of the following events

25.7.1 Breach of fiduciary duty, except for indemnification and insurance in respect of a breach of fiduciary duty in the manner stated in Article 25.2.2 above.

25.7.2 Breach of the duty of care performed deliberately or recklessly, except for a breach performed in negligence only.

25.7.3 An action committed with the intention of making personal gain, unlawfully.

25.7.4 A penalty or fine imposed on an officer.

25.8 Resolutions with respect to giving an exemption, insurance, indemnity or giving an undertaking for indemnity to a director and/or an officer who is not a director shall be passed subject to any law.

25.9 A resolution to approve an exemption, insurance or indemnity in the Articles of the Company and the alteration thereof shall be passed with such majority as specified in section 262(b) of the Companies Law or any other section as shall replace same."

**The board of directors of Lipman recommends that you vote FOR the amendment of Lipman's Articles of Association.**

### *Amendment of Indemnification Agreements*

In light of the March 2005 amendment to the Israeli Companies Law, 1999 described above, Lipman's audit committee and board of directors approved an amendment to the indemnification agreements entered between Lipman and its directors which reflect the proposed amendments to the Articles of Association, as described above, and specifically include the merger with VeriFone as one of the identifiable events under such indemnification agreements.

**The board of directors of Lipman recommends that you vote FOR the amendment to the indemnification agreements.**

### **Method of Voting; Record Date; Stock Entitled to Vote; Quorum**

Lipman shareholders are being asked to vote both shares held directly in their name as shareholders of record and any shares they hold in "street name" as beneficial owners. Shares held in street name are shares held in a stock brokerage account or shares held by a bank or other nominee.

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The method of voting differs for shares held as a record holder and shares held in street name. Record holders will receive proxy cards. Holders of shares in street name will receive voting instruction cards in order to instruct their brokers or nominees how to vote.

Proxy cards and voting instruction cards are being solicited on behalf of the board of directors of Lipman from Lipman shareholders in favor of the proposal to approve and adopt the merger agreement and approve the merger and in favor of approving the amendment to the articles of association and the amendment to the indemnification agreements.

Alternatively, pursuant to Israeli law, shareholders are entitled to vote by way of written ballot, without attending the special meeting in person or appointing a proxy, provided that the written ballot is deposited at Lipman's registered office at least 72 hours prior to the special meeting and subject further to the authorization of share ownership as of the record date and proof of identification, as set forth by law. Shareholders of record that reside in Israel will receive from Lipman the form of written ballot. Holders of shares in street name through a member of the Tel Aviv Stock Exchange will receive a link to a website containing the written ballot or, if so request, will receive the form of written ballot from the member of the Tel Aviv Stock Exchange. The form of written ballot, which is written in the Hebrew language, is also available on the website of the Israeli Securities Authorities at <http://www.magna.isa.gov.il>, on the website of the Tel-Aviv Stock Exchange Ltd. at <http://maya.tase.co.il>, or directly from the corporate secretary of Lipman.

Shareholders may receive more than one set of voting materials, including multiple copies of this proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, shareholders who hold shares in more than one brokerage account will receive a separate voting instruction card for each brokerage account in which shares are held. Shareholders of record whose shares are registered in more than one name will receive more than one proxy card. Lipman shareholders should complete, sign, date and return each proxy card and voting instruction card they receive. However, any shareholder who chooses to vote any shares by way of written ballot under Israeli law should not vote the same shares via proxy or voting instruction card.

Only shareholders of record of Lipman at the close of business on \_\_\_\_\_, 2006, the record date for the special meeting of shareholders, are entitled to receive notice of, and have the right to vote at, the special meeting of shareholders. On the record date, approximately \_\_\_\_\_ shares of Lipman ordinary shares were issued and outstanding. Shareholders of record of Lipman on the record date are entitled to one vote per share of Lipman ordinary shares on the proposal to approve and adopt the merger agreement and approve the merger and on the proposals to approve the amendment to the articles of association and the amendment to the indemnification agreements.

A quorum of shareholders is necessary to have a valid meeting of Lipman shareholders. The presence of at least two shareholders who have at least one-third ( $33\frac{1}{3}\%$ ) of the voting rights of Lipman on the record date must be present in person (including by way of written ballot in accordance with Israeli law) or by proxy at the special meeting of shareholders in order for a quorum to be established, provided that letter of appointment of the proxy shall be deposited at the Lipman's registered office at least 48 hours prior to the special general meeting and subject further to the provision and authorization of such holdings as of the record date, as set forth by law.

Abstentions and broker "non-votes" count as present for establishing a quorum. A broker "non-vote" occurs on an item when a broker is not permitted to vote on that item without instructions from the beneficial owner of the shares and no instructions are given. Shares held by Lipman in its treasury do not count toward establishing a quorum.

### **Adjournment and Postponement**

Lipman shareholders may be asked to vote upon a proposal to adjourn or postpone the Lipman special meeting.

### **Required Vote**

Approval and adoption of the merger agreement and approval of the merger will require the affirmative vote of the holders of 75% of the Lipman ordinary shares present and voting (not including abstentions) at the Lipman special meeting. A proxy card of a record shareholder that is signed and returned that does not indicate a vote "for" or "against" a proposal will be counted as a vote "for" that proposal.

Approval of the second proposal at the Lipman special meeting, relating to the amendment of Lipman's Articles of Association and the third proposal to the extent relating to the amendment of the indemnification agreements of Meir Shamir, Ishay Davidi and Mordechai Gorfung, must be approved by holders of a majority of Lipman ordinary shares present or represented and voting at Lipman special meeting, subject to one of the following conditions: (i) the majority vote (not including abstentions) at Lipman special meeting must include at least one-third (33<sup>1</sup>/<sub>3</sub>%) of the votes of shareholders who have no personal interest in the proposals, participating at the meeting; or (ii) the total number of objecting votes of such shareholders mentioned in subsection (i) above does not exceed one percent (1%) of the total voting rights in Lipman. The third proposal at the Lipman special meeting, relating to the amendment of the indemnification agreements relating to all other directors of Lipman, must be approved by holders of a majority of Lipman ordinary shares present or represented and voting at Lipman special meeting.

A broker or nominee who holds shares for customers, who are the beneficial owners of those shares, are prohibited from giving a proxy to vote those customers' shares with respect to the proposals to be voted on at the special meeting of shareholders without instructions from the customer. Shares held by a broker or nominee that are not voted because the customer has not provided instructions to the broker or nominee are not considered to be votes "for" or "against" the merger or any other proposal and will have no effect on the result of the vote on any Lipman proposal.

### **Share Ownership of Lipman Directors and Executive Officers**

At the close of business on the record date for the special meeting of shareholders, directors and executive officers of Lipman and their affiliates beneficially owned and were entitled to vote 17.0% of Lipman ordinary shares outstanding on that date.

### **How to Vote**

#### *Submitting Proxies, Voting Instructions or Written Ballots*

Lipman shareholders of record may vote their shares by attending the special meeting of shareholders and voting their shares in person at the special meeting of shareholders, by completing their proxy cards and signing, dating and mailing them in the enclosed self-addressed envelopes or by executing a form of written ballot and mailing it to Lipman in accordance with Israeli law. If a proxy card is signed by a shareholder of record of Lipman and returned without voting instructions, the shares represented by the proxy will be voted FOR the proposal to approve and adopt the merger agreement and approve the merger, and in the discretion of \_\_\_\_\_ and \_\_\_\_\_, as the proxy holders, on any other business that may properly come before the Lipman special meeting of shareholders or any adjournment or postponement of the Lipman special meeting.

Lipman shareholders whose shares are held in the name of a broker or nominee must either direct the record holder of their shares as to how to vote their shares of Lipman ordinary shares or obtain a

proxy from the record holder to vote at the special meeting of shareholders. Beneficial holders of Lipman ordinary shares should check the voting instruction cards used by their brokers or nominees to see if they may vote by using the telephone or the Internet.

***Revoking Proxies or Voting Instructions***

Lipman shareholders of record may revoke their proxies at any time prior to the time their proxies are voted at the special meeting of shareholders. Proxies may be revoked by written notice to the corporate secretary of Lipman, by a later-dated proxy signed and returned by mail, or by attending the special meeting of shareholders and voting in person.

Lipman shareholders whose shares are held in the name of a broker or nominee may change their votes by submitting new voting instructions to their brokers or nominees. Those Lipman shareholders may not vote their shares in person at the special meeting of shareholders unless they obtain a signed proxy from the record holder giving them the right to vote those shares.

***Revoking a Written Ballot***

Lipman shareholders can revoke their votes indicated in a written ballot sent to Lipman by contacting Lipman corporate secretary, and after producing evidence reasonably satisfactory to Lipman's corporate secretary of their identity, request to revoke their written ballot, provided they do so at least 24 hours prior to the time set for Lipman special meeting, and in such an event they shall be entitled to vote at Lipman special meeting only by attending in person.

***Solicitation of Proxies***

In addition to solicitation by mail, directors, officers and employees of Lipman may solicit proxies for the special meeting from Lipman shareholders personally or by telephone, facsimile and other electronic means without compensation other than reimbursement for their actual expenses.

The expenses incurred in connection with the filing, printing and mailing of this document will be shared equally by both VeriFone and Lipman. Lipman has also made arrangements with Innisfree M&A Incorporated to assist Lipman in soliciting proxies for the special meeting and has agreed to pay Innisfree M&A Incorporated a \$20,000 fee, plus other expenses, for these services. Arrangements also will be made with brokerage firms and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of Lipman ordinary shares held of record by those persons, and Lipman will, if requested, reimburse the record holders for their reasonable out-of-pocket expenses in so doing.

**Please do not send in any Lipman share certificates with your proxy cards, voting instruction cards or written ballots.**

***Election of Merger Consideration***

To elect the cash consideration, the stock consideration or the mixed consideration in exchange for their Lipman ordinary shares, Lipman shareholders must send their Lipman share certificates, or an appropriate guarantee of delivery, and their completed election form indicating their election of the cash consideration, the stock consideration or the mixed consideration in the separate envelope specifically provided for the election form and share certificate for the merger. The exchange agent will send to Lipman shareholders that have not submitted their share certificates together with an election form transmittal forms with instructions for the surrender of certificates representing shares of Lipman ordinary shares to former Lipman shareholders shortly after the merger is completed. To be effective, the election form must be received by the exchange agent no later than \_\_\_\_\_, 2006.

**To Attend the Lipman Special Meeting**

Only Lipman shareholders, including joint holders, who hold shares of record as of the close of business on \_\_\_\_\_, 2006 and other persons holding valid proxies for the special meeting of shareholders are entitled to attend the special meeting of shareholders. All shareholders and their proxies should be prepared to present photo identification. In addition, if you are a record holder, your name is subject to verification against the list of record holders on the record date prior to being admitted to the meeting. Lipman shareholders who are not record holders but hold shares through a broker or nominee (i.e., in "street name") should be prepared to provide proof of beneficial ownership on the record date, such as a recent account statement prior to \_\_\_\_\_, 2006, or similar evidence of ownership. If you do not provide photo identification or comply with the other procedures outlined above upon request, you will not be admitted to the special meeting of shareholders.

**Contact for Questions and Assistance in Voting**

Any Lipman shareholder who has a question about the merger or how to vote or revoke a proxy should contact:

Lipman Electronic Engineering Ltd.  
11 Ha'amal Street, Park Afek  
Rosh Ha'ayin 48092 Israel  
Attention: Investor Relations  
Telephone: +972 (3) 902-9730

Any Lipman shareholder who needs additional copies of this proxy statement/prospectus or voting materials should contact \_\_\_\_\_ as described above or send an e-mail to \_\_\_\_\_.

Any Lipman shareholder who has a question about the merger or how to vote or revoke a proxy or who needs additional copies of this proxy statement/prospectus or voting should contact the proxy solicitor for the merger, at the following address and telephone numbers:

Innisfree M&A Incorporated  
501 Madison Avenue, 20<sup>th</sup> Floor  
New York, NY 10022  
(888) 750-5834 (from the U.S. and Canada)  
or  
00800 7710 9970 (from Europe)  
or  
00800 4664 7000 (from Israel)

Banks and Brokers Call Collect:  
(212) 750-5833 (New York)  
or  
+44 20 7710 9972 (London)

**Other Matters**

Lipman is not aware of any other business to be acted upon at the special meeting. If, however, other matters are properly brought before the special meeting or any adjournment or postponement of the special meeting, the persons named as proxy holders, \_\_\_\_\_ and \_\_\_\_\_, will each have discretion to act on those matters, or to adjourn or postpone the special meeting.

## The Companies

### VeriFone

VeriFone is a leading global provider of technology that enables secure electronic payment transactions and value-added services at the point of sale. Since 1981, VeriFone has designed and marketed system solutions that facilitate the long-term shift toward electronic payment transactions and away from cash and checks. VeriFone has one of the leading electronic payment solutions brands and are one of the largest providers of electronic payment systems worldwide. VeriFone's net revenues grew by 24.4% and 15.0%, respectively, in the years ended October 31, 2005 and 2004, reaching \$485.4 million in the year ended October 31, 2005. VeriFone's principal executive offices are located at 2099 Gateway Place, Suite 600, San Jose, California 95110, and its telephone number is (408) 232-7800.

Additional information concerning VeriFone is included in VeriFone's reports filed under the Exchange Act that are incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information" on page 145.

### Lipman

Lipman is a leading worldwide provider of electronic transaction systems and solutions for the payment industry. Lipman's systems and solutions are used mainly for processing debit and credit electronic payments and are also used for other electronic transactions such as prepaid cell-phone airtime, ATM, cash withdrawal, lottery ticket purchase, loyalty programs, gift cards and transportation ticketing. Lipman's products include landline and wireless POS terminals, PIN pads, electronic cash registers and self-service systems that include ATMs. In addition, Lipman provides a range of software solutions for a variety of retail applications and other terminal and transaction-related applications such as prepaid systems and terminal fleet management. Lipman's electronic transaction systems are generally sold or leased under its NURIT brand name, as well as under the Dione brand. Lipman's systems are designed to be reliable, easy to use, cost-efficient and to provide its customers with a low total cost of ownership and additional revenue generating opportunities. Lipman has established itself as a technology leader in the electronic payment industry by developing and integrating advanced technologies and security features and applications into its products. In addition, Lipman is continuously developing new revenue sources through penetration into vertical markets, such as prepaid cellular air time and service of its terminals. Lipman's principal executive offices are located at 11 Ha'amal Street, Park Afek, Rosh Ha'ayin 48092 Israel and its telephone number is +972 (3) 902-9730.

Additional information concerning Lipman is included in Lipman's reports filed under the Exchange Act that are incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information" on page 145.



## The Merger

### General

The following section summarizes the material terms of the merger agreement, a copy of which is included in this proxy statement/prospectus as Annex A and is incorporated herein by reference. We urge you to read the merger agreement in its entirety for a more complete description of the terms and conditions upon which the merger is to be effected.

If the merger agreement is approved and adopted by the holders of 75% of the Lipman ordinary shares present and voting (not including abstentions) at the Lipman special meeting and a majority of the outstanding shares of VeriFone common stock entitled to vote at the VeriFone special meeting approve the issuance of the shares of VeriFone common stock to be issued to Lipman shareholders in the merger, and the other conditions to closing are satisfied or waived, Lion Acquisitions Ltd., a wholly-owned subsidiary of VeriFone, will be merged with and into Lipman. Lipman will be the surviving corporation and will become a wholly-owned subsidiary of VeriFone.

### Merger Consideration

At the effective time and as a result of the merger, Lipman shareholders will receive, for each ordinary share, par value NIS 1.00 per share, of Lipman issued and outstanding immediately prior to the effective time of the merger (i) one-half (0.50) share of VeriFone common stock, and (ii) \$14.304 in cash, as reduced by the per share amount of the special cash dividend to be paid to Lipman shareholders prior to the closing of the acquisition. Alternatively, Lipman shareholders may elect to receive for each Lipman share either \$29.07 in cash, as reduced by the per share amount of the special cash dividend or 0.9844 shares of VeriFone common stock, as reduced by the per share value of the special cash dividend.

Pursuant to the merger agreement, the special cash dividend is equal to the maximum amount of cash reserves of Lipman that may be distributed by Lipman in the form of a dividend pursuant to applicable law and without a tax being imposed on, or payable by, Lipman, provided, however, that, pursuant to the merger agreement, the aggregate dividend will not be less than \$23 million. The amount of the special cash dividend is currently estimated at \$40 million in the aggregate, or approximately \$1.50 per Lipman ordinary share. The amount of the special cash dividend may be increased to the extent that Lipman is able to distribute additional cash to its shareholders without a corporate tax being imposed on Lipman.

Pursuant to the merger agreement, the number of shares of VeriFone common stock that will be issued for each Lipman ordinary share as stock consideration will be equal to (i) \$29.07 minus the per share amount of the special cash dividend, divided by (ii) \$29.53. To illustrate the adjustment for the stock election, if the special cash dividend is \$1.50 per Lipman ordinary share, the ratio applicable to the stock consideration will be reduced to  $(\$29.07 - \$1.50) / \$29.53$ , or 0.9336 shares of VeriFone common stock per Lipman ordinary share.

The total merger consideration is subject to proration so that VeriFone will (i) issue a number of shares of VeriFone common stock equal to the product of (x) 0.50 multiplied by (y) the number of Lipman ordinary shares issued and outstanding on the closing date and (ii) pay an amount in cash equal to the product of (x) \$14.304 multiplied by (y) the number of Lipman ordinary shares issued and outstanding on the closing date, as reduced by the aggregate amount of the special cash dividend. VeriFone currently estimates that the total consideration to be paid by VeriFone will consist of approximately 13.3 million shares and approximately \$382 million in cash, less the aggregate amount of the special cash dividend.

Regardless of their election, Lipman shareholders will not receive fractional shares of VeriFone common stock. Instead, Lipman shareholders will receive a cash payment, without interest, for any

fractional share of VeriFone common stock they might otherwise have been entitled to receive, which payment will represent the proportionate interest in the net proceeds from the sale by the exchange agent of the per share fractional shares of VeriFone common stock.

**Schedule of Important Dates**

The following schedule shows important dates and events in connection with the special meetings.

| Dates  | Events                                   |
|--------|--|
| , 2006 | Record date for VeriFone special meeting |
| , 2006 | VeriFone special meeting                 |
| , 2006 | Record date for Lipman special meeting   |
| , 2006 | Lipman special meeting                   |

The merger is expected to close by VeriFone's fiscal year-end 2006, which is October 31, 2006. The merger may not close until completion of the mandatory waiting period under Israeli law of thirty days after the date of the Lipman shareholders meeting. We cannot predict the exact timing because the merger is subject to governmental and regulatory approvals and other conditions.

**Background of the Merger**

VeriFone and Lipman have been familiar with each other's businesses for several years. There were intermittent informal contacts between representatives of VeriFone and Lipman at various times prior to VeriFone's initial public offering in April 2005. During this period, however, there were no substantive contacts regarding a possible business combination or strategic transaction.

On May 10, 2005, Douglas Bergeron, the Chief Executive Officer of VeriFone, contacted Isaac Angel, the Chief Executive Officer of Lipman, and suggested a meeting to discuss whether a future business combination or strategic transaction would be feasible.

To facilitate discussions, VeriFone and Lipman entered into a confidentiality agreement on June 1, 2005.

On June 7, 2005, Mr. Angel and Mike Lilo, the Chief Financial Officer of Lipman, met with Mr. Bergeron and Barry Zwarenstein, the Chief Financial Officer of VeriFone, in New York and discussed the possibility of a business combination between the two companies. VeriFone did not pursue these discussions further because it believed based on the trading price of its common stock at the time shortly following its initial public offering, that a transaction would not be possible at that time on a basis that provided appropriate value to VeriFone stockholders.

On September 28, 2005, Lipman announced that it was lowering its full year 2005 guidance with respect to revenues and diluted net income per share as a result of substantially weaker than expected performance of its Dione subsidiary which had been acquired in October 2004. The closing price for a Lipman ordinary share was \$26.19 on September 27, 2005 and \$20.48 on September 28, 2005.

On December 4, 2005, Mr. Bergeron contacted Mr. Angel to inquire whether Lipman was interested in renewing discussions with VeriFone. On December 7, 2005, Messrs. Angel, Lilo, Bergeron and Zwarenstein participated in a conference call and agreed to renew discussions.

On December 9, 2005, there was a telephonic meeting attended by Messrs. Angel, Lilo, Bergeron and Zwarenstein, who were joined by representatives of Lipman's financial advisor, Merrill Lynch & Co., Inc., and of Lipman's U.S. counsel, Fulbright & Jaworski L.L.P., and representatives of VeriFone's financial advisor, Lehman Brothers Inc., and of VeriFone's U.S. counsel, Sullivan & Cromwell LLP, during which the parties discussed the possibility of a transaction and the process and timing related to a transaction in the event that agreement could be reached on fundamental business terms. The parties

agreed that Lehman Brothers and Merrill Lynch would meet in the following week to share observations on possible terms of a potential business combination. Later that day Sullivan & Cromwell provided to Fulbright & Jaworski a draft exclusivity letter proposed to be entered into between VeriFone and Lipman.

Representatives of Merrill Lynch and Lehman Brothers met on behalf of Lipman and VeriFone on December 14, 2005 to discuss proposed terms of a business combination, but Lipman and VeriFone did not reach any resolution as to the terms of any potential business combination as a result of this meeting, nor did Lipman agree to execute the proposed exclusivity letter.

On February 13, 2006, Mr. Bergeron sent Mr. Angel an e-mail offering to meet during the week of March 6, 2006, and Messrs. Bergeron and Angel met in New York City on March 7, 2006 and agreed to renew discussions. At this meeting, Mr. Angel indicated that it would be appropriate for Mr. Bergeron to meet with Meir Shamir, a member of Lipman's board of directors, and chairman of Mivtach Shamir Holdings Ltd., Lipman's largest shareholder.

On March 14, 2006, VeriFone presented to Lipman a non-binding proposal outlining preliminary terms for a potential business combination between the companies.

On March 17, 2006, Sullivan & Cromwell delivered a legal due diligence request to Fulbright & Jaworski.

On March 18, 2006, Mr. Bergeron met in Hong Kong with Mr. Shamir and discussed the potential economic terms of a proposed business combination as well as Mr. Shamir's support for a transaction as a director as well as a representative of a key Lipman shareholder.

This meeting was followed by a teleconference on March 21, 2006, between Messrs. Shamir and Bergeron in which the parameters for the proposed business combination were further discussed.

On March 22, 2006, a news report appeared in *Globes*, an Israeli financial publication, stating that VeriFone and Lipman were in discussions regarding a proposed transaction that was expected to value Lipman at between \$800 and \$900 million. Lipman declined to comment on the article. The closing price for a Lipman ordinary share on March 21, 2006 was \$25.25. The closing price for a Lipman ordinary share on March 22, 2006 was \$27.24.

On March 22, 2006, the VeriFone board of directors at its regular quarterly meeting received initial reports from Messrs. Bergeron and Zwarenstein as well as representatives of Lehman Brothers and Sullivan & Cromwell, as to the potential transaction.

On March 23, 2006, the parties signed an exclusivity letter providing for an exclusivity period to April 15, 2006.

The parties commenced a due diligence process on March 24, 2006 when Lipman's electronic data room became accessible to representatives of VeriFone. Between March 24, 2006 and April 10, 2006, the date of the signing of the merger agreement, representatives of VeriFone and its financial advisors and legal counsel conducted financial, legal and business due diligence on Lipman, and representatives of Lipman and its financial advisors and legal counsel conducted due diligence on VeriFone. On March 26, 2006, a telephone conference to discuss deal structure, tax and other transaction issues was held between representatives of Merrill Lynch, Lehman Brothers, Fulbright & Jaworski, Sullivan & Cromwell, Herzog, Fox, and Neeman, Israeli legal counsel to VeriFone, and Goldfarb, Levy, Eran, Meiri & Co., Israeli legal counsel to Lipman. On the same date, representatives of Sullivan & Cromwell delivered the initial draft of the merger agreement to representatives of Fulbright & Jaworski and Goldfarb, Levy, Eran, Meiri & Co.

From March 27, 2006 to March 30, 2006, officers of Lipman and VeriFone, along with representatives of their respective counsel and financial advisors, as well as Lipman's auditor, met in New York to conduct due diligence and discuss the terms of the transaction.

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On March 29, 2006, representatives of Sullivan & Cromwell delivered drafts of the investment and voting agreements contemplated by the merger agreement to be entered into by specified officers of Lipman and Mivtach Shamir and Mez-Op Holdings Ltd., another of Lipman's major shareholders.

On March 30, 2006, representatives of Fulbright & Jaworski delivered comments to the draft merger agreement previously delivered on March 26, 2006 to representatives of Sullivan & Cromwell.

Representatives of VeriFone and its financial and legal advisors continued due diligence at Lipman's facilities in Rosh Ha'ayin, Israel from April 2, 2006 to April 3, 2006.

On April 3, 2006, representatives of Sullivan & Cromwell delivered a revised draft of the merger agreement, and on the same date, Lipman's board of directors convened a telephonic meeting to discuss the proposed transaction and receive an update from representatives of Merrill Lynch with respect to the transaction. A representative of Shnitzer, Gotlieb, Sharon & Co., Israeli counsel to Lipman, and representatives of Lipman's other counsel from both the U.S. and Israel also participated in the telephonic meeting. The board of directors of Lipman adopted a resolution to continue negotiations at said meeting.

During the week of April 3, 2006, representatives of Lipman and VeriFone continued to negotiate the terms of the merger agreement, voting agreement and investment agreements and the structure of the transaction.

On April 5, 2006, representatives of Fulbright & Jaworski delivered comments to the revised draft of the merger agreement previously delivered on April 3, 2006.

Officers of VeriFone and its representatives, including from Sullivan & Cromwell and Lehman Brothers, met with Mr. Angel, together with representatives from Fulbright & Jaworski and representatives of Merrill Lynch, at VeriFone's offices in San Jose from April 5, 2006 to April 7, 2006 for due diligence and continued negotiation of the transaction.

On April 6, 2006, Lipman's board of directors convened a telephonic meeting to discuss the proposed transaction and open issues and received an update from representatives of Merrill Lynch. Representatives of Lipman's counsel from the U.S. and Israel also participated in the telephonic meeting.

On April 6, 2006, the VeriFone board of directors convened a special telephonic meeting to discuss the proposed transaction and open issues and received an update from representatives of Lehman Brothers and Sullivan & Cromwell.

On April 7, 2006, representatives of Sullivan & Cromwell delivered a further revised draft of the merger agreement.

Representatives of Lipman and VeriFone in the U.S. and Israel continued to negotiate the open issues with respect to the merger agreement, voting agreements and investment agreements and exchanged comments to the drafts of those agreements throughout the weekend of April 8, 2006 to April 10, 2006.

On April 8, 2006, Lipman's board of directors convened telephonic and in person meetings to discuss the transaction and receive updates from Fulbright & Jaworski and representatives of Merrill Lynch as to the progress with respect to the discussions with VeriFone.

On April 8, 2006, the VeriFone board of directors convened a special telephonic meeting to consider the proposed business combination with Lipman and the terms and conditions of the merger agreement. A representative of Lehman Brothers and a representative of Sullivan & Cromwell attended the meetings. The Lehman Brothers representative discussed Lehman Brothers' financial analyses of the merger, and responded to various questions raised by members of VeriFone's board of directors regarding such financial analyses. The VeriFone board of directors reviewed a draft of the

merger agreement and related documents. A representative from Sullivan & Cromwell responded to questions regarding these documents from the VeriFone board of directors and advised the board of directors regarding their fiduciary duties. After considering the terms of the proposed transaction, the VeriFone board of directors approved the merger agreement, the merger and the other transactions contemplated by the merger agreement.

On April 9, 2006, Lipman's board of directors held a special telephonic meeting to discuss proposed changes to the terms of the transaction and receive updates from its U.S. and Israeli legal counsel and representatives of Merrill Lynch as to the progress with respect to the discussions with VeriFone.

On April 9, 2006, representatives of Sullivan & Cromwell delivered drafts of the investment and voting agreements to be entered into by Mr. Bergeron and GTCR to representatives of Fulbright & Jaworski and Goldfarb, Levy, Eran, Meiri & Co.

On April 10, 2006, the Lipman board of directors held a special telephonic meeting with respect to the merger with VeriFone and the terms and conditions of the merger agreement. Representatives of Merrill Lynch, Fulbright & Jaworski, Goldfarb, Levy, Eran, Meiri & Co. and Shnitzer, Gotlieb, Sharon & Co. attended the meeting of the board of directors. Representatives from Merrill Lynch made a presentation and delivered its oral fairness opinion to the board of directors, later confirmed in writing, that, as of April 10, 2006, based upon the assumptions made, matters considered and limits of such review, as set forth in its opinion, the merger consideration, including the special cash dividend to be paid by Lipman, to be received by the holders of Lipman ordinary shares was fair from a financial point of view to such holders. The Lipman board of directors asked clarification questions of representatives of Merrill Lynch, Fulbright & Jaworski and Goldfarb, Levy, Eran, Meiri & Co. and the representatives responded to such questions. The board of directors considered the terms and conditions of the merger agreement, the merger and the other transactions contemplated by the merger agreement and the proposed amendment to the indemnification agreements between Lipman and its officers and directors. After discussing the terms of the proposed transactions, including the personal interests of certain of Lipman's officers in the proposed transactions the board of directors approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and the proposed amendment to the indemnification agreements entered between Lipman and its officers and directors and recommended that these matters be submitted to Lipman's shareholders for approval at the special meeting.

That same day prior to the foregoing approval of the board of directors of Lipman, as required pursuant to Israeli law, *inter alia*, since certain of Lipman's officers have, or may be deemed to have, a personal interest in the proposed transactions, the audit committee of Lipman's board of directors approved the transactions and the proposed amendment to the indemnification agreements between Lipman and its officers and directors.

During the early morning, New York City time, on April 10, 2006, representatives of Lipman and VeriFone executed the merger agreement on substantially the same terms as presented to each party's board of directors, and the relevant parties executed the voting and investment agreements and employment term sheets contemplated by the merger agreement. Lipman and VeriFone issued a joint press release announcing the execution of the merger agreement.

#### **Lipman's Reasons for the Merger; Recommendation of the Lipman Board of Directors**

##### ***Lipman's Reasons for the Merger***

On April 10, 2006, the Lipman board of directors (i) unanimously approved and adopted the merger agreement and the transactions contemplated by, the merger agreement, including the merger and (ii) made all other affirmative determinations required to be made by it in connection with the

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merger agreement and the merger under the Israeli Companies Law. The board of directors of Lipman unanimously recommend that the Lipman shareholders vote FOR the approval of the merger agreement, the merger and the other transactions contemplated by the merger agreement.

In reaching its decision to approve and adopt the merger agreement and to recommend that the Lipman shareholders vote for the approval of the merger agreement, the Lipman board of directors consulted with Lipman's management and its financial and legal advisors and considered a variety of factors, including the following material factors:

The historical and current information concerning Lipman and VeriFone's business and the risks to and prospects of Lipman remaining as an independent company;

The merger consideration per share proposed by VeriFone, valued at \$29.07 as of April 7, 2006, represented a premium of approximately 15.1% over \$25.25, the closing price per Lipman ordinary share as reported on the Nasdaq National Market on March 21, 2006, the last day of trading prior to the *Globes* press report described above. The merger consideration per share also represented a premium to Lipman's trading average for the following periods prior to March 21, 2006:

30-day average premium of 14.7%;

90-day average premium of 15.4%; and

six month average premium of 21.7%.

The opinion of Lipman's financial advisor, Merrill Lynch, that as of April 10, 2006, and based upon the assumptions made, matters considered and limits of such review, as set forth in its opinion, the merger consideration to be received by the holders of Lipman shares was fair from a financial point of view to such holders, as more fully described under the heading "Opinion of Lipman's Financial Advisor" below.

The ability of Lipman shareholders to elect to receive the stock consideration or the mixed consideration represents the potential for Lipman shareholders to receive consideration per share with a value in excess of \$29.07. Since Lipman's initial public offering in the United States on January 29, 2004, Lipman ordinary shares have traded between \$19.15 and \$33.65 per share on the Nasdaq National Market.

Considering the financial position of Lipman and VeriFone, no reasonable concern exists that Lipman, as the surviving corporation in the merger and wholly-owned subsidiary of VeriFone, will be unable to fulfill the obligations of Lipman to its creditors.

In connection with the approval of the merger agreement, the merger and the other transactions contemplated by the merger agreement and the recommendation to the Lipman shareholders, the board of directors of Lipman also considered, among others, the following factors:

The terms and conditions of the merger agreement and related agreements, including the tax impact, and willingness of Lipman's directors, each in his or her capacity as a shareholder, officers and certain affiliated shareholders to commit to vote in favor of the proposed merger.

The inclusion of the special cash dividend as part of the merger consideration.

The review of, and discussions with, Lipman's senior management, financial and legal advisors and accountants, regarding certain business, financial, legal and accounting aspects of the proposed merger and the results of business due diligence reviews.

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The ability to leverage VeriFone's global distribution channels, proven brand recognition and existing customer, partner and strategic relationships to deploy Lipman's advanced wireless portfolio and accelerate Lipman's market penetration in complementary markets.

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The complementary product strengths, distribution channels and geographic market coverage of Lipman and VeriFone.

The ability to benefit from VeriFone's greater corporate resources and increase competitiveness through synergies and internal economies of scale, including:

Purchasing, sales and marketing, general and administrative functions.

Reducing duplicative employee functions, facilities and public company costs;

Potential tax benefits and cost advantages in Israel; and

Flexible hybrid manufacturing capabilities, both in-house and outsourced.

The strength and experience of the combined management teams.

The impact of the proposed merger on Lipman's customers, distributors and employees, including the possibility that the proposed merger might adversely affect relationships between Lipman and certain of its customers and distributors, the risk that key management and technical personnel might leave Lipman and the resulting effect on both the prospects of consummating the proposed merger and the business of Lipman if the proposed merger were not consummated.

VeriFone's ability to integrate Lipman.

The likelihood of the proposed merger being approved by the appropriate regulatory authorities.

The absence of inbound inquiries from other interested parties either before or after the article in *Globes* on March 22, 2006.

The ability of Lipman to accept a superior proposal, as defined in the merger agreement, after payment of a termination fee.

The possibility that certain provisions of the merger agreement, including the non-solicitation and other protective provisions, might have the effect of discouraging other persons potentially interested in acquiring Lipman from pursuing such an opportunity.

The above discussion of the information and factors considered by the board of directors of Lipman is not intended to be exhaustive. In view of the variety of factors considered and qualitative judgments made with respect to such factors in connection with its evaluation of the proposed merger, the board of directors did not find it practicable to quantify, analyze or assign relative weights to each individual factor to reach its determination. Individual members of Lipman's board may have assigned different relative weights or conclusions to each factor affecting the board's determination.

### ***Recommendation of Lipman's Board of Directors***

Lipman's board of directors believes that the merger is advisable, and is fair and in the best interests of Lipman and its shareholders and recommends that Lipman's shareholders vote FOR the proposal to approve and adopt the merger agreement and approve the merger.

### **Opinion of Lipman's Financial Advisor**

Lipman retained Merrill Lynch to act as its financial advisor with respect to the proposed transaction. In connection with that engagement, Lipman requested that Merrill Lynch evaluate the fairness, from a financial point of view, of the consideration to be received by the holders of Lipman shares pursuant to the merger agreement. At the meeting of the Lipman board of directors on April 10, 2006, Merrill Lynch rendered its



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oral opinion to the Lipman board of directors, which opinion was subsequently confirmed in writing, that as of April 10, 2006, based upon the assumptions made,

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matters considered and limits of such review, as set forth in its opinion, the merger consideration to be received by the holders of Lipman shares was fair from a financial point of view to such holders.

The full text of Merrill Lynch's written opinion, which sets forth material information relating to Merrill Lynch's fairness opinion, including the assumptions made, matters considered and qualifications and limitations on the scope of review undertaken by Merrill Lynch, is attached as Annex F and is incorporated into this proxy statement/prospectus by reference in its entirety. In accordance with the Merrill Lynch opinion, the term "merger consideration" when used in connection with that opinion refers to the aggregate of (i) one-half (0.50) share of VeriFone common stock, (ii) \$14.304 in cash, as reduced by the per share amount of the special cash dividend to be paid to Lipman's shareholders, and (iii) the per share amount of the special cash dividend to be paid to Lipman's shareholders. This description of Merrill Lynch's opinion is qualified in its entirety by reference to, and should be reviewed together with, the full text of the opinion. You are urged to read the opinion and consider it carefully.

Merrill Lynch's opinion is addressed to the Lipman board of directors and addresses only the fairness, from a financial point of view, of the merger consideration to be received by holders of Lipman shares as of the date of the opinion. The terms of the proposed transaction, including the merger consideration to be received by holders of Lipman shares, were determined through negotiations between Lipman and VeriFone and were not determined or recommended by Merrill Lynch. Merrill Lynch's opinion does not address the merits of the underlying decision by Lipman to engage in the proposed transaction, nor does it constitute, nor should it be construed as, a recommendation to any shareholder of Lipman or VeriFone as to how to vote on any matter related to the proposed transaction.

In arriving at its opinion, Merrill Lynch, among other things:

reviewed certain publicly available business and financial information relating to Lipman and VeriFone that Merrill Lynch deemed to be relevant;

reviewed certain information, including financial forecasts, relating to the business, earnings, cash flow, assets, liabilities and prospects of Lipman and VeriFone furnished to Merrill Lynch by Lipman and VeriFone, respectively;

conducted discussions with members of senior management of Lipman and VeriFone concerning the matters described in the preceding two bullet points, as well as their respective businesses and prospects before and after giving effect to the merger;

reviewed the market prices and valuation multiples for Lipman shares and VeriFone shares, and compared them with those of certain publicly traded companies that Merrill Lynch deemed to be relevant;

reviewed the results of operations of Lipman and VeriFone;

compared the proposed financial terms of the merger with the financial terms of certain other transactions that Merrill Lynch deemed to be relevant;

participated in certain discussions and negotiations among representatives of Lipman and VeriFone and their financial and legal advisors;

reviewed the potential pro forma impact of the merger;

reviewed the merger agreement; and

reviewed such other financial studies and analyses and took into account such other matters as Merrill Lynch deemed necessary, including Merrill Lynch's assessment of general economic, market and monetary conditions.



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In preparing its opinion, Merrill Lynch assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to it, discussed with or reviewed by or for it, or publicly available, and Merrill Lynch did not assume any responsibility for independently verifying such information or undertake an independent evaluation or appraisal of any of the assets or liabilities of Lipman or VeriFone nor was Merrill Lynch furnished with any such evaluation or appraisal, and Merrill Lynch did not evaluate the solvency or fair value of Lipman or VeriFone under any laws relating to bankruptcy, insolvency or similar matters. In addition, Merrill Lynch did not assume any obligation to conduct any physical inspection of the properties or facilities of Lipman or VeriFone. With respect to the financial forecast information furnished to or discussed with Merrill Lynch by Lipman or VeriFone, Merrill Lynch assumed that such financial forecast information was reasonably prepared and reflected the best currently available estimates and judgment of Lipman management and VeriFone management as to the expected future financial performance of Lipman or VeriFone, as the case may be. Merrill Lynch also assumed that the final form of the merger agreement would be substantially similar to the last draft it reviewed. Merrill Lynch expresses no view with respect to the cash election or the stock election, including but not limited to, the decision by a holder of Lipman shares to choose to receive, in lieu of the mixed consideration, the cash election or the stock election, and Merrill Lynch makes no recommendation with respect to that decision. In addition, Merrill Lynch did not give consideration to the tax consequences of the transaction with respect to any holder of Lipman shares, including any tax consequences that may result from any holder receiving any particular mix of consideration.

Merrill Lynch's opinion was necessarily based upon market, economic and other conditions as they existed and could be evaluated on the date of the opinion, and upon the information made available to Merrill Lynch as of the date of the opinion. Merrill Lynch assumed that in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the merger, no restrictions, including any divestiture requirements or amendments or modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the merger.

Merrill Lynch has no obligation to update its opinion to take into account events occurring after the date that its opinion was delivered to the Lipman board of directors. Circumstances could develop prior to consummation of the proposed transaction that, if known at the time Merrill Lynch rendered its opinion, would have altered its opinion. In addition, Merrill Lynch was not asked to address, and its opinion does not address, the fairness to, or any other consideration of, the holders of any class of securities, creditors or other constituencies of Lipman, other than the holders of Lipman shares. Merrill Lynch has expressed no opinion as to the prices at which Lipman shares or shares of VeriFone common stock will trade, or the trading volume of Lipman shares or shares of VeriFone common stock on any stock exchange or trading market on which such securities may be listed or admitted to trading, following the announcement or consummation of the proposed transaction. In addition, as described above, Merrill Lynch's fairness opinion was among several factors taken into consideration by the Lipman board of directors in making its determination to approve the merger agreement and the proposed transaction. Consequently, Merrill Lynch's analyses described below should not be viewed as determinative of the decision of the Lipman board of directors to approve the proposed transaction or to recommend the proposed transaction to Lipman shareholders.

The matters considered by Merrill Lynch in arriving at its opinion are based on numerous macroeconomic, operating and financial assumptions with respect to industry performance, general business and economic conditions, many of which are beyond the control of Lipman or VeriFone, and involve the application of complex methodologies and educated judgment. Any estimates incorporated in the analyses performed by Merrill Lynch are not necessarily indicative of actual past or future results or values, which may be significantly more or less favorable than these estimates. Estimated values do not purport to be appraisals and do not necessarily reflect the prices at which businesses or companies may be sold in the future.

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At the meeting of Lipman's board of directors held on April 10, 2006, Merrill Lynch presented certain financial analyses accompanied by delivery of its written materials in connection with the delivery of its oral opinion at that meeting and its subsequent written opinion. The following is a summary of the material financial analyses performed by Merrill Lynch in arriving at its opinion.

### *Merrill Lynch's Financial Analyses*

In accordance with customary investment banking practice, Merrill Lynch employed commonly used valuation methods in connection with the delivery of its opinion. The following is a description of the material financial analyses performed by Merrill Lynch in connection with its opinion.

### *Merger Consideration to be Received by Holders of Lipman Shares*

Merrill Lynch reviewed the terms of the merger agreement. Merrill Lynch noted that the merger consideration to be received by Lipman shareholders consisting of 0.5 of a share of VeriFone common stock for each ordinary share of Lipman and \$14.304, which includes the per share amount of the special cash dividend, had an implied offer value of \$29.07 per share based upon the closing price of VeriFone's stock on April 7, 2006.

### *Lipman Valuation Analyses*

*Historical Stock Trading Analysis.* Merrill Lynch reviewed the historical trading performance of Lipman shares as reported by FactSet. FactSet is an online investment research and database service used by many financial institutions. Merrill Lynch observed that the closing low and high trading prices for shares of Lipman over the twenty-four month period ending on April 7, 2006 were \$20.00 and \$33.38, respectively. Merrill Lynch compared this range of historical share prices to the implied value of the merger consideration to be received by holders of Lipman shares, \$29.07 per share.

*Research Analyst Stock Price Targets.* Merrill Lynch reviewed four recent publicly available research analyst reports for Lipman and observed that the range of the research analyst share price targets was \$27.00 to \$33.00. Discounted back one year at a 13% discount rate, the range was \$24.00 to \$29.25, rounded to the nearest \$0.25. Merrill Lynch compared this range to the implied value of the merger consideration to be received by holders of Lipman shares, \$29.07 per share.

*Comparable Public Trading Multiples Analysis.* Merrill Lynch compared selected financial and trading data of Lipman with similar data for ten publicly traded electronic payment processing hardware and point of sale terminal companies which Merrill Lynch judged to be reasonably comparable to Lipman. These companies were:

Safran S.A.

NCR Corporation

Symbol Technologies, Inc.

Wincor Nixdorf AG

VeriFone Holdings, Inc.

Micros Systems, Inc.

Ingenico S.A.

Radiant Systems, Inc.

Hypercom Corporation

Par Technology Corporation

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For each of the comparable companies, Merrill Lynch determined various valuation multiples, including the ratio of market capitalization to EBITDA and the ratio of share price to earnings per share, which we refer to as "EPS." Estimated cash EPS was calculated as estimated GAAP EPS excluding amortization of intangible property and excluding stock based compensation expenses. To calculate these trading multiples, Merrill Lynch used EBITDA and EPS projections reported by independent research analyst reports and First Call estimates. The following table summarizes the derived ranges of multiples and the ranges of share prices of Lipman, rounded to the nearest \$0.25, implied by such multiples:

|                           | <b>Multiple Range</b> | <b>Implied Share Price<br/>of Lipman</b> |
|---------------------------|-----------------------|--|
| CY2006 Estimated EBITDA   | 10.0x - 13.0x         | \$23.75 - \$29.50                        |
| CY2007 Estimated EBITDA   | 8.5x - 10.5x          | \$23.75 - \$28.00                        |
| CY2006 Estimated Cash EPS | 17.0x - 23.0x         | \$25.50 - \$34.50                        |

Merrill Lynch observed that the implied multiples being paid for Lipman were:

in the range of the comparable public trading multiples for calendar year 2006 based on estimated EBITDA and EPS;

above the range of the comparable public trading multiples for calendar year 2007 based on estimated EBITDA.

It should be noted that no company used in the above analysis is identical to Lipman. In evaluating companies identified by Merrill Lynch as comparable to Lipman, Merrill Lynch made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Lipman, such as the impact of competition on the business of Lipman and the industry generally, industry growth and the absence of any material change in the financial condition and prospects of Lipman or the industry or in the financial markets in general. A complete analysis involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading values of such comparable companies to which Lipman is being compared; mathematical analysis is not in itself a meaningful method of using selected company data.

*Comparable Transaction Analysis.* Using publicly available research analyst estimates and other publicly available information, Merrill Lynch examined the following transactions in the electronic transaction payment and enterprise electronic equipment industries which Merrill Lynch deemed to be relevant. The precedent transactions that Merrill Lynch considered comparable are:

| <b>Acquiror</b>                    | <b>Target</b>                    |
|------------------------------------|----------------------------------|
| General Dynamics Corporation       | Itronix Corporation              |
| Dover Corporation                  | Datamax Corporation              |
| Lipman Electronic Engineering Ltd. | Dione Plc                        |
| Metavante Corporation              | NYCE Corporation                 |
| Fiserv, Inc.                       | EDS' CUIG Business               |
| Symbol Technologies, Inc.          | Telxon Corporation               |
| Psion Plc                          | Teklogix International Inc.      |
| Zebra Technologies Corporation     | Comtec Information Systems, Inc. |
| PSC Inc.                           | Percon Inc.                      |
| Zebra Technologies Corporation     | Eltron International, Inc.       |
| Danaher Corporation                | Fluke Corporation                |

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All calculations of multiples paid in the selected transactions were based on public information available at the time of public announcement. Merrill Lynch's analysis did not take into account different market and other conditions during the period in which the selected transactions occurred. The following table summarized the derived ranges of multiples and the ranges of share prices of Lipman, rounded to the nearest \$0.25, implied by such multiples:

|                       | <u>Multiple Range</u> | <u>Implied Share Price<br/>of Lipman</u> |
|-----------------------|-----------------------|--|
| Last 12-Month Revenue | 1.5x - 2.5x           | \$17.50 - \$26.00                        |
| Last 12-Month EBITDA  | 9.0x - 13.0x          | \$20.25 - \$27.25                        |

Merrill Lynch observed that the implied multiples being paid for Lipman were above the range of multiples paid for selected comparable transactions.

It should be noted that no transaction utilized in the analysis above is identical to the proposed transaction. A complete analysis involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved in these transactions and other factors that could affect the transaction multiples or premiums paid in such comparable transactions to which the proposed transaction is being compared; mathematical analysis (such as determining the mean or the median) is not in itself a meaningful method of using selected transaction data.

*Premiums Paid Analysis.* Merrill Lynch reviewed premiums to stock price paid in recent technology acquisitions, which it judged to be reasonably applicable to the merger.

Merrill Lynch reviewed the premiums paid in these transactions over the price of the target stock as reported by FactSet at various dates before and on the approximate date on which the public became aware of the possibility of such transactions. On March 22, 2006 an article in the Israeli press referenced a rumored transaction between VeriFone and Lipman. Merrill Lynch treated Lipman's closing share price as of March 21, 2006, the last closing share price prior to the release of the Israeli news article, as the unaffected share price on the last date prior to the date on which the public became aware of the possibility of a transaction between VeriFone and Lipman. The following table summarizes the derived ranges of premiums and the ranges of share prices of Lipman, rounded to the nearest \$0.25, implied by such ranges:

|                            | <u>Premium Range</u> | <u>Implied Share Price<br/>of Lipman</u> |
|----------------------------|----------------------|--|
| Unaffected spot premium    | 10.0% - 35.0%        | \$27.75 - \$34.00                        |
| Unaffected 1-month average | 15.0% - 35.0%        | \$29.25 - \$34.25                        |

Merrill Lynch observed that the implied premiums being paid for Lipman were:

in the range of the spot premiums paid in similar transactions;

below the range of the premiums to 1-month average price paid in similar transactions.

*Discounted Cash Flow Analysis.* Merrill Lynch performed a discounted cash flow analysis of Lipman, without giving effect to the merger, for the period July 1, 2006 through December 31, 2011. Merrill Lynch calculated ranges of equity values per share for Lipman based upon the sum of the discounted net present value of Lipman's five and a half year stream of projected unlevered free cash flows plus the discounted net present value of the terminal value based on a range of multiples applied to its projected 2012 EBITDA.



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Using discount rates ranging from 11.0% to 15.0% and terminal value multiples of estimated 2012 EBITDA ranging from 8.0x to 10.0x, Merrill Lynch calculated the following range of implied equity values per ordinary share of Lipman, rounded to the nearest \$0.25:

|                                       | Low      | High     |
|---------------------------------------|----------|----------|
| Implied equity value per Lipman share | \$ 26.75 | \$ 35.50 |

Merrill Lynch observed that the \$29.07 per share implied value of the merger consideration to be received by holders of Lipman shares was within the range of implied equity values derived by the discounted cash flow analysis.

### *Pro Forma Combination Analyses*

*Pro Forma EPS Accretion/(Dilution) Analysis.* Merrill Lynch performed a pro forma analysis of the expected financial impact of the proposed transaction on VeriFone's estimated GAAP EPS and cash EPS for the fourth quarter of fiscal year 2006 and for the full fiscal year 2007. The pro forma results were calculated as if the proposed transaction had closed on July 31, 2006 and the EPS estimates were estimated based on publicly available EPS estimates based on independent research analyst estimates. The pro forma EPS estimate was adjusted to reflect U.S. GAAP based on estimates for amortization of intangibles and stock based compensation expense. Both GAAP EPS and cash EPS excluded merger and restructuring-related expenses and synergies.

This analysis indicated that, based on First Call estimates, the proposed transaction would be dilutive to VeriFone's estimated GAAP EPS in the fourth quarter of fiscal year 2006 and in the full fiscal year 2007 and would be accretive to VeriFone's estimated cash EPS in the fourth quarter of fiscal year 2006 and in the full fiscal year 2007.

### *VeriFone Trading Analysis*

In addition to the valuation analysis of Lipman, Merrill Lynch compared selected trading and financial data of VeriFone with similar data for five publicly traded electronic payment processing hardware and point of sale terminal companies which Merrill Lynch judged to be reasonably comparable to VeriFone. These companies were:

Ingenico S.A.

Hypercom Corporation

Lipman Electronic Engineering

Zebra Technologies Corporation

Symbol Technologies, Inc.

For each of the comparable companies, Merrill Lynch determined various trading and financial data, including calendar year 2005 to calendar year 2006 estimated revenue growth, calendar year 2006 estimated gross margins, the ratio of market capitalization to EBITDA, and the ratio of share price to EPS. To calculate these trading multiples and financial data, Merrill Lynch used revenue, gross margin, EBITDA and EPS projections reported by independent research analyst reports. The following table summarizes the derived ranges of trading and financial data:

|   | Range         |
|---|---------------|
| CY2006 Revenue Growth                           | 4.4% - 30.5%  |
| CY2006 Gross Margins                            | 31.0% - 44.9% |
| Market Capitalization / CY2006 Estimated EBITDA | 11.4x - 18.3x |
| Share Price / CY2006 Estimated P/E              | 19.4x - 35.4x |

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Merrill Lynch observed that the trading multiples and financial data for VeriFone were in the range of trading multiples and financial data for the selected comparable companies.

It should be noted that no company used in the above analysis is identical to VeriFone. In evaluating companies identified by Merrill Lynch as comparable to VeriFone, Merrill Lynch made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of VeriFone, such as the impact of competition on the business of VeriFone and the industry generally, industry growth and the absence of any material change in the financial condition and prospects of VeriFone or the industry or in the financial markets in general. A complete analysis involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading values and financial data ranges of such comparable companies to which VeriFone is being compared; mathematical analysis is not in itself a meaningful method of using selected company data.

### *General*

The actual results achieved by VeriFone after consummation of the proposed transaction may vary from the estimated results and the variations may be material. The summary set forth above does not purport to be a complete description of the analyses performed by Merrill Lynch in arriving at its opinion. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. No company, business or transaction used in such analyses as a comparison is identical to Lipman or VeriFone or the proposed transaction, nor is an evaluation of such analyses entirely mathematical. In arriving at its opinion, Merrill Lynch did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Merrill Lynch believes that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all factors and analyses, would, in the view of Merrill Lynch, create an incomplete and misleading view of the analyses underlying Merrill Lynch's opinion.

Lipman retained Merrill Lynch based upon Merrill Lynch's experience and expertise. Merrill Lynch is an internationally recognized investment banking firm with substantial experience in transactions similar to the proposed transaction. Merrill Lynch, as part of its investment banking business, is continually engaged in the valuation of businesses and securities in connection with business combinations and acquisitions and for other purposes.

Under the terms of the engagement letter between Merrill Lynch and Lipman, Merrill Lynch provided financial advisory services and the financial fairness opinion in connection with the proposed transaction, and Lipman agreed to pay Merrill Lynch a customary fee which is contingent upon consummation of the transaction. In addition, Lipman has agreed to indemnify Merrill Lynch and its affiliates, their respective directors, officers, agents, employees and controlling persons against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to or arising out of Merrill Lynch's engagement.

Merrill Lynch has, in the past, provided financial advisory and financing services to Lipman and/or its affiliates and may continue to do so, and has received, and may receive, fees for the rendering of such services. In addition, in the ordinary course of its business, Merrill Lynch may actively trade in the securities of Lipman or VeriFone for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in those securities.

## VeriFone's Reasons for the Merger; Recommendation of the VeriFone Board

### *VeriFone's Reasons for the Merger*

VeriFone's board of directors has approved the merger agreement and the merger. VeriFone's board of directors consulted with VeriFone's senior management, as well as its legal counsel and financial advisors in reaching its decision to approve the merger agreement and the merger. VeriFone's board of directors has identified several potential benefits of the merger that it believes will contribute to the success of the expanded VeriFone, including:

enhancing VeriFone's ability to reach certain of its strategic and business objectives, which include extending VeriFone's product and service offerings to include Lipman's products;

enabling VeriFone to leverage its distribution channels, international presence, customer base, and brand recognition to accelerate Lipman's market penetration and growth;

enabling VeriFone to enhance its position in areas where VeriFone is already strong by offering complementary products and services developed by Lipman;

enhancing its product offerings in a variety of its core product areas; and

enhancing VeriFone's manufacturing capacity.

After taking into account these and other factors, the VeriFone board of directors determined that the merger agreement, the merger and the other transactions contemplated by the merger agreement are in the best interests of VeriFone and its stockholders and that VeriFone should enter into the merger agreement.

### *Recommendation of VeriFone's Board of Directors*

VeriFone's board of directors recommends that VeriFone stockholders vote FOR the approval of the issuance of VeriFone common stock to be issued to Lipman shareholders pursuant to the merger agreement.

### **Opinion of VeriFone's Financial Advisor**

In March 2006, VeriFone engaged Lehman Brothers to act as its financial advisor with respect to pursuing a strategic combination with Lipman. On April 8, 2006, Lehman Brothers rendered its oral opinion (subsequently confirmed in writing) to the VeriFone board of directors that as of such date and, based upon and subject to the matters stated in its opinion, from a financial point of view, the consideration to be paid by VeriFone to the shareholders of Lipman in the merger was fair to VeriFone.

**The full text of Lehman Brothers' written opinion, dated April 10, 2006 is attached as Annex G to this proxy statement/prospectus. VeriFone stockholders are encouraged to read Lehman Brothers' opinion carefully in its entirety for a description of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Lehman Brothers in rendering its opinion. The following is a summary of Lehman Brothers' opinion and the methodology that Lehman Brothers used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.**

Lehman Brothers' advisory services and opinion were provided for the information and assistance of the VeriFone board of directors in connection with its consideration of the merger. Lehman Brothers' opinion is not intended to be and does not constitute a recommendation to any stockholder of VeriFone as to how such stockholder should vote in connection with the merger. Lehman Brothers was not requested to opine as to, and Lehman Brothers' opinion does not address, VeriFone's underlying business decision to proceed with or effect the merger.

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In arriving at its opinion, Lehman Brothers reviewed and analyzed, among other things:

the merger agreement and the specific terms of the merger;

publicly available information concerning VeriFone and Lipman that Lehman Brothers believed to be relevant to its analysis, including certain periodic reports filed by VeriFone and Lipman, including VeriFone's most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q and Lipman's most recent Annual Report on Form 20-F and quarterly reports and other disclosures on Form 6-K;

financial and operating information with respect to the business, operations and prospects of VeriFone furnished to Lehman Brothers by VeriFone, including financial projections prepared by VeriFone's management;

financial and operating information with respect to the business, operations and prospects of Lipman furnished to Lehman Brothers by Lipman, including financial projections prepared by Lipman's management;

the trading histories of the VeriFone common stock from April 29, 2005 to April 7, 2006 and of Lipman ordinary shares from January 29, 2004 to April 7, 2006 and a comparison of those trading histories with each other and with those of other companies that we deemed relevant

a comparison of the historical financial results and present financial condition of VeriFone with those of other companies that Lehman Brothers deemed relevant;

a comparison of the historical financial results and present financial condition of Lipman with those of other companies that Lehman Brothers deemed relevant;

a comparison of the financial terms of the merger with the financial terms of certain other transactions that Lehman Brothers deemed relevant;

publicly available research estimates with respect to both VeriFone and Lipman; and

the pro forma impact of the merger on the future financial performance of VeriFone, including estimated cost savings, operating synergies, revenue opportunities and risks and other strategic benefits expected by management of VeriFone to result from the combination of the businesses of VeriFone and Lipman.

In addition, Lehman Brothers had discussions with the managements of VeriFone and Lipman concerning their respective businesses, operations, assets, financial conditions and prospects and undertook such other studies, analyses and investigations as Lehman Brothers deemed appropriate.

In arriving at its opinion, Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of such information. Lehman Brothers further relied upon the assurances of the managements of VeriFone and Lipman that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the financial projections of VeriFone and Lipman, upon advice of VeriFone and Lipman, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the managements of VeriFone and Lipman as to their respective future financial performance and that they would perform substantially in accordance with such projections. However, for purposes of its analysis Lehman Brothers also considered publicly available Wall Street research estimates with respect to both companies, and upon advice of the VeriFone and Lipman, as applicable, Lehman Brothers assumed that such research estimates were a reasonable basis upon which to evaluate the future financial performance of VeriFone and Lipman and VeriFone and Lipman agreed with the appropriateness of the use of such estimates in performing Lehman Brothers' analysis. With respect to the estimated operating synergies and strategic benefits expected by the management of



VeriFone to result from a combination of the businesses of VeriFone and Lipman, upon advice of VeriFone and Lipman, Lehman Brothers assumed that such estimated operating synergies and strategic benefits will be achieved substantially in accordance with such expectations. In arriving at its opinion, Lehman Brothers did not conduct or obtain any evaluations or appraisals of the assets or liabilities of VeriFone or Lipman, nor did it conduct a physical inspection of the properties and facilities of VeriFone and Lipman. Lehman Brothers' opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, April 10, 2006.

The following is a summary of the material financial analyses used by Lehman Brothers in connection with providing its opinion to the VeriFone board of directors. **The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses used by Lehman Brothers, the tables must be read together with the text of each summary. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Lehman Brothers' opinion.**

#### *Historical Share Price Analysis*

Lehman Brothers considered historical data with regard to the trading prices of VeriFone common stock and Lipman ordinary shares for the period from January 29, 2004 to April 7, 2006 and the relative stock price performances during this same period of VeriFone, Lipman, the NASDAQ Index. During this period the closing stock price of VeriFone ranged from a low of \$10.75 to a high of \$30.29 per share, and the closing price of Lipman ranged from a low of \$19.81 to a high of \$33.38 per share. Lehman Brothers noted outperformance of VeriFone common stock in the period reviewed relative to Lipman ordinary shares and the NASDAQ index considered. Lehman Brothers also noted underperformance of Lipman ordinary shares in the period reviewed relative to VeriFone common stock and the NASDAQ index considered. For the 52 week period ending April 7, 2006, Lehman Brothers observed that the closing low and high trading prices for shares of Lipman were \$20.29 and \$33.38, respectively. The foregoing historical share price analysis was presented to VeriFone's board of directors to provide it with background information and perspective with respect to the relative historical share prices of VeriFone common stock and Lipman ordinary shares.

#### *Research Analyst Stock Price Targets*

Lehman Brothers reviewed four recently published Lipman research reports and observed that the range of analyst share price targets, which represent future share price expectations within the next 12 months, was \$29.00 to \$33.00 with a mean of \$31.25.

#### *Comparable Company Analysis*

In order to assess how the public market values shares of similar publicly traded companies, Lehman Brothers, based on its experience with companies in the POS, retail technology and payment processing industries, reviewed and compared specific financial and operating data relating to Lipman with selected companies that Lehman Brothers deemed comparable to Lipman, including VeriFone, Hypercom, Ingenico, MICROS Systems, Radiant Systems, Symbol, Zebra Technologies, CheckFree, Global Payments, Heartland Payment Systems and Moneygram. Using publicly available information and I/B/E/S International Inc. estimates available as of April 7, 2006, Lehman Brothers calculated and analyzed the multiples of each company's stock price to 2006 calendar year expected earnings per share, or EPS, as well as the multiples of each company's enterprise value, which Lehman Brothers defined as equity market value plus net debt, to 2006 calendar year expected EBITDA.

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The following table presents the results of the comparable company analysis as applied to Lipman:

|                                    | Comparable Companies |       |        |       | Lipman @ implied<br>transaction value<br>(\$29.07 / share) |
|------------------------------------|----------------------|-------|--------|-------|--|
|                                    | Low                  | Mean  | Median | High  |  |
| Enterprise Value as a multiple of: |                      |       |        |       |  |
| CY2006 EBITDA                      | 9.9x                 | 14.5x | 14.3x  | 20.4x | 12.4x  |
| Stock Price as a multiple of:      |                      |       |        |       |  |
| CY2006 EPS                         | 23.7x                | 27.9x | 26.3x  | 38.0x | 19.4x  |

Lehman Brothers applied a range of 20.0x to 25.0x to the earnings of Lipman and 12.0x to 15.0x to the EBITDA at Lipman and arrived at a range of equity values per share for Lipman of \$28.36 to \$37.41.

Lehman Brothers selected the comparable companies above because their businesses and operating profiles are reasonably similar to that of Lipman. However, because of the inherent differences between the business, operations and prospects of Lipman and the businesses, operations and prospects of the selected comparable companies, no comparable company is exactly the same as Lipman. Therefore, Lehman Brothers believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the comparable company analysis. Accordingly, Lehman Brothers also made qualitative judgments concerning differences between the financial and operating characteristics and prospects of VeriFone and Lipman and the companies included in the comparable company analysis that would affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analysis.

### *Transaction Premium Analysis*

Lehman Brothers reviewed the premiums paid in the technology sector between \$500 million and \$1 billion since 2001. On March 22, 2006 a news story was published suggesting that Lipman was in discussions with VeriFone regarding a potential strategic combination. The stock price of Lipman was affected by these rumors and Lehman Brothers observed the transaction premiums for Lipman as of the unaffected price at closing on March 21, 2006 as well as the closing stock price on April 7, 2006, the closing price prior to the announcement of the combination. Lehman Brothers calculated the premium per share paid by the acquirer compared to the share price of the target company prevailing (i) one day and (ii) one month prior to the announcement of the transaction. This analysis indicated the following premiums paid:

|   | One<br>Day | 30<br>Days |
|---|------------|------------|
| Transactions Stock Price Premiums Paid:   |            |            |
| Bottom Quartile   | 13.0%      | 18.0%      |
| Mean  | 29.5%      | 36.9%      |
| Median  | 27.3%      | 31.3%      |
| Top Quartile  | 38.5%      | 50.1%      |
| Lipman at merger consideration as of 4/8/2006 based on the previous day's closing price | 0.2%       | 8.5%       |
| Lipman at merger consideration as of 4/8/2006 based on the unaffected price on 3/21/06  | 15.1%      | 13.7%      |

Lehman Brothers applied a premium range of 25.0% to 30.0% to the 1-day unaffected stock price and a premium range of 30.0% to 35.0% to the average stock price 30-days before announcement of the transaction and arrived at (i) a range of equity values per share for Lipman of \$31.56 to \$32.83 based on one-day premiums and (ii) a range of equity values per share for Lipman of \$32.83 to \$34.09 based on 30-day premiums.

*Lipman Discounted Cash Flow Analysis*

As part of its analysis, Lehman Brothers also prepared a five-year discounted cash flow analysis for Lipman, calculated as of April 8, 2006, of after-tax unlevered free cash flows for fiscal years 2006 through 2010. Lehman Brothers performed a discounted cash flow analysis for Lipman by adding (i) the present value of Lipman's projected after-tax unlevered free cash flows for fiscal years 2006 through 2010 to (ii) the present value of the terminal value of Lipman as of 2011.

Lehman Brothers, after taking into account selected comparable company enterprise values to forward twelve month projected EBITDA multiples, estimated a range of terminal values in 2010 calculated based on selected forward twelve months EBITDA multiples of 12.0x to 13.0x. Lehman Brothers discounted the unlevered free cash flow streams and the estimated terminal value to a present value at a range of discount rates from 10.0% to 15.0%. The discount rates utilized in this analysis were chosen by Lehman Brothers based on its expertise and experience with the POS, retail technology and payment processing industries and also on an analysis of the weighted average cost of capital of Lipman and other comparable companies. Lehman Brothers calculated per share equity values by first determining a range of enterprise values of Lipman by adding the present values of the after-tax unlevered free cash flows and terminal values for each EBITDA terminal multiple and discount rate scenario, and then subtracting from the enterprise values the net debt (which is total debt minus cash) of Lipman, and dividing those amounts by the number of fully diluted shares of Lipman.

Based on the projections and assumptions set forth above, the discounted cash flow analysis of Lipman yielded an implied valuation range of Lipman of \$27.06 to \$35.83 per share.

*Pro Forma Analysis*

Lehman Brothers analyzed the pro forma earnings impact of the merger on VeriFone from the perspective of VeriFone stockholders. For the purposes of this analysis, Lehman Brothers assumed (i) a \$29.07 per share price for Lipman ordinary shares acquired pursuant to the merger, (ii) a \$29.53 per share price for VeriFone common stock (the closing market price per share on April 7, 2006), (iii) a transaction structure with 50% of the consideration paid in cash and 50% in VeriFone common stock, (iv) financial forecasts for each company based on Wall Street research estimates of VeriFone and Lipman, and (v) cost savings and synergies estimates from the transaction determined by the management of VeriFone. Lehman Brothers estimated that, based on the assumptions described above, the pro forma impact of the transaction on the earnings per share of VeriFone would be accretive in the fiscal year 2007. The financial forecasts that underlie this analysis are subject to uncertainty and, therefore, actual results may be substantially different.

*General*

In connection with the review of the merger by VeriFone's board of directors, Lehman Brothers performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, Lehman Brothers considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. Furthermore, Lehman Brothers believes that the summary provided and the analyses described above must be considered as a whole and that selecting any portion of its analyses, without considering all of them, would create an incomplete view of the process underlying its analyses and opinion. In addition, Lehman Brothers may have given various analyses and factors more or less weight than other analyses and factors and may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described above should not be taken to be Lehman Brothers' view of the actual value of Lipman.



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In performing its analyses, Lehman Brothers made numerous assumptions with respect to industry risks associated with reserves, industry performance, general business and economic conditions and other matters, many of which are beyond the control of VeriFone or Lipman. Any estimates contained in Lehman Brothers' analyses are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates. The analyses performed were prepared solely as part of Lehman Brothers' analysis of the fairness from a financial point of view to VeriFone stockholders of the transaction and were prepared in connection with the delivery by Lehman Brothers of its opinion, dated April 10, 2006, to VeriFone's board of directors. The analyses do not purport to be appraisals or to reflect the prices at which Lipman ordinary shares might trade following announcement of the merger or the prices at which Lipman ordinary shares might trade following consummation of the merger.

The terms of the merger were determined through arm's length negotiations between VeriFone and Lipman and were unanimously approved by VeriFone's and Lipman's boards of directors. Lehman Brothers did not recommend any specific exchange ratio or form of consideration to VeriFone or that any specific exchange ratio or form of consideration constituted the only appropriate consideration for the merger. Lehman Brothers' opinion was provided to VeriFone's board of directors to assist it in its consideration of the exchange ratio in the merger. Lehman Brothers' opinion does not address any other aspect of the proposed merger and does not constitute a recommendation to any stockholder as to how to vote or to take any other action with respect to the merger. Lehman Brothers' opinion was one of the many factors taken into consideration by VeriFone's board of directors in making its unanimous determination to approve the merger agreement. Lehman Brothers' analyses summarized above should not be viewed as determinative of the opinion of VeriFone's board of directors with respect to the value of Lipman or of whether VeriFone's board of directors would have been willing to agree to a different exchange ratio or form of consideration.

Lehman Brothers is an internationally recognized investment banking firm and, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. The VeriFone board of directors selected Lehman Brothers because of its expertise, reputation and familiarity with VeriFone and the POS, retail technology and payment processing industries generally and because its investment banking professionals have substantial experience in transactions comparable to the merger.

As compensation for its services in connection with the merger, VeriFone paid Lehman Brothers \$750,000 upon the delivery of Lehman Brothers' opinion. Additional compensation of between \$5.0 million and \$6.5 million will be payable on completion of the merger against which the amounts paid for the opinion will be credited. In addition, Lehman Brothers may assist VeriFone in financing the proposed transaction and would receive customary fees in connection therewith. VeriFone has also agreed to reimburse Lehman Brothers for reasonable out-of-pocket expenses incurred in connection with the merger and to indemnify Lehman Brothers for certain liabilities that may arise out of its engagement by VeriFone and the rendering of the Lehman Brothers' opinion. Lehman Brothers in the past has rendered investment banking services to VeriFone and their affiliates and received customary fees for such services.

In the ordinary course of its business, Lehman Brothers may actively trade in the debt or equity securities of VeriFone and Lipman for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

## Material U.S. Federal and Israeli Income Tax Consequences

### *U.S. Federal Income Tax Consequences*

In the opinion of Sullivan & Cromwell LLP, the following discussion describes the material U.S. federal income tax consequences of the special cash dividend and the merger to U.S. holders. This discussion is based on current provisions of the U.S. Internal Revenue Code of 1986, as amended (the Code), final, temporary and proposed Treasury Regulations promulgated thereunder, and administrative and judicial interpretations thereof, all of which are subject to change, possibly with retroactive effect. Except as specifically discussed below regarding backup withholding with respect to non-U.S. holders, this summary is addressed only to U.S. holders of Lipman ordinary shares. For the purpose of this discussion, a U.S. holder means a beneficial owner of Lipman shares that were acquired on or after the date that Lipman shares were first offered for sale to the public in the United States that is either a U.S. citizen, an individual resident in the U.S. for U.S. federal income tax purposes, corporations created or organized in the U.S. or under the laws of the U.S. or any state in the U.S., estates the income of which is subject to U.S. federal income tax regardless of the source of their income or any trust if either: (i) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all the substantial decisions of the trust, or (ii) the trust properly elects to be treated as a U.S. trust. For U.S. federal income tax purposes, income earned through a partnership, S corporation or certain trusts is generally attributed to its owners. This discussion does not consider all aspects of U.S. federal income taxation that may be relevant to particular U.S. holders by reason of their particular circumstances, including potential application of the alternative minimum tax, or any aspect of state, local or non-U.S. federal tax laws. In addition, this discussion does not address the considerations that may be applicable to particular classes of U.S. holders who are subject to special tax treatment under the Code or any final, temporary and proposed Treasury Regulations promulgated thereunder, including U.S. holders who acquired their Lipman ordinary shares pursuant to the exercise of employee stock options or otherwise as compensation, insurance companies, dealers or brokers in securities or currencies, tax exempt organizations, financial institutions, holders of securities as part of a "straddle," "hedge," "conversion" or other risk-reduction transaction, U.S. holders who own or at any time held, directly, indirectly or through attribution, 10% or more of the outstanding Lipman ordinary shares or U.S. holders that are residents of a country other than the U.S. or that have a permanent establishment in Israel. In addition, the following discussion does not address the U.S. federal income tax consequences to holders of options to purchase Lipman ordinary shares. In addition, based on the statements in Lipman's Annual Reports on Form 20-F that Lipman does not believe it is a Passive Foreign Investment Company, or PFIC, and representations made by Lipman to VeriFone in the merger agreement regarding the same, this discussion assumes that Lipman is not a PFIC for U.S. federal income tax purposes with respect to any U.S. holders.

**Each U.S. holder should consult the holder's own tax advisor as to the particular tax consequences of the special cash dividend and the merger to the holder, including the effects of applicable state, local, foreign or other tax laws and possible changes in the tax laws.**

Assuming Lipman has sufficient earnings and profits for U.S. federal income tax purposes, the amount payable to a U.S. holder under the special cash dividend (including amounts withheld under applicable tax laws), should be treated as a dividend by such U.S. holder for U.S. federal income tax purposes. Lipman currently expects that it will have earnings and profits for U.S. federal income tax purposes that exceed the amount of the special cash dividend. In the case of individual U.S. holders, who hold their Lipman ordinary shares for more than 60 days during the 121-day period that begins 60 days before the date the Lipman ordinary shares become ex-dividend with respect to the special cash dividend, such dividends will generally be qualified dividends eligible to be taxed at long-term capital gains rates. Because Lipman is not a U.S. corporation, no dividends received deduction will be allowed to corporate U.S. holders with respect to the special cash dividend. Assuming the amounts

under the special cash dividends are treated as dividend income such income will be foreign source income for purposes of the limitation on foreign tax credits discussed below.

The receipt by a U.S. holder of either cash, VeriFone common stock or both, in exchange for Lipman ordinary shares in the merger will be a taxable transaction for U.S. federal income tax purposes. For U.S. federal income tax purposes, a U.S. holder will recognize gain or loss equal to the difference, if any, between (i) the sum of any cash payable to such U.S. holder in exchange for Lipman ordinary shares (including amounts withheld under applicable tax laws) plus, the fair market value on the date of the merger of any VeriFone common stock payable to such U.S. holder in exchange for Lipman ordinary shares (including amounts withheld under applicable tax laws) and (ii) the aggregate adjusted tax basis of the Lipman ordinary shares surrendered by such U.S. holder in the merger. Gain or loss will be determined separately for each block of Lipman ordinary shares acquired at the same cost in a single transaction. Assuming that a U.S. holder's Lipman ordinary shares are held as capital assets, the gain or loss recognized by such holder will be capital gain or loss, and will be long-term capital gain or loss if the holding period for the Lipman ordinary shares exceeds one year. The use of capital losses is generally subject to limitations. A U.S. holder that receives VeriFone common stock in the merger will have a basis in such VeriFone common stock equal to its fair market value on the date of the merger and the holding period for such VeriFone common stock will begin on the day after the merger.

Certain noncorporate holders of Lipman ordinary shares may be subject to U.S. backup withholding at a rate of 28%, on payments made in the merger that are made in the U.S. or by a U.S. based financial intermediary. Backup withholding generally will not apply, however, to a Lipman shareholder who furnishes, on a properly executed IRS Form W-9, such shareholder's taxpayer identification number and certifies under penalties of perjury that the number is correct and that the Lipman shareholder is not subject to backup withholding, who furnishes a properly executed IRS Form W-8BEN certifying that the Lipman shareholder is not a U.S. person, or who otherwise certifies such shareholder's exemption from backup withholding. Special rules apply in the case of Lipman ordinary shares held by a partnership or other flow-through entity. The backup withholding tax is not an additional tax; rather, it may be credited against the U.S. federal income tax liability of the U.S. holder of Lipman shares if the required information is provided to the IRS. If backup withholding results in an overpayment of tax, a refund may be obtained by filing a U.S. federal income tax return.

Any gain recognized by a U.S. holder with respect to the merger will generally be treated as U.S. source other than amounts under the special cash dividend as discussed above and will be considered passive income for purposes of the foreign tax credit limitation which may have adverse consequences with respect to a U.S. holder's ability to claim foreign tax credit benefits. Because the application of the foreign tax credit rules is complex and will depend on a U.S. holder's particular tax circumstances, U.S. holders are urged to consult their own tax advisors with respect to the availability of the foreign tax credit.

### *Israeli Tax Consequences*

The following is a summary discussion of certain Israeli tax considerations in connection with the merger. The following summary is included for general information purposes only and is based upon current Israeli tax law. No assurance can be given that new or future legislation, regulations or interpretations will not significantly change the tax considerations described below, and any such change may apply retroactively. This summary does not discuss all material aspects of Israeli tax consequences that may apply to particular holders of Lipman ordinary shares in light of their particular circumstances, such as investors subject to special tax rules or other investors referred to below.

**Because individual circumstances may differ, holders of Lipman shares should consult their own tax advisors as to the Israeli tax consequences applicable to them.**

*Special Cash Dividend*

The amount payable under the special cash dividend (including amounts withheld under applicable tax laws), is expected to be treated as a dividend for Israeli tax purposes. In general, under the Israeli Income Tax Ordinance [New Version], 1961, or the Tax Ordinance, both residents and non-residents of Israel are subject to Israeli income tax on income derived from sources in Israel, such as dividends distributed by an Israeli company. Under the Tax Ordinance and its regulations, Lipman will be required to deduct at the source Israeli income tax upon payment of the special cash dividend, at the rate of 20%, unless such dividend is paid to an Israeli resident company in which case no Israeli income tax is deducted, or unless a different tax rate is provided in a double taxation prevention treaty between Israel and the shareholder's country of residence. Notwithstanding the aforesaid, dividends distributed from income generated by an Approved Enterprise are subject to deduction of tax at the source at a rate of only 15% (including for dividends paid to an Israeli resident company).

Out of the special cash dividend distributed by Lipman % will be comprised of income generated by an Approved Enterprise and thus subject to the deduction of Israeli income tax at the source at the rate of 15%; and the remainder will be comprised of income generated from other sources and thus subject to the deduction of Israeli income tax at the source at the rate of 20% (unless paid to an Israeli resident company).

Under the Convention Between the Government of the United States of America and the Government of Israel with respect to Taxes on Income, as amended, or the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of Lipman shares who is a U.S. resident under the U.S.-Israel Tax Treaty and eligible to enjoy treaty benefits, or a U.S. Treaty Resident, is 25% or 15% if the dividends are distributed from income generated by an Approved Enterprise. Such 25% tax rate is reduced to 12.5% for dividends not generated by an Approved Enterprise if the U.S. Treaty Resident is a U.S. corporation and holds 10% or more of Lipman's voting power during the part of the tax year that precedes the date of payment of the dividend and during the whole of its prior tax year.

If the deduction of Israeli income tax results in an overpayment of tax, a refund may be obtained by filing an applicable request with the Israeli Tax Authority.

*Merger*

In general, under the Tax Ordinance, the disposition of shares of an Israeli company is deemed to be a sale of capital assets. The Tax Ordinance generally imposes a capital gains tax on the sale of capital assets located in Israel, including shares in an Israeli resident company, by both residents and non-residents of Israel, unless a specific exemption is available or unless a double taxation prevention treaty between Israel and the transferor's country of residence provides otherwise.

Under the Tax Ordinance, the tax rate applicable to capital gains derived from the disposition of Lipman ordinary shares in the merger is 20% for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in which case the gain will generally be taxed at a rate of 25%. Additionally, if such shareholder is considered a "Significant Shareholder" at any time during the 12-month period preceding such disposition, *i.e.*, such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate shall be 25%. Companies are subject to the Corporate Tax rate (currently 31%) on capital gains derived from the disposition of Lipman ordinary shares, unless such companies were not subject to the Israeli Income Tax Law (Inflationary Adjustments), 1985 (or certain regulations), prior to August 10, 2005, in which case the applicable tax rate is 25%. However the foregoing tax rates will not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering (and may be subject to a different tax arrangement). The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days

preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Notwithstanding the foregoing, under the Tax Ordinance, non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the disposition of shares of a company publicly traded on the Tel Aviv Stock Exchange (such as Lipman ordinary shares), provided that such gains did not derive from a permanent establishment of such shareholders in Israel, and further provided that such shareholders did not acquire their shares prior to an initial public offering. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In addition, under the U.S.-Israel Tax Treaty, Israeli capital gains tax will not generally apply to the disposition of shares by a U.S. Treaty Resident who holds the shares as a capital asset. However, such exemption will not apply if (i) the U.S. Treaty Resident holds, directly or indirectly, shares representing 10% or more of Lipman's voting power during any part of the 12-month period preceding the disposition, subject to specified conditions, or (ii) the capital gains from such disposition can be allocated to a permanent establishment of such U.S. Treaty Resident in Israel. Under the U.S.-Israel Tax Treaty such U.S. Treaty Resident would be permitted to claim a credit for Israeli income tax against the U.S. federal income tax imposed on the disposition, subject to the limitations in U.S. tax laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to U.S. state or local taxes.

Lipman shareholders who acquired their shares prior to Lipman's initial public offering in 1993 and who do not qualify for an exemption from Israeli capital gains tax under the Tax Ordinance or an applicable tax treaty to which the State of Israel is a party, including the U.S.-Israel Tax Treaty described above, may be subject to Israeli capital gains tax on the disposition of their Lipman ordinary shares in the merger. Such shareholders should consult their own tax advisors regarding the tax consequences of the merger to them.

In some instances, the payment of the consideration may be subject to the deduction of Israeli tax at the source. As described under "Regulatory Matters Other Regulatory Approvals Israeli Governmental Approvals Israel Tax Pre-Rulings" Lipman is seeking a pre-ruling from the Israeli Tax Authority to determine that no Israeli tax will be withheld from the consideration paid to Lipman shareholders that are non-Israeli residents or that hold their shares through a U.S. broker or U.S. financial institution, and to establish the mechanism for calculating the amount of withholding with respect of the stock consideration and the mixed consideration.

### **Accounting Treatment of the Merger**

In accordance with U.S. generally accepted accounting principles, VeriFone will account for the merger using the purchase method of accounting.

### **Regulatory Matters**

#### ***U.S. Antitrust Approvals***

The Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act, and the rules and regulations thereunder, provide that certain merger transactions, including the merger, may not be consummated until required information and materials have been furnished to the DOJ, and the FTC and certain waiting periods have expired or been terminated.

On May 23, 2006, VeriFone and Lipman filed their respective Pre-Merger Notification and Report Forms with the DOJ and the FTC under the HSR Act.

At any time before or after the merger, the DOJ, FTC or other national antitrust agencies could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including the DOJ seeking to enjoin the merger or the DOJ, FTC or other national antitrust agencies seeking changes or restrictions in the operations of any of the assets or businesses of VeriFone or Lipman or their affiliates. Private parties and state attorneys general may also bring an action under the antitrust laws under certain circumstances. There can be no assurance that a challenge to the merger on antitrust grounds will not be made or, if such a challenge is made, that it would not be successful.

***Other Regulatory Approvals***

*Israeli Governmental Approvals*

*Israeli Companies Registrar.* Under the Israeli Companies Law, VeriFone and Lipman may not complete the merger without making certain filings and notifications to the Israeli Companies Registrar.

*Merger Proposal.* Each merging company is required to file with the Israeli Companies Registrar, jointly with the other merging company, a "merger proposal" setting forth specified details with respect to the merger. Lipman and the merger subsidiary will file the required merger proposals with the Companies Registrar promptly after mailing this proxy statement.

*Notice to Creditors.* In addition, each merging company is required to notify its creditors of the proposed merger. Pursuant to the Israeli Companies Law, a copy of the merger proposal must be sent to the secured creditors of each company, substantial creditors must be informed individually of the filing of the merger proposal with the Israeli Companies Registrar, and where it can be reviewed, and creditors must be informed of the merger by publication in daily newspapers in Israel and, where necessary, elsewhere and by making the merger proposal available for review. Lipman and the merger subsidiary will notify their respective creditors of the merger in accordance with these requirements to the extent applicable and, because Lipman's shares are traded on the Nasdaq National Market, Lipman will also publish an announcement of the merger in The Wall Street Journal. After sending these notices, the merging companies will notify the Israeli Companies Registrar of the notices to their creditors. In addition, pursuant to the Israeli Companies Law, in case a merging company employs more than 50 employees it must provide a notice of the merger to the workers' union or post a copy of the publication placed in the newspapers in a prominent location in the workplace.

*Shareholder Approval Notice.* The merger must then be approved by the shareholders of each merging company. After the shareholders vote, each of the merging companies must file a notice with the Israeli Companies Registrar concerning the decision of the shareholders.

Assuming that the shareholders of each of the merging companies approve the merger agreement and the merger and that all of the statutory procedures and requirements have been complied with, and so long as at least 30 days have passed from the date of the Lipman special meeting and at least 50 days have passed from the date of the filing of the merger proposal with the Israeli Companies Registrar, the merger will become effective and the Israeli Companies Registrar will be required to register the merger in the surviving company's register and to issue the surviving company a certificate regarding the merger.

*Israeli Investment Center in the Israeli Ministry of Industry and Trade.* The Investment Center, which is a part of Israel's Ministry of Industry and Trade, provides various benefits to Israeli companies, including grants to finance capital investments and tax benefits ranging from reduced rates of corporate tax to a full tax exemption for a fixed period, depending on a number of factors. Lipman expects to receive tax benefits from the Investment Center, subject to compliance with applicable

conditions. On \_\_\_\_\_, the Investment Center of Israel's Ministry of Industry and Trade consented to the change in ownership of Lipman resulting from the merger.

*Israeli Securities Authority.* In connection with the merger and the issuance of the VeriFone common stock to the Lipman shareholders, VeriFone is required to file with the Israel Securities Authorities a prospectus containing this proxy statement and any additional disclosures and that complies in form and substance with applicable Israeli law and regulations, and VeriFone and Lipman are required to use their reasonable best efforts to cause the Israeli Securities Authority to issue a permit for the use of such registration statement in connection with the merger. On \_\_\_\_\_, the Israeli Securities Authority granted this permit. In addition, VeriFone requires an exemption, pursuant to Section 15D of the Israeli Securities Law, 1968, from the requirement to publish a prospectus in respect of the assumption by VeriFone of the Lipman share options granted to employees of Lipman. On \_\_\_\_\_, the Israeli Securities Authority granted this exemption. In order to comply with the terms of the exemption, VeriFone will be required to make copies of the relevant share option plans and related SEC filings available to Israeli employees of Lipman, and, upon demand, to provide Hebrew translations of these documents.

*TASE Listing.* Pursuant to the merger agreement, VeriFone is required to take all actions necessary in order to have its shares of common stock listed on the Tel Aviv Stock Exchange immediately prior to the effective time of the merger and to use its reasonable best efforts to obtain, prior to such time, the agreement of the Tel Aviv Stock Exchange to list such shares of VeriFone common stock. VeriFone is also required to use its reasonable best efforts to maintain such listing for at least three years after the effective time of the merger.

*Israeli Lands Authority.* Lipman holds certain of its real properties under long term leases from the Israeli Lands Authority. Pursuant to the terms of such long term leases, the assignment of those leases to a third party requires the consent of the Israeli Lands Authority. Under these leases, the completion of the merger will constitute a change in control which also requires the consent of the Israeli Lands Authority.

*Israeli Tax Pre-Rulings.* Lipman and VeriFone have agreed to request certain pre-rulings from the Israeli Tax Authority. The first pre-ruling request will seek to clarify that the assumption of share options held by Lipman employees and office holders by VeriFone will not result in a taxable event for the share option holders. This pre-ruling will also request that, with respect to share options eligible for preferential treatment under Section 102 of the Tax Ordinance, the requisite holding period for such options will be deemed to have begun at the time of issuance of the option, and not at the time of assumption by VeriFone. The second pre-ruling request will seek to determine that no Israeli tax will be withheld from the consideration paid to Lipman shareholders that are non-Israeli residents or that hold their shares through a U.S. broker or U.S. financial institution, and to establish the mechanism for calculating the amount of withholding with respect of the stock consideration and the mixed consideration. Receipt of these pre-rulings is not a condition for the completion of the merger, and there can be no assurance that these pre-rulings will be obtained.

#### **Federal Securities Laws Consequences**

All shares of VeriFone common stock received by Lipman shareholders in the merger who are not affiliates of Lipman prior to the merger will be freely transferable. However, shares of VeriFone common stock received by persons who are deemed to be affiliates of Lipman prior to the merger may be resold by them only in transactions permitted by the resale provisions of Rule 145 under the Securities Act, or Rule 144 promulgated under the Securities Act in the case of such persons who become affiliates of VeriFone, or as otherwise permitted under the Securities Act. Persons deemed to be affiliates of Lipman are those individuals or entities that control, are controlled by, or are under common control with, Lipman. Affiliates generally include executive officers and directors of Lipman as

well as certain principal shareholders of Lipman. This proxy statement/prospectus does not cover any resales of VeriFone common stock received by affiliates of Lipman in the merger.

**New York Stock Exchange Listing**

The shares of VeriFone common stock to be issued in the merger will be quoted on the New York Stock Exchange. In addition, VeriFone has agreed to seek a listing of its common stock on the Tel Aviv Stock Exchange. If we complete the merger, Lipman ordinary shares will no longer be registered under the Exchange Act or quoted on the Nasdaq National Market or the Tel Aviv Stock Exchange.

**No Dissenters' or Appraisal Rights**

No dissenters' or appraisal rights are available to Lipman shareholders in connection with the merger.



**Executives; Executive Compensation;  
Stock Ownership of Directors, Executive Officers and Five Percent Stockholders**

Information concerning current directors and officers of VeriFone, executive compensation and ownership of VeriFone common stock by VeriFone's management and principal stockholders is contained in VeriFone's Annual Report on Form 10-K as of October 31, 2005, including the information incorporated by reference from VeriFone's definitive proxy statement relating to VeriFone's 2005 annual meeting of stockholders, and is incorporated herein by reference. See "Where You Can Find More Information" on page 145.

Information concerning current directors and executive officers of Lipman, aggregate executive compensation, certain relationships and related transactions and ownership of Lipman common stock by Lipman's management and principal stockholders is contained in Lipman's Annual Report on Form 20-F as of December 31, 2005, and is incorporated herein by reference. See "Where You Can Find More Information" on page 145.

**Interests of Certain Persons in the Merger**

In considering the recommendations of Lipman's board of directors with respect to the merger, Lipman shareholders should be aware that certain officers of Lipman have agreements or arrangements that provide them interests in the merger that may be different from, or in addition to, the interests of the other shareholders of Lipman. Lipman's board of directors was aware of these agreements during its deliberations of the merits of the merger and in determining to recommend to Lipman shareholders that they vote for the proposal to approve and adopt the merger agreement and the merger and the agreements and arrangements with the officers of Lipman were also approved by Lipman's audit committee.

**Common Stock**

As of \_\_\_\_\_, 2006, the executive officers and directors of Lipman beneficially owned an aggregate of \_\_\_\_\_ Lipman ordinary shares, or \_\_\_\_\_%, of outstanding Lipman ordinary shares, which will be treated in the merger in the same manner as shares of Lipman ordinary shares held by other shareholders of Lipman.

**VeriFone Employment Letters**

In connection with the merger agreement, VeriFone entered into employment terms sheets with each of Isaac Angel, Mike Lilo, Roy Neuman, and Eliezer Yanay, each of whom is a Lipman executive. These employment terms sheets are expected to be replaced by employment letters to be entered into between VeriFone and these individuals prior to the completion of the merger. For a discussion of these employment letters, see "Other Material Agreements Relating to the Merger VeriFone Employment letters" on page 115.

**Lipman Share Options**

As of the date of the merger agreement, the total number of Lipman ordinary shares issuable upon the exercise of share options held by the executive officers and directors of Lipman as a group (17 persons) was 1,831,000. These options have exercise prices ranging from \$7.58 to \$30.32 per share and a weighted average exercise price of \$23.70 per share. These options and all other Lipman share options outstanding at the time of the merger will be assumed by VeriFone and solely exercisable for VeriFone common stock following the merger.

**Employee Benefits**

Please refer to "The Merger Agreement Effect on Benefit Plans" on page 108 for a discussion of the employee benefits to be provided to Lipman employees, including any executive officers, who remain at the expanded VeriFone following the merger.

**Voting Agreements**

In connection with the merger agreement, VeriFone entered into voting agreements with each of Mivtach Shamir Holdings Ltd., Mez-Op Holdings Ltd, Isaac Angel, Mike Lilo, Yitzhak Cohen, Roy Neuman, and Eliezer Yanay. For a discussion of these voting agreements, see "Other Material Agreements Relating to the Merger Voting Agreements" on page 114.

**Indemnification and Insurance**

Pursuant to the merger agreement, VeriFone has agreed that, after the effective time of the merger, it will provide certain indemnification and liability insurance benefits to present and former directors and officers of Lipman. In addition, the Lipman shareholders are requested to approve an amendment to Article 25 of Lipman's Articles of Association in order to enable the conformity of the provisions of the Articles of Association relating to exculpation, insurance and indemnity of directors and officers with the recent amendments to the Israeli Companies Law, and, subject to approval of such amendment of the Articles of Association, to approve corresponding amendments to the indemnification agreements entered between Lipman and its officers and directors and the inclusion of the merger as one of the indemnifiable events under such indemnification agreements. See "The Merger Agreement Indemnification and Insurance" on page 113.

### **The Merger Agreement**

This section of the proxy statement/prospectus describes the material provisions of the merger agreement. Because the description of the merger agreement contained in this proxy statement/prospectus is a summary, it does not contain all of the information that may be important to you. You should carefully read the entire copy of the merger agreement attached as Annex A to this proxy statement/prospectus, which is hereby incorporated into this proxy statement/prospectus by reference, before you decide how to vote.

#### **Structure of the Merger**

The merger agreement provides for the merger of Lion Acquisitions Ltd., a newly-formed and wholly-owned subsidiary of VeriFone, into Lipman. After the merger, Lipman will become a wholly-owned subsidiary of VeriFone.

#### **Completion and Effectiveness of the Merger**

We will complete the merger as promptly as practicable, but in no event later than the third business day, after the last of the conditions to completion are satisfied or waived, or at such other time or date as Lipman and VeriFone may agree in writing.

The merger will become effective upon the issuance of the merger certificate by the Registrar of Companies of the State of Israel. We anticipate that the filing will be made as soon as practicable after the completion of the merger.

#### **Conversion of Lipman Ordinary Shares in the Merger**

Each share of Lipman ordinary shares issued and outstanding immediately before the effective time of the merger, other than shares owned by VeriFone, Lion Acquisitions Ltd. or any other direct or indirect subsidiary of VeriFone or shares that are owned by Lipman or its direct or indirect subsidiaries that in each case are not held on behalf of third parties, will convert into the right to receive (i) one-half (0.50) share of common stock, par value \$0.01 per share, of VeriFone, and (ii) \$14.304 in cash, as reduced by the per share amount of the special cash dividend to be paid to Lipman shareholders prior to the closing of the acquisition. Alternatively, Lipman shareholders may elect to receive either \$29.07 in cash, as reduced by the per share amount of the special cash dividend or 0.9844 shares of VeriFone common stock, as reduced by the per share value of the special cash dividend.

Pursuant to the merger agreement, the special cash dividend is equal to the maximum amount of cash reserves of Lipman that may be distributed by Lipman in the form of a dividend pursuant to applicable law and without a tax being imposed on, or payable by, Lipman, provided, however that, pursuant to the merger agreement, the aggregate dividend will not be less than \$23 million. The amount of the special cash dividend is currently estimated at \$40 million in the aggregate, or approximately \$1.50 per Lipman ordinary share. The amount of the special cash dividend may be increased to the extent Lipman is able to distribute additional cash to its shareholders without a corporate tax being imposed on Lipman.

Pursuant to the merger agreement, the number of shares of VeriFone common stock that will be issued for each Lipman ordinary share as stock consideration will be equal to (i) \$29.07 minus the per share amount of the special cash dividend, divided by (ii) \$29.53. To illustrate the adjustment for the stock election, if the special cash dividend is \$1.50 per Lipman ordinary share, the ratio applicable to the stock consideration will be reduced to  $(\$29.07 - \$1.50) / \$29.53$ , or 0.9336 shares of VeriFone common stock per Lipman ordinary share.

VeriFone will not issue any fractional shares. Instead, Lipman shareholders will receive a cash payment in accordance with the terms of the merger agreement, as described below in " Fractional Shares".

#### **Exchange Procedures**

**You should not send stock certificates with your proxy card and should not surrender stock certificates prior to the adoption and approval of the merger agreement by Lipman shareholders and the receipt of a transmittal form.**

#### **Fractional Shares**

Each Lipman shareholder who would otherwise have been entitled to receive a fraction of a share of VeriFone common stock will receive cash, without interest and rounded to the nearest whole cent, an amount determined by multiplying such fraction by the closing price per share of VeriFone common stock on the New York Stock Exchange on the trading day immediately prior to the effective time.

#### **Special Cash Dividend**

Following the approval by Lipman's shareholders of the proposals relating to the merger and the merger agreement, Lipman expects to declare the special cash dividend in an amount equal to the amount of cash reserves of Lipman that may be distributed by Lipman in the form of a dividend and without corporate tax being imposed on or payable by Lipman, currently estimated at \$40 million, or approximately \$1.50 per share. The special cash dividend will be payable before the effective time of the merger to Lipman holders of record of outstanding shares as of the record date. Lipman does not currently expect to declare and pay the special cash dividend if the merger is not approved by its shareholders, although it retains the ability to do so.

#### **Dividends and Distributions**

All shares of VeriFone common stock to be issued pursuant to the merger shall be deemed issued and outstanding as of the effective time of the merger. Whenever a dividend or other distribution is declared by VeriFone in respect of VeriFone common stock, and the record date for the dividend or distribution is on or after the date of the effective time of the merger, the declaration will include those dividends or other distributions in respect of all VeriFone common stock issued or issuable pursuant to the merger agreement. No dividends or other distributions with respect to VeriFone common stock will be paid unless a Lipman share certificate is surrendered.

#### **Transfer of Ownership and Lost Stock Certificates**

If a Lipman share certificate has been lost, stolen or destroyed, the Lipman shareholder may need to deliver an affidavit or bond prior to receiving a VeriFone stock certificate.

#### **Lipman's Representations and Warranties**

Lipman made a number of representations and warranties to VeriFone in the merger agreement. These representations and warranties include representations as to:

corporate organization, good standing and qualification to do business of Lipman and its subsidiaries;

the articles of association of Lipman and its subsidiaries;

Lipman's capital structure;

authorization of the merger agreement by Lipman;

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enforceability of the merger agreement;

the fairness opinion received by Lipman from Merrill Lynch;

governmental consents, filings and regulatory approvals necessary to complete the merger;

the merger not conflicting with the organizational documents or material contracts of Lipman or its subsidiaries or applicable laws;

contracts that limit the type of business in which Lipman or its subsidiaries may engage or the manner or locations in which any of them may so engage in any business;

Lipman's filings with the SEC, including financial statements, and the accuracy of the information contained therein;

absence of certain changes, events or material adverse effects involving Lipman or its subsidiaries since the most recent audited balance sheet;

litigation and liabilities involving Lipman or its affiliates;

employee benefit plans and employment letters of Lipman and its subsidiaries;

Israeli employee matters;

compliance with laws and regulatory matters by Lipman and its subsidiaries;

the inapplicability of takeover statutes;

environmental matters relating to Lipman and its subsidiaries;

taxes and tax matters relating to Lipman and its subsidiaries;

Lipman's and its subsidiaries' labor relations;

intellectual property matters involving Lipman and its subsidiaries;

Lipman's and its subsidiaries' insurance;

Lipman's material contracts and governmental contracts;

Lipman's good and marketable title to property;

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Lipman's licenses from the Israeli Ministry of Defense;

Lipman's warranties and product liability;

product certifications given or granted;

absence of any violation to the U.S. Foreign Corrupt Practice Act of 1977;

absence of any sanctions by the Office of Foreign Assets Control; and

brokers and finders.

### **VeriFone's and Lion Acquisitions' Representations and Warranties**

VeriFone and Lion Acquisitions Ltd. made a number of representations and warranties to Lipman in the merger agreement. These representations and warranties include representations as to:

capitalization of Lion Acquisitions Ltd.;

corporate organization, good standing and qualification to do business of VeriFone, Lion Acquisitions Ltd. and VeriFone's significant subsidiaries;

the certificate of incorporation and bylaws of VeriFone and its significant subsidiaries;

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VeriFone's capital structure;

authorization of the merger agreement by VeriFone;

enforceability of the merger agreement;

VeriFone common stock to be issued pursuant to the merger;

VeriFone ownership of Lipman ordinary shares;

governmental consents, filings and regulatory approvals necessary to complete the merger;

the merger not conflicting with the organizational documents or material contracts of VeriFone or its significant subsidiaries or applicable laws;

VeriFone's filings with the SEC, including financial statements, and the accuracy of the information contained therein;

absence of certain changes, events or material adverse effects involving VeriFone or its subsidiaries since the most recent audited balance sheet;

brokers and finders;

financing commitment; and

compliance with laws and regulatory matters by VeriFone and VeriFone's significant subsidiaries.

The representations and warranties contained in the merger agreement are complicated and not easily summarized. You are urged to read carefully Sections 5.1 and 5.2 of the merger agreement entitled "Representations and Warranties of Lipman" and "Representations and Warranties of VeriFone and Merger Sub".

### **Lipman's Conduct of Business Before Completion of the Merger**

Pursuant to the terms of the merger agreement, Lipman has agreed that until the effective time of the merger, or unless VeriFone approves in writing, Lipman and its subsidiaries' business will be conducted in the ordinary and usual course and Lipman and its subsidiaries will use reasonable best efforts to:

preserve their present business organization intact; and

maintain their existing relations and goodwill with governmental entities, customers, suppliers, distributors, creditors, lessors, employees and business associates.

In addition, Lipman has also agreed that until the effective time of the merger, subject to specified exceptions, unless VeriFone approves in writing, it will not, and none of its subsidiaries will:

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adopt or propose any change to its articles of association;

merge or consolidate with any other person;

acquire assets outside of the ordinary course of business from any other person with a value or purchase price in excess of \$2 million in any transaction or series of related transactions;

issue, sell, pledge, dispose of grant, transfer, encumber or authorize the issuance of any shares of, or securities convertible into or exchangeable or exercisable for, or options, warrants, calls, commitments or rights of any kind to acquire, any shares of its capital stock of any class or any other property or assets, other than options granted under Lipman's share incentive plan;

create or incur any lien material on any of the assets;



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make any loans, advances or capital contributions to or investments in any person;

declare, set aside or pay any dividend other than the special cash dividend;

reclassify, split, combine, subdivide or redeem, purchase or otherwise acquire any capital stock or securities convertible or exchangeable into or exercisable for any of Lipman's capital stock;

other than in the ordinary course of business, incur any indebtedness for borrowed money or guarantee the indebtedness of another party in excess of \$10 million in the aggregate, or issue or sell any debt securities or warrants or other rights to acquire any of its debt securities or of any of its subsidiaries;

make or authorize or commit for any capital expenditures in excess of \$5 million other than as set forth in a schedule to the merger agreement;

make any changes with respect to accounting policies or procedures;

other than the Israeli Tax Assessment or settlements calling for less than \$5 million, settle or compromise any material claims or litigation without the prior consent of VeriFone, which may not be unreasonably withheld or delayed;

except in connection with the filing of the November 2004 stock option plan with the Israeli tax authorities, make any material tax election or any application with any governmental entity, if there is a risk of restrictions, liabilities or obligations;

transfer, sell, lease, license, mortgage, pledge, surrender, encumber, divest, cancel, abandon or allow to lapse or expire or otherwise dispose of any assets, product lines or businesses in excess of \$5 million in the aggregate;

grant or provide any severance or termination payments or benefits, increase the compensation, bonus or pension, welfare, severance or other benefits of, pay any bonus to, or make any new equity awards to any of its director, officer or employees or of any of its subsidiaries, except in the ordinary course of business consistent with past practice;

establish, adopt, amend or terminate any of its benefit plans or amend the terms of any outstanding equity-based awards;

take any action to accelerate the vesting or payment, or fund or in any other way secure the payment, of compensation or benefits under any of its benefit plans, to the extent not already provided in those benefit plans;

change any actuarial or other assumptions used to calculate funding obligations with respect to any benefit plan or change the manner in which contributions to those plans are made or the basis on which contributions are determined, except as may be required by GAAP;

forgive any loans to any of its or of any of its subsidiaries' directors, officers or employees;

waive, release or assign any material rights or claims without the prior consent of VeriFone, which may not be unreasonably withheld or delayed; and

take any action that would reasonably result in a material increase in tax liability.

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In addition, VeriFone has also agreed that, until the effective time of the merger, subject to specified exceptions, it will not, and none of its significant subsidiaries will:

adopt or propose any change to its certificate of incorporation;

merge or consolidate with any other person;

declare, set aside or pay any dividend; and

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reclassify, split, combine, subdivide or redeem, purchase or otherwise acquire any capital stock or securities convertible or exchangeable into or exercisable for any of VeriFone's capital stock.

### No Solicitation of Acquisition Proposals by Lipman

The merger agreement provides that neither Lipman nor any of its subsidiaries nor any of the officers and directors of Lipman or its subsidiaries will, and that it will use reasonable best efforts to instruct its and its subsidiaries' employees, agents and representatives not to, directly or indirectly:

initiate, solicit, knowingly encourage or facilitate any inquiries or the making of any proposal or offer with respect to an acquisition proposal;

engage in, continue or otherwise participate in any discussions or negotiations regarding, or provide any non-public information or data to any person relating to an acquisition proposal; or

otherwise knowingly facilitate any effort or attempt to make an acquisition proposal.

Under the merger agreement, an acquisition proposal is any proposal or offer with respect to a merger, joint venture, partnership, consolidation, dissolution, liquidation, tender offer, recapitalization, reorganization, share exchange, business combination or similar transaction outside the ordinary course of business involving Lipman or any of its significant subsidiaries; or any proposal or offer to acquire 20% or more of the total voting power of the equity securities of Lipman or 20% or more of the consolidated total assets of Lipman, in each case other than the merger with VeriFone.

The merger agreement does not prevent Lipman or its board of directors or its officers, employees, agents or representatives from doing the following:

at any time prior, but not after, the shareholders meeting is convened, providing information in response to a request therefor by a person who has made an unsolicited bona fide written acquisition proposal if the board of directors receives from the person requesting such information an executed confidentiality agreement on terms substantially similar to those contained in the confidentiality agreement provided for in the merger agreement;

engaging in any negotiations or discussions with any person who has made an unsolicited bona fide written acquisition proposal; or

recommending such an acquisition proposal to Lipman shareholders;

if, in each case, Lipman determines in good faith after consultation with outside legal counsel and financial advisors that the failure to take such action would be inconsistent with the directors' fiduciary duties under applicable law, and Lipman's board of directors has determined in good faith based on the information then available and after consultation with its legal counsel and financial advisor that the acquisition proposal either is, or is reasonably likely to be a superior proposal.

Under the merger agreement, a superior proposal is an unsolicited *bona fide* acquisition proposal involving all or a substantial majority of Lipman's assets (on a consolidated basis) or at least 50% of the total voting power of the equity securities of Lipman, that Lipman's board of directors has determined in its good faith judgment after consultation with outside legal counsel and financial advisors which is reasonably likely to be consummated in accordance with its terms, taking into account all legal, financial and regulatory aspects of the proposal and the party making the proposal, and if consummated, would result in a transaction more favorable to Lipman's shareholders from a financial point of view than the transaction with VeriFone.

In addition, Lipman has agreed, pursuant to the merger agreement, that it will promptly (and, in any event, within 24 hours) notify VeriFone if any inquiries, proposals or offers are received by, any such information is requested from, or any discussions or negotiations are sought to be initiated or



continued with, any of its representatives indicating, in connection with such notice, the name of such person and the material terms and conditions of any proposals or offers.

The merger agreement provides that Lipman will take, in accordance with applicable law and its articles of association, all action necessary to call, hold and convene a meeting of holders of Lipman ordinary shares as promptly as reasonably practicable after the registration statement of which this proxy statement/prospectus forms a part is declared effective to consider and vote upon the approval of the merger agreement. Except on the determination of the occurrence of a superior proposal and during such time as there remains a superior proposal or as Lipman's board of directors may determine in good faith, after consultation with its outside legal counsel, in order to comply with its fiduciary duties under applicable law, Lipman's board of directors will recommend such approval, Lipman's board of directors will not amend, modify, withdraw, condition or qualify such recommendation and will take all lawful action to solicit such approval. Lipman has agreed that it will provide VeriFone with at least 48 hours prior notice of Lipman's board of directors' intention to make any such amendment, modification, withdrawal, condition or qualification, except that such notice will not be required to the extent that Lipman's board of directors determines, after consultation with its outside legal counsel, that such notice violates its fiduciary duties or would cause Lipman to violate any applicable law. Lipman's obligation to convene the shareholders meeting will not be limited or otherwise affected by the commencement, disclosure, announcement or submission to it of any acquisition proposal, or by any change of recommendation of Lipman's board of directors. The merger agreement provides that Lipman will not submit to the vote of its shareholders any acquisition proposal or propose to do so.

### **Effect on Lipman Share Options**

At the effective time of the merger, each outstanding Lipman share option under Lipman's stock option plans, whether vested or unvested, will be assumed by VeriFone and converted into an option to purchase, on the same terms and conditions as were applicable under the Lipman share option, an equal number of shares of VeriFone common stock equal, at an exercise price per share equal to the exercise price per share at which the Lipman share option was exercisable immediately prior to the effective time, provided however, the exercise price and number of shares of VeriFone common stock purchasable pursuant to the assumed Lipman share options will be determined in a manner consistent with Section 409A of the Internal Revenue Code and, in the case of any incentive stock option, the exercise price and the number of shares purchasable pursuant to such option will be subject to adjustments necessary in order to satisfy the requirements of Section 424(a) of the Internal Revenue Code.

As soon as practicable after the effective time of the merger but in no event later than 60 days following the effective date, VeriFone will file a registration statement on Form S-8 (if such form is available to VeriFone) with respect to the shares of VeriFone common stock subject to the Lipman share options, to the extent such shares qualify for registration on such forms.

### **Employee Benefits**

VeriFone will cause Lipman to maintain its applicable existing benefit plans, after the effective time of the merger subject to any amendment or termination that may be permitted by the terms of those plans. From and after the effective time of the merger through the later to occur of 12 months after the effective time of the merger and December 31, 2007, subject to certain exceptions, VeriFone will provide Lipman employees who become employees of VeriFone or any of its subsidiaries or remain employees of Lipman with compensation and employee benefits no less favorable in the aggregate than those provided to those employees prior to the effective time of the merger. In addition, each employee shall generally, receive credit for his or her service with Lipman and its affiliates before the effective time of the merger, for purposes of eligibility, vesting and benefit accrual under the compensation and employee benefit plans, policies or arrangements of VeriFone which will provide

benefits to the employee of Lipman to the same extent that the Lipman employee was entitled, before the effective time of the merger, to credit for such service under any similar or comparable Lipman benefit plans.

#### **Conditions to Completion of the Merger**

The obligations of VeriFone and Lipman to complete the merger are subject to the satisfaction or waiver, at or prior to the effective time of the merger, of each of the following conditions:

the merger agreement must have been approved by the holders of 75% of the Lipman ordinary shares present and voting (not including abstentions) in the special meeting in accordance with applicable law and Lipman's articles of association and the sole shareholder of Lion Acquisitions Ltd. in accordance with applicable law and the articles of association;

the waiting period applicable to the consummation of the merger under the Hart-Scott-Rodino Act must have expired or been terminated;

the shares of VeriFone common stock issuable to Lipman shareholders shall have been authorized for listing on the NYSE;

no court or governmental entity of competent jurisdiction has enacted, issued, promulgated, enforced or entered any statute, law, ordinance, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the merger or the other transactions contemplated by the merger agreement;

the registration statement of which this proxy statement/prospectus is a part must have become effective under the Securities Act, no stop order suspending the effectiveness of the registration statement has been issued, and no proceeding for that purpose has been initiated or threatened, by the SEC;

the Israeli prospectus shall have received the permit of the Israeli Securities Authority;

the Investment Center Approval shall have been obtained; and

at least 50 days have elapsed after the filing of the merger proposals and at least 30 days have elapsed after the approval of the merger by the shareholders of Lipman and Lion Acquisitions Ltd.

Lipman's obligation to complete the merger is also subject to the satisfaction or waiver by Lipman at or prior to the effective time of the merger of the following conditions, among others:

the representations and warranties of VeriFone and Lion Acquisitions Ltd. set forth in the merger agreement must be true and correct as of April 10, 2006, and as of the closing date as if made on the closing date, in each case without regard to any materiality qualification contained in the particular representation or warranty, except that this condition will be deemed to have been satisfied even if the representations or warranties are not so true and correct unless the failure of the representations or warranties to be so true and correct, individually or in the aggregate, has had, or is reasonably likely to have, a material adverse effect on VeriFone; and

VeriFone and Lion Acquisitions Ltd. must have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the closing date;



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VeriFone's and Lion Acquisitions Ltd.'s obligation to complete the merger is also subject to the satisfaction or waiver by VeriFone at or prior to the effective time of the merger of the following conditions:

the representations and warranties of Lipman set forth in the merger agreement must be true and correct as of April 10, 2006 and as of the closing date as if made on the closing date, in each case without regard to any materiality qualification contained in such representation or warranty, except this condition will be deemed to have been satisfied even if such representations or warranties are not so true and correct unless the failure of such representations or warranties to be so true and correct, individually or in the aggregate, has had, or is reasonably likely to have, a material adverse effect on Lipman;

Lipman must have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the closing date;

no court or government entity of competent jurisdiction has threatened in writing, instituted or pending any suit, action or proceeding seeking to prohibit, limit, restrain or impair VeriFone's ability to own or operate or to retain or change all or a material portion of the assets, licenses, operations, rights, product lines, businesses or interest of Lipman or prohibit or limit VeriFone's ability to vote, transfer, receive dividends or otherwise exercise full ownership rights;

other than the filing of the certificate of merger with the Registrar of Companies of the State of Israel, all notices, reports and other filings required to be made prior to the effective time of the merger by Lipman or VeriFone or any of their respective subsidiaries with, and all consents, registrations, approvals, permits and authorizations required to be obtained prior to the effective time of the merger by Lipman or VeriFone or any of their respective subsidiaries from, any governmental entity in connection with the execution and delivery of the merger agreement and the consummation of the merger and the other transactions contemplated by the merger agreement by Lipman, VeriFone and Lion Acquisitions Ltd. must have been made or obtained, except that this condition will be deemed to have been satisfied unless the failure to make such notices, reports and other filings or obtain such consents, registrations, approvals, permits and authorizations, individually or in the aggregate, has had, or is reasonably likely to have, a material adverse effect on Lipman;

since the date of merger agreement, there shall not have occurred any change, event, circumstance or development that has had, or is reasonably likely to have material adverse effect on Lipman;

neither VeriFone nor Lipman shall have received any written or oral indication from the Investment Center or the Israeli income tax authorities to the effect that the consummation of the merger will jeopardize or adversely affect the tax status and benefits of Lipman;

governmental approvals shall have been obtained for the Israeli Land Authority and the Israeli Securities Options Exemptions;

VeriFone must have received the opinion of Israeli counsel to Lipman satisfactory to VeriFone;

not less than four of the employment letters shall have been entered into;

VeriFone shall have received an affiliates letter from certain identified persons;

each director of Lipman shall have delivered a resignation letter effective as of the closing; and

the tax settlement shall have been entered and shall be in full force and effect.



**Determination of Material Adverse Effect**

Under the terms of the merger agreement, a "VeriFone material adverse effect" is defined to mean a material adverse effect on the condition (financial or otherwise), prospects, business or results of operations of VeriFone and its significant subsidiaries taken as a whole or an effect that could prevent or materially burden or materially impair the ability of VeriFone or Lion Acquisitions Ltd. to consummate the transactions contemplated by the merger agreement, except that the following are excluded from the definition of VeriFone material adverse effect and from the determination of whether such an VeriFone material adverse effect has occurred:

changes in the general economic conditions;

changes in economic, financial market, regulatory or political conditions in the industries or markets in which VeriFone participates;

actions taken by Lipman as required by the merger agreement;

any adverse change in VeriFone's relationship with its customers and vendors that is directly attributable to the public announcement of the merger; and

changes in GAAP or its interpretation, including changes resulting from the adoption of amendment of financial accounting standards by the Financial Accounting Standards Board.

Neither any act of terrorism or war that does not affect VeriFone directly nor any failure by VeriFone to meet internal projections or forecasts or published revenue or earnings predictions, shall, by itself, constitute a VeriFone material adverse effect.

Under the terms of the merger agreement, a "Lipman material adverse effect" is defined to mean a material adverse effect on the financial condition, properties, assets, liabilities, business or results of operations of Lipman and its subsidiaries taken as a whole or an effect that could prevent or materially delay or materially impair the ability of Lipman to consummate the transactions contemplated by the merger agreement, except that the following are excluded from the definition of Lipman material adverse effect and from the determination of whether such a Lipman material adverse effect has occurred:

changes in the general economic conditions;

changes in economic, financial market, regulatory or political conditions in the industries or markets in which Lipman participates;

actions taken by Lipman as required by the merger agreement;

any adverse change in Lipman's relationship with its customers and vendors that is directly attributable to the public announcement of the merger; and

changes in GAAP or its interpretation, including changes resulting from the adoption of amendment of financial accounting standards by the Financial Accounting Standards Board.

Neither any act of terrorism or war that does not affect Lipman directly or any failure by Lipman to meet internal projections or forecasts or published revenue or earnings predictions, shall, by itself, constitute a Lipman material adverse effect.

**Waiver and Amendment of the Merger Agreement**

Subject to the provisions of the applicable law, at any time prior to the effective time of the merger, the parties to the merger agreement may modify or amend the merger agreement, by action of the board of directors of the respective parties.



The conditions to each of the parties' obligations to consummate the merger are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable law.

#### **Affiliate Agreements**

Prior to the date of the shareholders meeting, VeriFone will deliver to Lipman a list of names and addresses of those persons who are, in the opinion of VeriFone, as of the time of the shareholders meeting, "affiliates" of Lipman within the meaning of Rule 145 under the Securities Act. Lipman will provide to VeriFone the information and documents as VeriFone may reasonably request, for purposes of preparing such list. Lipman will exercise its best efforts to deliver or cause to be delivered to VeriFone, prior to the date of the shareholders meeting, from each of the affiliates of Lipman identified, an affiliates letter, dated as of the closing date.

Under the affiliates letter, VeriFone will be entitled to place customary legends on the certificates evidencing any VeriFone common stock to be received by these persons. Further, these persons have also acknowledged the resale restrictions imposed by Rule 145 under the Securities Act may apply to shares of VeriFone common stock to be received by them in the merger.

#### **Termination of the Merger Agreement**

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval by shareholders of Lipman, by mutual written consent of Lipman and VeriFone by action of their respective boards of directors.

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval by shareholders of Lipman by action of either the board of directors of VeriFone or Lipman if:

the merger has not been consummated by November 30, 2006;

the approval of Lipman's shareholders required by the merger agreement has not been obtained at a Lipman special meeting or at any adjournment or postponement thereof;

the approval of the issuance of VeriFone common stock in the merger shall not have been obtained at the VeriFone special meeting; or

any order permanently restraining, enjoining or otherwise prohibiting consummation of the merger becomes final and non-appealable.

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after approval by Lipman shareholders, by action of the board of directors of Lipman if there has been a breach of any representation, warranty, covenant or agreement made by VeriFone or Lion Acquisitions Ltd. in the merger agreement, or any such representation and warranty becomes untrue after the date of the merger agreement, so that certain conditions to closing of Lipman would not be satisfied and such breach or condition is not curable or, if curable, is not cured by November 30, 2006.

The merger agreement may be terminated at any time prior to the effective time of the merger, by action of the board of directors of VeriFone, if:

the board of directors of Lipman has withdrawn or adversely modified its approval or recommendation of the merger agreement; or

there has been a breach of any representation, warranty, covenant or agreement made by Lipman in the merger agreement, or any representations and warranties becomes untrue after the date of the merger agreement, so that certain conditions to closing of VeriFone would not



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be satisfied and such breach or condition is not curable or, if curable, is not cured by November 30, 2006.

### **Termination Fee and Expense Reimbursement**

Lipman has agreed to pay to VeriFone a termination fee equal to \$23.3 million if (i) prior to the Lipman shareholder vote, the Lipman board of directors approves a superior proposal and authorizes Lipman to enter into a binding written agreement or (ii) VeriFone terminates the merger agreement after Lipman's board of directors has withdrawn or adversely modified its approval or recommendation of the merger agreement in the absence of an acquisition proposal or recommended to the Lipman shareholders any acquisition proposal and within one year of such termination, Lipman enters into a definitive agreement with respect to the acquisition proposal. Lipman is required to pay an expense reimbursement of \$7 million to VeriFone if Lipman shareholders do not approve the merger. The expense reimbursement is not required to be paid if VeriFone is unable to obtain a ruling from the Israel Tax Authority that withholding will not apply to the merger proceeds with respect to non-Israeli residents, VeriFone notifies Lipman that it has determined that it is required to withhold Israeli Tax at source and Lipman shareholders do not approve the merger.

### **Indemnification and Insurance**

VeriFone has agreed that from and after the effective time of the merger, it will indemnify and hold harmless each present and former director and officer of Lipman, when acting in such capacity, determined as of the effective time of the merger, against any costs or expenses, including reasonable attorneys' fees, judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of matters existing or occurring at or prior to the effective time of the merger.

However, any person to whom expenses are advanced must provide an undertaking to repay such advance if it is ultimately determined that such person is not entitled to indemnification.

VeriFone has agreed to maintain in effect Lipman's current officers' and directors' insurance for seven years after the effective time of the merger, subject to certain limitations.

**Other Material Agreements Relating to the Merger**

**Voting Agreements**

***VeriFone Shares***

Contemporaneously with the execution and delivery of the merger agreement, Douglas G. Bergeron and GTCR have entered into voting agreements with VeriFone. Approximately 39.1% of the outstanding shares of VeriFone common stock are subject to the voting agreements. We refer to these shares as the "subject VeriFone shares".

These VeriFone stockholders have agreed to vote the subject VeriFone shares at the special meeting:

in favor of a resolution approving the issuance of shares of VeriFone common stock as contemplated by the merger agreement; and

against any action or agreement that would compete with, or materially impede, or interferes with or would reasonably be expected to discourage or inhibit the transaction contemplated by the merger agreement.

***Lipman Shares***

Contemporaneously with the execution and delivery of the merger agreement, Mivtach Shamir Holdings Ltd., Mez-Op Holdings Ltd., Isaac Angel, Mike Lilo, Yitzhak Cohen, Roy Neuman and Eliezer Yanay have each entered into voting agreements with VeriFone. Approximately 17.0% of the outstanding shares of Lipman ordinary shares are subject to the voting agreements. We refer to these shares as the "subject Lipman shares".

The foregoing is a summary description of the voting agreements. The voting agreements are exhibits to the registration statement that VeriFone has filed with the SEC in connection with the merger.

***Agreement to Vote and Irrevocable Proxy***

These Lipman shareholders have agreed to vote the subject Lipman shares at the shareholders meeting:

in favor of the merger and the merger agreement and approval of the terms thereof;

against any action or agreement that materially impedes, interferes with or that would reasonably be expected to discourage or inhibit the transaction contemplated by the merger agreement; and

against approval of any acquisition proposal or merger, consolidation, business combination, reorganization, recapitalization, liquidation or sale or transfer of material assets.

These Lipman shareholders also agreed to grant to VeriFone an irrevocable proxy and irrevocably appointed VeriFone such shareholders' attorney and proxy to vote the subject Lipman shares with regard to any of the foregoing matters at the shareholders meeting.

***Transfer Restrictions***

In addition, these Lipman shareholders agreed that they would not, directly or indirectly, initiate, solicit, encourage or otherwise facilitate any inquiries or the making of any acquisition proposal.

These Lipman shareholders also agreed to certain restrictions on the transfer of their subject Lipman shares.



### **Investment Agreements**

Contemporaneously with the execution and delivery of the merger agreement, VeriFone and Mivtach Shamir Holdings Ltd. and Isaac Angel, each Lipman shareholders, entered into investment agreements. Under their investment agreements, Mivtach Shamir Holdings Ltd. and Isaac Angel agree to elect to receive either the mixed consideration or the stock consideration, and also agree that subject to certain exceptions, they will not, without the prior consent of VeriFone, during the period commencing on April 10, 2006 and ending 180 days after the closing date of the merger, offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of any of their shares of VeriFone common stock, or any options or warrants to purchase any shares of VeriFone common stock, or any securities convertible into, exchangeable for or that represent the right to receive shares of VeriFone common stock, whether then owned or thereafter acquired by them.

### **VeriFone Employment Letters**

In connection with the merger agreement, VeriFone entered into employment terms sheets with Isaac Angel, Mike Lilo, Roy Neuman and Eliezer Yanay. These employment terms sheets are expected to be replaced by employment letters to be entered into between VeriFone and these individuals prior to the completion of the merger.

Each executive will receive an annual base salary and a target bonus tied to VeriFone's targets. Each will be eligible to participate in various employee benefit plans and programs of VeriFone. If the executive is terminated for cause, then the executive will not receive accelerated vesting of any of his stock options or restricted stock.

### **VeriFone Credit Facility**

Concurrently with the merger, VeriFone expects to refinance its existing credit facility with a new arrangement with J.P. Morgan Securities Inc. and Lehman Brothers Inc. with terms substantially the same as the existing credit facility except the new arrangement will be for \$500 million of a Term B loan and \$40 million of revolving credit. A portion of the new facility will be used to repay the existing credit facility, of which \$181.6 million was outstanding at April 30, 2006. The remaining borrowings under the new facility of approximately \$318 million are expected to be used to finance a portion of the cash component of the merger consideration and the expenses of the merger. VeriFone will have the option to elect an interest rate on the new term B loan from time to time at either LIBOR plus 1.75% per annum or an alternative base rate. Interest on the revolving credit facility is expected to be determined based on LIBOR plus 1.5% per annum or an alternative base rate. The Term B loan is expected to mature on the seventh anniversary of the closing date, with scheduled amortization of principal of approximately  $\frac{1}{4}$  of 1% of the initial aggregate principal amount in the case of each of the first twenty seven quarterly payments due on the last day of each calendar quarter. The revolving credit portion of the new facility is expected to terminate and all amounts will be due and payable in six full years after the closing. The refinancing and the initial funding under the new facility are conditioned upon consummation of the merger in accordance with the terms of the merger agreement. VeriFone's obligation to complete the merger is not contingent on its ability to receive financing under this proposed new credit facility.



**Unaudited Pro Forma Condensed Combined Financial Information**

The following unaudited pro forma condensed combined financial information is based on the historical financial statements of VeriFone Holdings, Inc. ("VeriFone") and Lipman Electronic Engineering Ltd. ("Lipman") after giving effect to the proposed merger between VeriFone and Lipman, the estimated additional borrowings under the proposed debt refinancing used to finance a portion of the merger consideration and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed financial information.

VeriFone's fiscal year ends on October 31 while Lipman's fiscal year ends on December 31. The unaudited pro forma condensed combined balance sheet as of April 30, 2006 is based on the historical balance sheet of VeriFone as of April 30, 2006 and of Lipman as of March 31, 2006 and has been prepared to reflect the merger and the estimated additional borrowings under the proposed debt refinancing as if they had been consummated on April 30, 2006. The unaudited pro forma condensed combined statement of operations for the six months ended April 30, 2006 combines the results of operations of VeriFone for the six months ended April 30, 2006 and of Lipman for the six months ended March 31, 2006 as though the merger and the estimated additional borrowings under the proposed debt refinancing had been consummated on November 1, 2004. The unaudited pro forma condensed combined statement of operations for the year-ended October 31, 2005 combines the results of operations of VeriFone for the year-ended October 31, 2005 and of Lipman for the year-ended December 31, 2005 as if the merger and the estimated additional borrowings under the proposed debt refinancing had been consummated on November 1, 2004. Lipman's net revenues of \$68,753,000 and net loss from continuing operations of \$360,000 for the three months ended December 31, 2005 is included in the unaudited pro forma condensed combined statements of operations for both the year-ended October 31, 2005 and the six months ended April 30, 2006.

The unaudited pro forma financial information has been prepared on the basis that, in the aggregate, Lipman shareholders will receive consideration consisting of a number of shares of VeriFone common stock equal to the product of 0.50 times the number of Lipman shares outstanding on the closing date of the merger and an amount of cash equal to the product of \$14.304 times the number of Lipman shares outstanding on the closing date of the merger, as reduced by a special cash dividend estimated to be approximately \$40 million, or \$1.50 per share, to be paid by Lipman to its shareholders prior to the closing of the transaction. The estimated number of shares of VeriFone common stock to be issued in the proposed merger is approximately 13.3 million shares and the total purchase price is estimated to be approximately \$795 million, including \$25 million in transaction costs and \$15 million related to the fair value of vested stock options assumed. VeriFone has estimated additional borrowings of \$318 million under the proposed refinancing to finance a portion of the cash component of the merger consideration and expenses of the merger.

The preliminary allocation of the purchase price used in the unaudited pro forma condensed combined financial information is based on preliminary estimates and currently available information. These assumptions and estimates, some of which cannot be finalized until the consummation of the merger, will be revised as additional information becomes available, upon consummation of the merger and finalization of the valuation of Lipman's assets and liabilities. The final determination of the allocation of the purchase price will be based on the actual intangible assets, net tangible assets and in-process research and development of Lipman existing as of the date of the acquisition.

The unaudited pro forma condensed combined financial information does not include the effects of restructuring certain activities affecting pre-merger VeriFone or Lipman operations. Any restructuring liabilities, once determined, may be material and may include costs for severance, costs of vacating facilities and costs to exit or terminate other duplicative activities. Liabilities related to restructuring Lipman's operations will be recorded as an adjustment to the purchase price and result in an increase in goodwill. Liabilities related to restructuring VeriFone's operations will be recorded as

expenses in VeriFone's statement of operations in the period that the costs are incurred. VeriFone expects to be able to quantify estimated restructuring expenses upon completion of the merger or shortly thereafter.

The unaudited pro forma condensed combined financial information is not intended to represent what VeriFone's financial position or results of operations would actually have been if the merger had occurred on those dates. Since VeriFone and Lipman were not under common control or management for any period presented, the unaudited pro forma condensed combined financial results may not be comparable to, or indicative of, future performance. The unaudited pro forma condensed combined financial information does not include any adjustments for liabilities resulting from integration planning. Management of VeriFone is in the process of assessing the costs associated with integration.

The unaudited pro forma condensed combined financial information should be read in conjunction with VeriFone's historical consolidated financial statements and related notes contained in VeriFone's Annual Report on Form 10-K for the year ended October 31, 2005 and VeriFone's Quarterly Report on Form 10-Q for the period ended April 30, 2006 and Lipman's historical consolidated financial statements and related notes contained in Lipman's Annual Report on Form 20-F for the year ended December 31, 2005 and Lipman's unaudited consolidated financial statements contained in Lipman's Report on Form 6-K dated May 9, 2006, which are incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information" on page 145.

**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**  
**VERIFONE HOLDINGS, INC. AND LIPMAN ELECTRONIC ENGINEERING LTD.**  
**AS OF APRIL 30, 2006**  
**(IN THOUSANDS)**

|   | Historical                    |                             | Pro Forma<br>Adjustments(1) | Pro Forma<br>Combined |
|---|-------------------------------|-----------------------------|-----------------------------|-----------------------|
|   | VeriFone<br>April 30,<br>2006 | Lipman<br>March 31,<br>2006 |                             |                       |
| <b>Assets</b>   |                               |                             |                             |                       |
| Current assets:   |                               |                             |                             |                       |
| Cash and cash equivalents                                 | \$ 91,218                     | \$ 120,039                  | \$ (98,953)(a)              | \$ 112,304            |
| Marketable securities                                     | 12,711                        |                             |                             | 12,711                |
| Accounts receivable, net                                  | 107,063                       | 44,805                      | 2,783 (l)                   | 154,651               |
| Inventories   | 47,951                        | 57,432                      | 12,028 (b)                  | 116,221               |
|   |                               |                             | (1,190)(l)                  |                       |
| Deferred and prepaid tax assets                           | 11,481                        | 4,555                       |                             | 16,036                |
| Prepaid expenses and other current assets                 | 9,893                         | 10,592                      |                             | 20,485                |
| <b>Total current assets</b>                               | <b>280,317</b>                | <b>237,423</b>              | <b>(85,332)</b>             | <b>432,408</b>        |
| Property, plant, equipment and improvements, net          | 6,623                         | 16,505                      | (800)(l)                    | 22,328                |
| Purchased intangible assets, net                          | 13,582                        | 25,618                      | 181,222 (d)                 | 220,422               |
| Goodwill  | 47,260                        | 40,138                      | 382,859 (e)                 | 470,257               |
| Deferred tax assets                                       | 19,562                        |                             | 28,153 (c)                  | 47,715                |
| Debt issuance costs, net                                  | 6,924                         |                             | 3,401 (g)                   | 10,325                |
| Severance pay fund  |                               | 3,248                       |                             | 3,248                 |
| Long term receivable                                      |                               | 2,188                       |                             | 2,188                 |
| Other assets  | 9,123                         |                             | 1,190 (l)                   | 11,113                |
|   |                               |                             | 800 (l)                     |                       |
| <b>Total assets</b>                                       | <b>\$ 383,391</b>             | <b>\$ 325,120</b>           | <b>\$ 511,493</b>           | <b>\$ 1,220,004</b>   |
| <b>Liabilities and stockholders' equity</b>               |                               |                             |                             |                       |
| Current liabilities:                                      |                               |                             |                             |                       |
| Accounts payable  | \$ 64,257                     | \$ 19,460                   | \$                          | \$ 83,717             |
| Income taxes payable                                      | 11,965                        | 6,657                       | (2,700)(h)                  | 15,922                |
| Accrued compensation                                      | 11,955                        | 4,964                       |                             | 16,919                |
| Accrued warranty  | 3,826                         | 1,628                       |                             | 5,454                 |
| Deferred revenue, net                                     | 20,716                        | 7,165                       | (5,209)(f)                  | 25,455                |
|   |                               |                             | 2,783 (l)                   |                       |
| Deferred tax liabilities                                  | 137                           |                             |                             | 137                   |
| Accrued expenses  | 5,737                         | 8,853                       |                             | 14,590                |
| Other current liabilities                                 | 14,852                        |                             |                             | 14,852                |
| Current portion of long-term debt                         | 1,927                         |                             | 3,220 (i)                   | 5,147                 |
| <b>Total current liabilities</b>                          | <b>135,372</b>                | <b>48,727</b>               | <b>(1,906)</b>              | <b>182,193</b>        |
| Accrued warranty  | 743                           |                             |                             | 743                   |
| Deferred revenue, net                                     | 6,775                         | 5,483                       | (1,873)(f)                  | 10,385                |
| Long-term debt, less current portion                      | 179,848                       |                             | 315,152 (i)                 | 495,000               |
| Long-term loan from minority shareholders in a subsidiary |                               | 221                         |                             | 221                   |
| Deferred tax liabilities                                  |                               | 5,309                       | 22,405 (c)                  | 50,558                |
|   |                               |                             | 28,153 (c)                  |                       |
|   |                               |                             | (5,309)(c)                  |                       |
| <b>Other liabilities</b>                                  | <b>835</b>                    |                             |                             | <b>835</b>            |

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Historical

|   | Historical |            |              |              |
|---|------------|------------|--------------|--------------|
| Accrued severance pay                       |            | 4,535      |              | 4,535        |
| Commitments and contingencies               |            |            |              |              |
| Stockholders' equity:                       |            |            |              |              |
| Common stock and additional paid-in-capital | 132,856    | 156,605    | 270,988 (h)  | 560,449      |
| Accumulated retained earnings (deficit)     | (74,149)   | 123,792    | (135,669)(h) | (86,026)     |
| Treasury stock at cost                      |            | (16,835)   | 16,835 (h)   |              |
| Accumulated other comprehensive income      | 1,111      | (2,717)    | 2,717 (h)    | 1,111        |
| Total stockholders' equity                  | 59,818     | 260,845    | 154,871      | 475,534      |
| Total liabilities and stockholders' equity  | \$ 383,391 | \$ 325,120 | \$ 511,493   | \$ 1,220,004 |

(1)

The letters refer to a description of the adjustments in Note 3.

See accompanying notes to unaudited pro forma condensed combined consolidated financial information.

## UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

## VERIFONE HOLDINGS, INC. AND LIPMAN ELECTRONIC ENGINEERING LTD.

FOR THE YEAR ENDED OCTOBER 31, 2005

(IN THOUSANDS, EXCEPT PER SHARE DATA)

|   | Historical  |  |                             |                       |
|---|---|--|-----------------------------|-----------------------|
|   | VeriFone<br>Fiscal Year Ended<br>October 31, 2005 | Lipman<br>Fiscal Year Ended<br>December 31, 2005 | Pro Forma<br>Adjustments(1) | Pro Forma<br>Combined |
| Net revenues  | \$ 485,367  | \$ 235,400                                       | \$ (5,209)(f)               | \$ 715,558            |
| Cost of net revenues  | 288,542   | 136,381  | 485 (j)                     | 454,967               |
|   |   |  | 29,559 (d)                  |                       |
| Gross profit  | 196,825   | 99,019   | (35,253)                    | 260,591               |
| Operating expenses:   |   |  |                             |                       |
| Research and development  | 41,830  | 16,054   | 1,377 (j)                   | 59,261                |
| Sales and marketing   | 52,231  | 31,908   | 1,126 (j)                   | 81,966                |
|   |   |  | (3,299)(l)                  |                       |
| General and administrative  | 29,609  | 11,826   | 2,499 (j)                   | 47,233                |
|   |   |  | 3,299 (l)                   |                       |
| Amortization of purchased intangible assets                                   | 4,967   | 2,223  | 8,601 (d)                   | 15,791                |
| Impairment of goodwill  |   | 10,493   |                             | 10,493                |
| Total operating expenses  | 128,637   | 72,504   | 13,603                      | 214,744               |
| Operating income  | 68,188  | 26,515   | (48,856)                    | 45,847                |
| Interest expense  | (15,384)  |  | (23,114)(i)                 | (38,498)              |
| Interest income   | 598   | 2,909  |                             | 3,507                 |
| Other income (expense), net   | (6,673)   | 44   |                             | (6,629)               |
| Income before income taxes  | 46,729  | 29,468   | (71,970)                    | 4,227                 |
| Provision (benefit) for income taxes  | 13,490  | 9,384  | (11,680)(k)                 | 11,194                |
| Net income (loss) from continuing operations                                  | \$ 33,239   | \$ 20,084  | \$ (60,290)                 | \$ (6,967)            |
| Net income (loss) from continuing operations per common share: (Note 4)       |   |  |                             |                       |
| Basic   | \$ 0.57   | \$ 0.75  |                             | \$ (0.10)             |
| Diluted   | \$ 0.54   | \$ 0.73  |                             | \$ (0.10)             |
| Weighted-average shares used in computing net income (loss) per common share: |   |  |                             |                       |
| Basic   | 58,318  | 26,835   |                             | 71,618                |
| Diluted   | 61,460  | 27,475   |                             | 71,618                |

(1)

The letters refer to a description of the adjustments in Note 3.

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See accompanying notes to unaudited pro forma condensed combined consolidated financial information.

## UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

## VERIFONE HOLDINGS, INC. AND LIPMAN ELECTRONIC ENGINEERING LTD.

FOR THE SIX MONTHS ENDED APRIL 30, 2006

(IN THOUSANDS, EXCEPT PER SHARE DATA)

|  | Historical                                     |  |                             |                       |
|--|--|--|-----------------------------|-----------------------|
|  | VeriFone<br>Six Months Ended<br>April 30, 2006 | Lipman<br>Six Months Ended<br>March 31, 2006 | Pro Forma<br>Adjustments(1) | Pro Forma<br>Combined |
| Net revenues   | \$ 276,820                                     | \$ 126,385                                   | \$ (234)(f)                 | \$ 402,971            |
| Cost of net revenues   | 153,819  | 74,632                                       | 275 (j)                     | 243,506               |
|  |  |  | 14,780 (d)                  |                       |
| Gross profit   | 123,001  | 51,753                                       | (15,289)                    | 159,465               |
| Operating expenses:  |  |  |                             |                       |
| Research and development   | 23,628   | 7,546  | 778 (j)                     | 31,952                |
| Sales and marketing  | 28,605   | 17,953                                       | 647 (j)                     | 44,916                |
|  |  |  | (2,289)(l)                  |                       |
| General and administrative   | 19,691   | 5,348  | 1,490 (j)                   | 28,818                |
|  |  |  | 2,289 (l)                   |                       |
| Amortization of purchased intangible assets                            | 2,318  | 1,132  | 4,301 (d)                   | 7,751                 |
| Impairment of goodwill   |  | 10,493                                       |                             | 10,493                |
| Total operating expenses   | 74,242   | 42,472                                       | 7,216                       | 123,930               |
| Operating income   | 48,759   | 9,281  | (22,505)                    | 35,535                |
| Interest expense   | (6,476)  |  | (11,557)(i)                 | (18,033)              |
| Interest income  | 1,614  | 1,723  |                             | 3,337                 |
| Other income, net  | 266  | 103  |                             | 369                   |
| Income before income taxes   | 44,163   | 11,107                                       | (34,062)                    | 21,208                |
| Provision (benefit) for income taxes                                   | 15,333   | 4,841  | (4,116)(k)                  | 16,058                |
| Net income from continuing operations                                  | \$ 28,830                                      | \$ 6,266                                     | \$ (29,946)                 | \$ 5,150              |
| Net income from continuing operations per common share: (Note 4)       |  |  |                             |                       |
| Basic  | \$ 0.44  | \$ 0.23                                      |                             | \$ 0.07               |
| Diluted  | \$ 0.42  | \$ 0.23                                      |                             | \$ 0.06               |
| Weighted-average shares used in computing net income per common share: |  |  |                             |                       |
| Basic  | 65,751   | 26,967                                       |                             | 79,051                |
| Diluted  | 68,887   | 27,317                                       |                             | 82,347                |

(1)

The letters refer to a description of the adjustments in Note 3.

See accompanying notes to unaudited pro forma condensed combined consolidated financial information.





**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED**

**CONSOLIDATED FINANCIAL INFORMATION**

**1. Basis of Presentation**

On April 10, 2006, VeriFone Holdings, Inc. ("VeriFone") and Lipman Electronic Engineering Ltd. ("Lipman") entered into a definitive merger agreement that will result in Lipman becoming a wholly owned subsidiary of VeriFone. The transaction is conditioned upon (i) customary regulatory approvals including those under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976 and under Israeli law, (ii) approval of the merger agreement by Lipman shareholders and (iii) approval of VeriFone stockholders of the issuance of the VeriFone common stock in connection with the merger.

Concurrently with the merger, VeriFone expects to refinance its existing credit facility with a new arrangement with J.P. Morgan Securities Inc. and Lehman Brothers Inc. with terms substantially the same as the existing credit facility except the new arrangement will be for \$500 million of a Term B loan and \$40 million of revolving credit. A portion of the new facility will be used to repay the existing facility, of which \$181.6 million was outstanding at April 30, 2006. The remaining borrowings under the new facility of approximately \$318 million are expected to be used to finance a portion of the cash component of the merger consideration and the expenses of the merger. VeriFone will have the option to elect an interest rate on the new term B loan from time to time at either LIBOR plus 1.75% per annum or an alternative base rate. Interest on the revolving credit facility is expected to be determined based on LIBOR plus 1.5% per annum or an alternative base rate. The Term B loan is expected to mature on the seventh anniversary of the closing date, with scheduled amortization of principal of approximately  $\frac{1}{4}$  of 1% of the initial aggregate principal amount in the case of each of the first twenty seven quarterly payments due on the last day of each calendar quarter. The revolving credit portion of the new facility is expected to terminate and all amounts will be due and payable in six full years after the closing. The refinancing and the initial funding under the new facility are conditioned upon consummation of the merger in accordance with the terms of the merger agreement. VeriFone's obligation to complete the merger is not contingent on its ability to receive financing under this proposed new credit facility.

VeriFone accounts for acquisitions under Financial Accounting Standards Board Statement No. 141, *Business Combinations*. In accordance with business combination accounting, VeriFone will allocate the purchase price of acquired companies to the tangible and intangible assets acquired, liabilities assumed as well as in-process research and development based on their estimated fair values. The excess of the purchase price over the net tangible and identifiable intangible assets will be recorded as goodwill. VeriFone's management has made significant assumptions and estimates in determining the preliminary purchase price and the preliminary allocation of the estimated purchase price in the unaudited pro forma condensed combined financial information. The final determination of such assumptions and estimates cannot be made until VeriFone completes the acquisition of Lipman.

The unaudited pro forma condensed combined financial information is not intended to represent or be indicative of the consolidated results of operations or financial position of VeriFone that would have been reported had the acquisition and borrowings been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial position of VeriFone. The unaudited pro forma condensed combined financial information does not reflect any operating efficiencies and cost savings or dissynergies and cost increases that VeriFone may achieve with respect to the combined companies.

The unaudited pro forma condensed combined financial information should be read in conjunction with the historical consolidated financial statements and accompanying notes of VeriFone and Lipman included in their respective annual reports on Form 10-K or 20-F and quarterly reports on Form 10-Q or report on Form 6-K incorporated by reference in the proxy statement/prospectus.

## 2. Purchase Price Allocation

The preliminary estimated total purchase price of the Lipman merger is as follows (in thousands):

|   |            |
|---|------------|
| Cash  | \$ 342,000 |
| Value of common stock issued                        | 412,566    |
| Value of Lipman vested and unvested options assumed | 53,042     |
| Estimated transaction costs                         | 25,000     |
|   | <hr/>      |
| Subtotal  | 832,608    |
| Less: Value of unvested Lipman options assumed      | (38,015)   |
|   | <hr/>      |
| Total preliminary purchase price                    | \$ 794,593 |
|   | <hr/>      |

Pursuant to the proration and allocation provisions of the merger agreement, the total merger consideration will consist of (i) a number of shares of VeriFone common stock equal to the product of 0.50 multiplied by the number of Lipman ordinary shares issued and outstanding on the closing date and (ii) an amount in cash equal to the product of \$14.304 multiplied by the number of Lipman ordinary shares issued and outstanding on the closing date, as reduced by the aggregate amount of the special cash dividend to be paid by Lipman. VeriFone currently estimates that it will issue approximately 13.3 million shares and pay approximately \$382 million, less the aggregate amount of the special cash dividend. The aggregate amount of the special cash dividend is currently estimated at \$40 million which is the amount of the special cash dividend assumed in this unaudited pro forma financial information.

The unaudited pro forma condensed combined financial information assumes the issuance of approximately 13.3 million shares of VeriFone's common stock. The 13.3 million shares have been valued at \$31.02 per share based on an average of the closing prices of VeriFone's common stock for a range of trading days two days before April 10, 2006, the announcement date of the proposed merger, the announcement date and two days after the announcement date.

Pursuant to the merger agreement, VeriFone will assume, on a one-for-one basis, all Lipman share options outstanding on consummation of the merger. VeriFone expects to assume options to purchase approximately 3,945,380 shares of Lipman ordinary shares at a weighted average exercise price of \$24.55. The estimated fair value of the outstanding vested and unvested options of \$53,042,000, was determined using a Black-Scholes valuation model using the following assumptions: stock price of \$31.02 per share, expected term of 2.8 years, expected volatility of 44% and risk free interest rate of 5.0%. The actual number of options to purchase shares of Lipman ordinary shares to be assumed will be determined based on the actual number of Lipman options to purchase shares outstanding at the completion of the merger.

For accounting purposes the fair value of unvested options as of the completion of the merger is deducted in determining the purchase price and this unrecognized share-based compensation will be recognized as compensation expense on a straight line basis over the estimated remaining service period of 3.3 years. The estimated fair value of the outstanding unvested options of \$38,015,000, was determined using a Black-Scholes valuation model using the following assumptions: stock price of \$30.96 per share of VeriFone common stock on April 30, 2006, expected term of 2.8 years, expected volatility of 44% and risk free interest rate of 5.0%. The Company determined the number of vested options based on the ratio of the number of months of service provided by employees as of April 30, 2006 to the total vesting period for the options (vested ratio). The actual number of unvested options to purchase shares of Lipman assumed will be determined based on the vested ratio at the completion

of the merger and the fair value of such options will be determined based on the closing date per share price of VeriFone common stock and the Black-Scholes valuation assumption at the completion of the merger.

Under the purchase method of accounting, the total estimated purchase price as shown in the table above is allocated to Lipman's tangible and intangible assets acquired, liabilities assumed as well as in-process research and development based on their estimated fair values as of the date of the completion of the merger. The excess of the purchase price over the net tangible and intangible assets will be recorded as goodwill. The preliminary allocation of the purchase price used in the unaudited pro forma condensed combined financial information is based on preliminary estimates and currently available information. These assumptions and estimates, some of which can not be finalized prior to the consummation of the merger, may be revised as additional information becomes available, upon consummation of the merger and finalization of the valuation of Lipman's assets and liabilities. The final determination of the allocation of the purchase prices will be based on the actual intangible assets, net tangible assets and in-process research and development of Lipman that exist as of the date of acquisition.

Based on the preliminary valuation and other information currently available the preliminary estimated purchase price is allocated as follows (in thousands):

|   |            |
|---|------------|
| Net tangible assets                                   | \$ 157,103 |
| Amortizable intangible assets:                        |            |
| Developed product technology                          | 152,720    |
| Customer relationships                                | 50,380     |
| Internal use software                                 | 3,740      |
|   | <hr/>      |
| Subtotal  | 206,840    |
| In-process research and development                   | 6,260      |
| Excess over fair value of vested options              | 1,393      |
| Goodwill  | 422,997    |
|   | <hr/>      |
| Total preliminary estimated purchase price allocation | \$ 794,593 |
|   | <hr/>      |

#### *Net Tangible Assets*

Of the total estimated purchase price, a preliminary estimate of approximately \$157 million has been allocated to net tangible assets acquired. VeriFone has valued net tangible assets at their respective carrying amounts as of March 31, 2006, except cash, inventory, deferred revenue, and deferred taxes as VeriFone believes these amounts approximate their current fair value or the fair values are not determinable as the acquisition has not been completed.

VeriFone has reduced Lipman's historic cash balance by \$40 million for the estimated amount of the pre acquisition special cash dividend to be paid to Lipman shareholders. The aggregate amount of the special cash dividend has not been finally determined, but will be the amount of cash of Lipman that may be distributed by Lipman in the form of a dividend without a corporate tax being imposed on Lipman, provided, however, that, pursuant to the merger agreement, the aggregate dividend will not be less than \$23 million.

VeriFone has increased Lipman's historical value of inventory by \$12 million in the pro forma condensed combined balance sheet to adjust inventory to an amount equivalent to the selling price less an appropriate sales margin. Due to its non-recurring nature, this adjustment has been excluded in the

unaudited pro forma condensed combined consolidated statements of operations but will be recognized in VeriFone's consolidated financial statements through higher costs of sales as the inventory is sold over an estimated period of six to nine months. The actual increase in inventory will be determined based on the actual amount of inventory on hand at the completion of the merger.

VeriFone reduced Lipman's historical value of deferred revenue by \$7.1 million in the pro forma condensed combined balance sheet to adjust deferred revenue to an amount equivalent to the estimated cost plus an appropriate margin to perform the services related to Lipman's service contracts. This adjustment has been included in the unaudited pro forma condensed combined consolidated statements of operations through lower services revenue over the estimated service period of six months to five years. The actual reduction in deferred revenue will be determined based on the actual obligations to fulfill under the service contracts in effect at the completion of the merger.

VeriFone recorded a \$22 million deferred tax liability attributable to the net retained tax-exempt income of Lipman's participation in the Approved Enterprise scheme under Israel tax law and eliminated the deferred tax liability of \$5.3 million associated with a prior acquisition made by Lipman.

#### *Intangible Assets*

Developed product technology, which comprises products that have reached technological feasibility, includes products in Lipman's product lines, principally the Nurit product line. Lipman's technology and products are designed for hardware, software, solutions and services, serving the POS market internationally. This proprietary know-how can be leveraged by VeriFone to develop new technology and improved products and manufacturing processes. VeriFone expects to amortize the developed and core technology and patents over an average estimated life of 5 years.

Customer relationships represent the distribution channels through which Lipman sells the majority of its products and services. VeriFone expects to amortize the fair value of these assets over an average estimated life of 5 years.

Internal Use Software represents the internal use software assets which have been developed internally but have not previously been capitalized. VeriFone expects to amortize the fair value of these assets over the estimated useful life of 5 years.

The fair value of intangible assets was based on a preliminary third-party valuation using an income approach, as well as limited discussions with Lipman management and a review of certain transaction-related documents and forecasts prepared by VeriFone and Lipman management. The rates utilized to discount net cash flows to their present values range from 12% to 20%. These discount rates were determined after consideration of VeriFone's weighted average cost of capital specific to this transaction.

Estimated useful lives for the intangible assets were based on historical experience with technology life cycles, product roadmaps, branding strategy, historical and projected maintenance renewal rates, historical treatment of VeriFone acquisition-related intangible assets and VeriFone's intended future use of the intangible assets.

The actual amounts assigned to individual intangible assets and the period over which they will be amortized will be determined based on a final third-party valuation and other information available as of the consummation date of the merger.

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED**

**CONSOLIDATED FINANCIAL INFORMATION**

*In-process Research and Development*

Of the total estimated purchase price, a preliminary estimate of \$6.3 million has been allocated to in-process research and development and will be charged to expense in the period during which the merger is completed. In-process research and development represents incomplete Lipman research and development projects that had not reached technological feasibility and had no alternative future use. Lipman is currently developing new products that qualify as in-process research and development in multiple product areas. Due to its non-recurring nature, the in-process research and development expense has been excluded from the unaudited pro forma condensed combined consolidated statements of operations but will be expensed in VeriFone's consolidated financial statements as a charge in the period in which the acquisition closes.

Lipman's current research and development projects are focused on developing new products, integrating new technologies, improving product performance and broadening features and functionalities. The principal research and development efforts of Lipman are related to four products. There is a risk that these developments and enhancements will not be competitive with other products using alternative technologies that offer comparable functionality.

The preliminary value assigned to in-process research and development was determined by considering the importance of each project to the overall development plan, estimating costs to develop the purchased in-process research and development into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value. The revenue estimates used to value the purchased in-process research and development were based on estimates of relevant market sizes and growth factors, expected trends in technology and the nature and expected timing of new product introductions by Lipman and its competitors.

The rates utilized to discount the net cash flows to their present value are based on VeriFone's weighted average cost of capital. The weighted average cost of capital was adjusted to reflect the difficulties and uncertainties in completing each project and thereby achieving technological feasibility, the percentage of completion of each project, anticipated market acceptance and penetration, market growth rates and risks related to the impact of potential changes in future target markets. Based on these factors, a discount rate of 18% was deemed appropriate for valuing the in-process research and development.

The estimates used in valuing in-process research and development were based upon assumptions believed to be reasonable but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur. In addition, some projects that are currently in process may not be in process at completion of the merger and new projects may be started prior to completion of the merger that may be in process at the completion of the merger. Accordingly, actual results may vary from the projected results.

*Excess over fair value of vested options*

Due to the difference in the exchange ratio for Lipman options to purchase shares of one-for-one and the all stock exchange ratio of 0.9336 (the all stock consideration exchange ratio of 0.9844 as reduced by the per share value of the special cash dividend in the approximate amount of \$40 million) for Lipman ordinary shares, the Company will recognize as share-based compensation the excess fair value of vested options in the period in which the acquisition closes. Due to its non-recurring nature, this share-based compensation expense estimated to be \$1,393,000 has been excluded from the unaudited pro forma condensed statements of operations but will be expensed in VeriFone's consolidated financial statements as a stock-based compensation charge in the period in which the

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acquisition closes. The actual number of invested options to purchase Lipman ordinary shares will be determined based on the vested ratio at the completion of the merger and the fair value of such options will be determined based on the closing date per share price of VeriFone common stock and the Black-Scholes valuation assumption at the completion of the merger.

### *Goodwill*

Of the total estimated purchase price, approximately \$423 million is estimated to be allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets, in-process research and development and excess of fair value of vested options. Goodwill will not be amortized but instead will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that the management of the combined company determines that the value of goodwill has become impaired, the combined company will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made.

The unaudited pro forma condensed combined financial information does not include the effects of restructuring certain activities of pre-merger VeriFone or Lipman operations. These restructuring liabilities, once determined, may be material and may include costs for severance, costs of vacating facilities and costs to exit or terminate other duplicative activities. Liabilities related to restructuring Lipman's operations that meet the requirement of EITF 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, will be recorded as an adjustment to the purchase price and an increase in goodwill. Liabilities related to restructuring VeriFone's operations will be recorded as expenses in VeriFone's statement of operations in the period that the costs are incurred. VeriFone expects to be able to quantify estimated restructuring expenses upon completion of the merger or shortly thereafter.

VeriFone has not identified any pre-acquisition contingencies where the related asset, liability or impairment is probable and the amount of the asset, liability or impairment can be reasonably estimated. Prior to the end of the purchase price allocation period, if information becomes available which would indicate it is probable that such events have occurred and the amounts can be reasonably estimated, such items will be included in the purchase price allocation.

There are no intercompany balances or transactions between VeriFone and Lipman. Certain reclassifications have been made to conform Lipman's historical amounts to VeriFone's presentation.

### **3. Pro Forma Adjustments**

The pro forma adjustments included in the unaudited pro forma condensed combined financial information are as follows:

(a) Adjustment to cash and cash equivalents (in thousands):

|  |    |           |
|--|----|-----------|
| Borrowing under the New Facility                                       | \$ | 500,000   |
| Repayment of pre existing secured credit facility                      |    | (181,628) |
| Payment of a special dividend by Lipman prior to closing of the merger |    | (40,000)  |
| Payment of cash portion of purchase price                              |    | (342,000) |
| Payment of estimated debt issuance costs related to the New Facility   |    | (10,325)  |
| Payment of estimated direct transaction costs                          |    | (25,000)  |
|  |    | <hr/>     |
| Total  | \$ | (98,953)  |
|  |    | <hr/>     |

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(b) Adjustment to increase the historical value of inventory by \$12 million to adjust inventory to an amount equivalent to the estimated selling price less an appropriate sales margin. Due to its non-recurring nature, this adjustment has been excluded in the unaudited pro forma condensed combined consolidated statements of operations but will be recognized in VeriFone's consolidated financial statements through higher costs of sales as the inventory is sold over an estimated period of six to nine months. The adjustment is as follows (in thousands):

|             | <b>Historical<br/>Amount</b> | <b>Preliminary<br/>Fair Value</b> | <b>Increase</b> |
|-------------|------------------------------|-----------------------------------|-----------------|
| Inventories | \$ 56,242                    | \$ 68,270                         | \$ 12,028       |

(c) Adjustment of \$22.4 million to record the deferred tax liability attributable to the net retained tax-exempt income of Lipman's participation in the Approved Enterprise scheme under Israeli tax law, adjustment of \$5.3 million to eliminate the deferred tax liability associated with a prior acquisition made by Lipman and to record and adjustment of \$28.1 million to the deferred taxes associated with the difference between book and tax basis of identified intangible assets acquired.

(d) Adjustment to reflect the preliminary estimate of fair value of amortizable intangible assets and the resulting increase in amortization expense, as follows (in thousands):

|                       | <b>Historical<br/>Amount</b> | <b>Preliminary<br/>Fair Value</b> | <b>Increase</b> | <b>ProForma<br/>Annual<br/>Amortization</b> | <b>Historical<br/>Annual<br/>Amortization</b> | <b>Increase in<br/>Annual<br/>Amortization</b> | <b>Remaining<br/>Useful Life<br/>(Years)</b> |
|-----------------------|------------------------------|-----------------------------------|-----------------|---|---|--|--|
| Cost of net revenues: |                              |                                   |                 |   |   |  |  |
| Developed technology  | \$ 3,544                     | \$ 152,720                        | \$ 149,176      | \$ 30,544                                   | \$ 985  | \$ 29,559                                      | 5 years                                      |
| Operating expenses:   |                              |                                   |                 |   |   |  |  |
| Other                 | 22,074                       | 50,380                            | 28,306          | 10,076                                      | 2,223   | 7,853  | 5 years                                      |
| Internal use software |                              | 3,740                             | 3,740           | 748   |   | 748  | 5 years                                      |
| Total                 | \$ 25,618                    | \$ 206,840                        | \$ 181,222      | \$ 41,368                                   | \$ 3,208                                      | \$ 38,160                                      |  |

(e) Adjustments to reflect the preliminary estimate of goodwill, as follows (in thousands):

|          | <b>Historical<br/>Amount</b> | <b>Preliminary<br/>Fair Value</b> | <b>Increase</b> |
|----------|------------------------------|-----------------------------------|-----------------|
| Goodwill | \$ 40,138                    | \$ 422,997                        | \$ 382,859      |

(f) Adjustment to reduce the historical value of deferred revenue by \$7.1 million in the pro forma condensed combined balance sheet to adjust deferred revenue to an amount equivalent to the estimated cost plus an appropriate margin to perform the services related to Lipman's service contracts and to eliminate historical amounts of Lipman's deferred revenue that does not represent a legal performance obligation to the combined company, as follows (in thousands):

|                                  | <b>Historical<br/>Amount</b> | <b>Preliminary<br/>Fair Value</b> | <b>Adjustment</b> |
|----------------------------------|------------------------------|-----------------------------------|-------------------|
| Short-term deferred revenue, net | \$ 9,948                     | \$ 4,739                          | \$ (5,209)        |
| Long-term deferred revenue, net  | 5,483                        | 3,610                             | (1,873)           |
| Total                            | \$ 15,431                    | \$ 8,349                          | \$ (7,082)        |

The adjustment to fair value of deferred revenue, net results in amortization of \$5,209,000 in the twelve months ending October 31, 2005 and \$234,000 in the six months ending April 30, 2005.

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(g) Adjustment to reflect the writeoff of debt issuance costs of the existing credit facility and the capitalization of debt issuance costs for the New Facility (in thousands):

|                          | <u>Historical<br/>Amount</u> | <u>Preliminary<br/>Estimate</u> | <u>Increase</u> |
|--------------------------|------------------------------|---------------------------------|-----------------|
| Debt issuance costs, net | \$ 6,924                     | \$ 10,325                       | \$ 3,401        |

Due to the non-recurring nature of the write-off of debt issuance costs, net of amortization, related to the pre existing credit facility, the loss on extinguishment of debt has been excluded from the unaudited pro forma condensed combined consolidated statements of operations but will be expensed in VeriFone's consolidated financial statements in the period in which the refinancing occurs.

(h) Adjustments to stockholders' equity (dollar values in thousands):

**Common stock and additional paid-in capital:**

|   |                             |
|---|-----------------------------|
| To record the preliminary estimate of fair value of 13.3 million VeriFone shares to be issued | \$ 412,566                  |
| To record the preliminary fair value of Lipman options to be assumed in the transaction       | 53,042                      |
| To eliminate the preliminary fair value of unvested Lipman options assumed in the transaction | (38,015)                    |
| To eliminate Lipman's historical common stock and additional paid in capital                  | (156,605)                   |
|   | <u>                    </u> |