

NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
November 06, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2014**

OR

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

For the transition period from _____ To _____

Commission file number: **000-31203**

NET 1 UEPS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction
of incorporation or organization)

98-0171860
(IRS Employer
Identification No.)

President Place, 4th Floor, Cnr. Jan Smuts Avenue and Bolton Road
Rosebank, Johannesburg 2196, South Africa

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **27-11-343-2000**

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒ NO ☐

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

☐ Large accelerated filer

☒ Accelerated filer

☐ Non-accelerated filer

☐ Smaller reporting company

(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

As of November 4, 2014 (the latest practicable date), 46,475,623 shares of the registrant's common stock, par value \$0.001 per share, net of treasury shares, were outstanding.

Form 10-Q**NET 1 UEPS TECHNOLOGIES, INC.****Table of Contents**

	Page No.
PART I. FINANCIAL INFORMATION	
<u>Financial Statements</u>	
<u>Item</u>	
<u>1.</u>	
<u>Unaudited Condensed Consolidated Balance Sheets at September 30, 2014 and June 30, 2014</u>	<u>2</u>
<u>Unaudited Condensed Consolidated Statements of Operations for the Three Months Ended</u>	
<u>September 30, 2014 and 2013</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three Months</u>	<u>4</u>
<u>Ended September 30, 2014 and 2013</u>	
<u>Unaudited Condensed Consolidated Statement of Changes in Equity for the Three Months Ended</u>	
<u>September 30, 2014</u>	<u>5</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended</u>	
<u>September 30, 2014 and 2013</u>	<u>6</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
<u>Item</u>	
<u>2.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>32</u>
<u>Item</u>	
<u>3.</u>	
<u>Controls and Procedures</u>	<u>32</u>
<u>Item</u>	
<u>4.</u>	
PART II. OTHER INFORMATION	
<u>Legal Proceedings</u>	<u>33</u>
<u>Item</u>	
<u>1.</u>	
<u>Risk Factors</u>	<u>33</u>
<u>Item</u>	
<u>1A.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>34</u>
<u>Item</u>	
<u>2.</u>	
<u>Exhibits</u>	<u>34</u>
<u>Item</u>	
<u>6.</u>	
<u>Signatures</u>	<u>35</u>
EXHIBIT 10.29	
EXHIBIT 31.1	
EXHIBIT 31.2	
EXHIBIT 32	

Part I. Financial Information**Item 1. Financial Statements**

NET 1 UEPS TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Balance Sheets

	Unaudited September 30, 2014	(A) June 30, 2014
(In thousands, except share data)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 81,185	\$ 58,672
Pre-funded social welfare grants receivable (Note 2)	4,863	4,809
Accounts receivable, net of allowances of September: \$2,075; June: \$1,313	136,701	148,067
Finance loans receivable, net of allowances of September: \$3,136; June: \$3,083	53,884	53,124
Inventory (Note 3)	12,200	10,785
Deferred income taxes	7,045	7,451
Total current assets before settlement assets	295,878	282,908
Settlement assets (Note 4)	724,279	725,987
Total current assets	1,020,157	1,008,895
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of September: \$92,753; June: \$91,422	48,739	47,797
EQUITY-ACCOUNTED INVESTMENTS	934	878
GOODWILL (Note 6)	179,003	186,576
INTANGIBLE ASSETS, net (Note 6)	62,148	68,514
OTHER LONG-TERM ASSETS, including reinsurance assets (Note 5 and Note 7)	36,533	38,285
TOTAL ASSETS	1,347,514	1,350,945
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	14,941	17,101
Other payables	43,346	42,257
Current portion of long-term borrowings (Note 9)	14,276	14,789
Income taxes payable	13,581	7,676
Total current liabilities before settlement obligations	86,144	81,823
Settlement obligations (Note 4)	724,279	725,987
Total current liabilities	810,423	807,810
DEFERRED INCOME TAXES	14,078	15,522
LONG-TERM BORROWINGS (Note 9)	61,288	62,388
OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 7)	22,396	23,477
TOTAL LIABILITIES	908,185	909,197
COMMITMENTS AND CONTINGENCIES (Note 17)		
EQUITY		
COMMON STOCK (Note 10)	64	63

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Authorized: 200,000,000 with \$0.001 par value;
 Issued and outstanding shares, net of treasury - September: 46,475,623;
 June: 47,819,299

PREFERRED STOCK

Authorized shares: 50,000,000 with \$0.001 par value;

Issued and outstanding shares, net of treasury: September: -; June: -

ADDITIONAL PAID-IN-CAPITAL	210,708	202,401
TREASURY SHARES, AT COST: September: 18,057,228; June: 15,883,212	(214,520)	(200,681)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(104,126)	(82,741)
RETAINED EARNINGS	547,222	522,729
TOTAL NET1 EQUITY	439,348	441,771
NON-CONTROLLING INTEREST	(19)	(23)
TOTAL EQUITY	439,329	441,748
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,347,514	\$ 1,350,945

(A) Derived from audited financial statements

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statements of Operations

	Three months ended September 30,	
	2014	2013
	(In thousands, except per share data)	
REVENUE	\$ 156,441	\$ 123,494
EXPENSE		
Cost of goods sold, IT processing, servicing and support	74,406	56,559
Selling, general and administration	38,736	40,506
Depreciation and amortization	10,174	10,029
OPERATING INCOME	33,125	16,400
INTEREST INCOME	4,090	3,319
INTEREST EXPENSE	1,312	1,752
INCOME BEFORE INCOME TAX EXPENSE	35,903	17,967
INCOME TAX EXPENSE (Note 16)	11,648	6,485
NET INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	24,255	11,482
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	92	103
NET INCOME	24,347	11,585
LESS (ADD) NET (INCOME) LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	258	(11)
NET INCOME ATTRIBUTABLE TO NET1	\$ 24,089	\$ 11,596
Net income per share, in United States dollars (Note 13)		
Basic earnings attributable to Net1 shareholders	\$ 0.51	\$ 0.25
Diluted earnings attributable to Net1 shareholders	\$ 0.51	\$ 0.25

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three months ended	
	September 30,	
	2014	2013
	(In thousands)	
Net income	\$ 24,347	\$ 11,585
Other comprehensive (loss) income		
Net unrealized loss on asset available for sale, net of tax	(226)	(255)
Movement in foreign currency translation reserve	(21,185)	7,569
Total other comprehensive (loss) income, net of taxes	(21,411)	7,314
Comprehensive income	2,936	18,899
(Less) Add comprehensive (income) loss attributable to non-controlling interest	(232)	11
Comprehensive income attributable to Net1	\$ 2,704	\$ 18,910
See Notes to Unaudited Condensed Consolidated Financial Statements		

NET 1 UEPS TECHNOLOGIES, INC.

Unaudited Condensed Consolidated Statement of Changes in Equity for the three months ended September 30, 2014 (dollar amounts in thousands)

Net 1 UEPS Technologies, Inc. Shareholders									
	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings	Accumulated other comprehensive loss	
Balance July 1, 2014	63,702,511	\$	63	(15,883,212)	\$ (200,681)	47,819,299	\$ 202,401	\$ 522,729	\$ (82,741)
Repurchase of common stock (Note 10)				(1,837,432)	(9,151)	(1,837,432)			
Restricted stock granted (Note 12)	141,707					141,707			
Exercise of stock option (Note 12)	688,633		1	(336,584)	(4,688)	352,049	5,677		
Stock-based compensation charge (Note 12)						916			
Income tax benefit from vested stock awards						483			
Transactions with non-controlling interests (Note 10)						1,231	404		
Net income							24,089		
Other comprehensive loss (Note 11)									(21,385)
Balance September 30,	64,532,851	\$	64	(18,057,228)	\$ (214,520)	46,475,623	\$ 210,708	\$ 547,222	\$ (104,126)

2014

See Notes to Unaudited Condensed Consolidated Financial Statements

5

NET 1 UEPS TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statements of Cash Flows

	Three months ended September 30,	
	2014	2013
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 24,347	\$ 11,585
Depreciation and amortization	10,174	10,029
Earnings from equity-accounted investments	(92)	(103)
Fair value adjustments	413	(133)
Interest payable	1,159	972
Profit on disposal of plant and equipment	(122)	(1)
Stock-based compensation charge	916	930
Facility fee amortized	82	69
Decrease (Increase) in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable	9,470	(23,101)
(Increase) Decrease in inventory	(2,123)	1,011
Decrease in accounts payable and other payables	(10,933)	(8,668)
Increase in taxes payable	6,611	6,921
Decrease in deferred taxes	(390)	(1,187)
Net cash provided by (used in) operating activities	39,512	(1,676)
Cash flows from investing activities		
Capital expenditures	(9,378)	(5,616)
Proceeds from disposal of property, plant and equipment	241	48
Proceeds from sale of business (Note 14)	1,895	-
Other investing activities, net	-	(1)
Net change in settlement assets	(43,054)	51,773
Net cash (used in) provided by investing activities	(50,296)	46,204
Cash flows from financing activities		
Acquisition of treasury stock (Note 10)	(9,151)	-
Sale of equity to non-controlling interest (Note 10)	1,407	-
Long-term borrowings utilized	1,097	-
Proceeds from issue of common stock	989	-
Net change in settlement obligations	43,054	(51,773)
Net cash provided by (used in) financing activities	37,396	(51,773)
Effect of exchange rate changes on cash	(4,099)	1,250
Net increase (decrease) in cash and cash equivalents	22,513	(5,995)
Cash and cash equivalents beginning of period	58,672	53,665
Cash and cash equivalents end of period	\$ 81,185	\$ 47,670

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the Unaudited Condensed Consolidated Financial Statements
for the three months ended September 30, 2014 and 2013**

(All amounts in tables stated in thousands or thousands of United States Dollars, unless otherwise stated)

1. Basis of Presentation and Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with US generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three months ended September 30, 2014 and 2013, are not necessarily indicative of the results for the full year. The Company believes that the disclosures are adequate to make the information presented not misleading.

These financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

References to the Company refer to Net1 and its consolidated subsidiaries, unless the context otherwise requires. References to Net1 are references solely to Net 1 UEPS Technologies, Inc.

Recent accounting pronouncements adopted

In March 2013, the FASB issued guidance regarding *Parent's Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets Within a Foreign Entity or of an Investment in a Foreign Entity*. This guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The guidance is effective for the Company beginning July 1, 2014, and is applied prospectively. The adoption of this guidance did not have a material impact on the Company's financial statements.

Recent accounting pronouncements not yet adopted as of September 30, 2014

In May 2014, the FASB issued guidance regarding *Revenue from Contracts with Customers*. This guidance requires an entity to recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for the Company beginning July 1, 2017. Early adoption is not permitted. The Company expects that this guidance will have a material impact on its financial statements and is currently evaluating the impact of this guidance on its financial statements on adoption.

In August 2014, the FASB issued guidance regarding *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*. This guidance requires an entity to perform interim and annual assessments of its ability to continue as a going concern within one year of the date that its financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The guidance is effective for the Company for beginning July 1, 2017. Early adoption is permitted.

The Company is currently assessing the impact of this guidance on its financial statements disclosure.

2. Pre-funded social welfare grants receivable

Pre-funded social welfare grants receivable represents amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The October 2014 payment service commenced on October 1, 2014, but the Company pre-funded certain merchants participating in the merchant acquiring system on the last two days of September 2014.

3. Inventory

The Company's inventory comprised the following categories as of September 30, 2014 and June 30, 2014.

	September 30, 2014		June 30, 2014	
Finished goods	\$	12,200	\$	10,785
	\$	12,200	\$	10,785

4. Settlement assets and settlement obligations

Settlement assets comprise (1) cash received from the South African government that the Company holds pending disbursement to recipient cardholders of social welfare grants and (2) cash received from customers on whose behalf the Company processes payroll payments that the Company will disburse to customer employees, payroll-related payees and other payees designated by the customer.

Settlement obligations comprise (1) amounts that the Company is obligated to disburse to recipient cardholders of social welfare grants, (2) amounts that the Company is obligated to pay to customer employees, payroll-related payees and other payees designated by the customer.

The balances at each reporting date may vary widely depending on the timing of the receipts and payments of these assets and obligations.

5. Fair value of financial instruments

Fair value of financial instruments

Initial recognition and measurement

Financial instruments are recognized when the Company becomes a party to the transaction. Initial measurements are at cost, which includes transaction costs.

Risk management

The Company seeks to reduce its exposure to currencies other than the South African Rand (ZAR) through a policy of matching, to the extent possible, assets and liabilities denominated in those currencies. In addition, the Company uses financial instruments in order to economically hedge its exposure to exchange rate and interest rate fluctuations arising from its operations. The Company is also exposed to equity price and liquidity risks as well as credit risks.

Currency exchange risk

The Company is subject to currency exchange risk because it purchases inventories that it is required to settle in other currencies, primarily the euro and US dollar. The Company has used forward contracts in order to limit its exposure in these transactions to fluctuations in exchange rates between the ZAR, on the one hand, and the US dollar and the euro, on the other hand.

Translation risk

Translation risk relates to the risk that the Company's results of operations will vary significantly as the US dollar is its reporting currency, but it earns most of its revenues and incurs most of its expenses in ZAR. The US dollar to ZAR exchange rate has fluctuated significantly over the past three years. As exchange rates are outside the Company's control, there can be no assurance that future fluctuations will not adversely affect the Company's results of operations.

and financial condition.

Interest rate risk

As a result of its normal borrowing and leasing activities, the Company's operating results are exposed to fluctuations in interest rates, which it manages primarily through regular financing activities. The Company generally maintains limited investment in cash equivalents and has occasionally invested in marketable securities.

5. Fair value of financial instruments (continued)

Fair value of financial instruments (continued)

Risk management (continued)

Credit risk

Credit risk relates to the risk of loss that the Company would incur as a result of non-performance by counterparties. The Company maintains credit risk policies with regard to its counterparties to minimize overall credit risk. These policies include an evaluation of a potential counterparty's financial condition, credit rating, and other credit criteria and risk mitigation tools as the Company's management deems appropriate.

With respect to credit risk on financial instruments, the Company maintains a policy of entering into such transactions only with South African and European financial institutions that have a credit rating of BBB or better, as determined by credit rating agencies such as Standard & Poor's, Moody's and Fitch Ratings.

UEPS-based microlending credit risk

The Company is exposed to credit risk in its UEPS-based microlending activities, which provides unsecured short-term loans to qualifying customers. The Company manages this risk by performing an affordability test for each prospective customer and assigns a creditworthiness score, which takes into account a variety of factors such as other debts and total expenditures on normal household and lifestyle expenses.

Equity price and liquidity risk

Equity price risk relates to the risk of loss that the Company would incur as a result of the volatility in the exchange-traded price of equity securities that it holds and the risk that it may not be able to liquidate these securities. The market price of these securities may fluctuate for a variety of reasons, consequently, the amount the Company may obtain in a subsequent sale of these securities may significantly differ from the reported market value.

Liquidity risk relates to the risk of loss that the Company would incur as a result of the lack of liquidity on the exchange on which these securities are listed. The Company may not be able to sell some or all of these securities at one time, or over an extended period of time without influencing the exchange traded price, or at all.

Financial instruments

The following section describes the valuation methodologies the Company uses to measure its significant financial assets and liabilities at fair value.

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to Level 1 investments. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly. These investments are included in Level 2 investments. In circumstances in which inputs are generally unobservable, values typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. Investments valued using such techniques are included in Level 3 investments.

*Asset measured at fair value using significant unobservable inputs investment in Finbond Group Limited
(Finbond)*

The Company's Level 3 asset represents an investment of 156,788,712 shares of common stock of Finbond, which are exchange-traded equity securities. Finbond's shares are traded on the Johannesburg Stock Exchange (JSE) and the Company has designated such shares as available for sale investments. The Company has concluded that the market for Finbond shares is not active and consequently has employed alternative valuation techniques in order to determine the fair value of such stock. Finbond issues financial products and services under a mutual banking licence and also has a microlending offering. In determining the fair value of Finbond, the Company has considered amongst other things Finbond's historical financial information (including its most recent public accounts), press releases issued by Finbond and its published net asset value. The Company believes that the best indicator of fair value of Finbond is its published net asset value and has used this value to determine the fair value.

5. Fair value of financial instruments (continued)**Financial instruments (continued)*****Asset measured at fair value using significant unobservable inputs investment in Finbond Group Limited (Finbond) (continued)***

The fair value of these securities as of September 30, 2014, represented approximately 1% of the Company's total assets, including these securities. The Company expects to hold these securities for an extended period of time and it is not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the company remain sound.

Derivative transactions - Foreign exchange contracts

As part of the Company's risk management strategy, the Company enters into derivative transactions to mitigate exposures to foreign currencies using foreign exchange contracts. These foreign exchange contracts are over-the-counter derivative transactions. Substantially all of the Company's derivative exposures are with counterparties that have long-term credit ratings of BBB or better. The Company uses quoted prices in active markets for similar assets and liabilities to determine fair value (level 2). The Company has no derivatives that require fair value measurement under level 1 or 3 of the fair value hierarchy.

The Company's outstanding foreign exchange contracts are as follows:

As of September 30, 2014

Notional amount	Strike price	Fair market value price	Maturity
EUR 181,570.50	ZAR 15.5739	ZAR 14.3053	October 20, 2014
EUR 181,570.50	ZAR 15.4316	ZAR 14.3053	October 20, 2014
EUR 180,022.50	ZAR 15.6552	ZAR 14.3818	November 20, 2014
EUR 180,022.50	ZAR 15.5136	ZAR 14.3818	November 20, 2014
EUR 180,022.50	ZAR 15.5970	ZAR 14.4701	December 22, 2014
EUR 180,022.50	ZAR 15.7391	ZAR 14.4701	December 22, 2014
EUR 174,424.50	ZAR 15.8119	ZAR 14.5511	January 20, 2015
EUR 174,424.50	ZAR 15.6729	ZAR 14.5511	January 20, 2015

As of June 30, 2014

Notional amount	Strike price	Fair market value price	Maturity
EUR 182,272.50	ZAR 15.2077	ZAR 14.5803	July 21, 2014
EUR 182,272.50	ZAR 15.3488	ZAR 14.5803	July 21, 2014
EUR 180,022.50	ZAR 15.4228	ZAR 14.6542	August 20, 2014
EUR 180,022.50	ZAR 15.2819	ZAR 14.6542	August 20, 2014
EUR 180,022.50	ZAR 15.3623	ZAR 14.7367	September 22, 2014

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EUR 180,022.50	ZAR 15.5041	ZAR 14.7367	September 22, 2014
EUR 181,570.50	ZAR 15.5739	ZAR 14.8119	October 20, 2014
EUR 181,570.50	ZAR 15.4316	ZAR 14.8119	October 20, 2014
EUR 180,022.50	ZAR 15.6552	ZAR 14.8982	November 20, 2014
EUR 180,022.50	ZAR 15.5136	ZAR 14.8982	November 20, 2014
EUR 180,022.50	ZAR 15.5970	ZAR 14.9874	December 22, 2014
EUR 180,022.50	ZAR 15.7391	ZAR 14.9874	December 22, 2014
EUR 174,424.50	ZAR 15.8119	ZAR 15.0671	January 20, 2015
EUR 174,424.50	ZAR 15.6729	ZAR 15.0671	January 20, 2015

5. Fair value of financial instruments (continued)

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2014, according to the fair value hierarchy:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	\$ 1,716	\$ -	\$ -	\$ 1,716
Investment in Finbond (available for sale assets included in other long-term assets)	-	-	7,584	7,584
Other	-	45	-	45
Total assets at fair value	\$ 1,716	\$ 45	\$ 7,584	\$ 9,345
Liabilities				
Foreign exchange contracts	\$ -	\$ 152	\$ -	\$ 152
Total liabilities at fair value	\$ -	\$ 152	\$ -	\$ 152

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2014, according to the fair value hierarchy:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	\$ 1,800	\$ -	\$ -	\$ 1,800
Investment in Finbond (available for sale assets included in other long-term assets)	-	-	8,068	8,068
Other	-	47	-	47
Total assets at fair value	\$ 1,800	\$ 47	\$ 8,068	\$ 9,915
Liabilities				
Foreign exchange contracts	\$ -	\$ 164	\$ -	\$ 164
Total liabilities at fair value	\$ -	\$ 164	\$ -	\$ 164

Changes in the Company's investment in Finbond (Level 3 that are measured at fair value on a recurring basis) were insignificant during the three months ended September 30, 2014 and 2013, respectively. There have been no transfers in or out of Level 3 during the three months ended September 30, 2014 and 2013, respectively.

Assets and liabilities measured at fair value on a nonrecurring basis

The Company measures its assets at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The Company has no liabilities that are measured at fair value on a nonrecurring basis. The Company reviews the carrying values of its assets when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary. The fair values of the Company's assets are determined using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the assets exceeds its fair value and the excess is determined to be other-than-temporary. The Company has not recorded any impairment charges during the reporting periods presented herein.

6. Goodwill and intangible assets, net**Goodwill**

Summarized below is the movement in the carrying value of goodwill for the three months ended September 30, 2014:

	Gross value	Accumulated impairment	Carrying value
Balance as of June 30, 2014	\$ 186,576	\$ -	\$ 186,576
Foreign currency adjustment ⁽¹⁾	(7,573)	-	(7,573)
Balance as of September 30, 2014	\$ 179,003	\$ 0	\$ 179,003

(1) the foreign currency adjustment represents the effects of the fluctuations between the South African rand and the Korean won, and the US dollar on the carrying value.

Goodwill has been allocated to the Company's reportable segments as follows:

	As of September 30, 2014	As of June 30, 2014
South African transaction processing	\$ 26,808	\$ 28,517
International transaction processing	123,993	128,427
Financial inclusion and applied technologies	28,202	29,632
Total	\$ 179,003	\$ 186,576

Intangible assets, net***Carrying value and amortization of intangible assets***

Summarized below is the carrying value and accumulated amortization of the intangible assets as of September 30, 2014 and June 30, 2014:

	As of September 30, 2014			As of June 30, 2014		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:						
Customer relationships	\$ 94,844	\$ (41,881)	\$ 52,963	\$ 98,676	\$ (41,273)	\$ 57,403
Software and unpatented technology	32,271	(26,478)	5,793	33,604	(26,207)	7,397
FTS patent	3,402	(3,402)	-	3,619	(3,619)	-
Exclusive licenses	4,506	(4,506)	-	4,506	(4,506)	-
Trademarks	6,583	(3,191)	3,392	6,890	(3,176)	3,714
Total finite-lived intangible assets	\$ 141,606	\$ (79,458)	\$ 62,148	\$ 147,295	\$ (78,781)	\$ 68,514

Aggregate amortization expense on the finite-lived intangible assets for the three months ended September 30, 2014 and 2013, was approximately \$3.9 million and \$3.7 million, respectively.

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Future estimated annual amortization expense for the next five fiscal years and thereafter, assuming exchange rates prevailing on September 30, 2014, is presented in the table below. Actual amortization expense in future periods could differ from this estimate as a result of acquisitions, changes in useful lives, exchange rate fluctuations and other relevant factors.

2015	\$	15,239
2016		11,394
2017		9,080
2018		9,080
2019		8,745
Thereafter	\$	12,146
		12

7. Reinsurance assets and policy holder liabilities under insurance and investment contracts**Reinsurance assets and policy holder liabilities under insurance contracts**

Summarized below is the movement in reinsurance assets and policy holder liabilities under insurance contracts during the three months ended September 30, 2014:

	Reinsurance assets (1)	Insurance contracts (2)
Balance as of June 30, 2014	\$ 21,062	\$ (21,478)
Foreign currency adjustment ⁽³⁾	(1,263)	1,288
Balance as of September 30, 2014	\$ 19,799	\$ (20,190)

(1) Included in other long-term assets.

(2) Included in other long-term liabilities.

(3) The foreign currency adjustment represents the effects of the fluctuations between the ZAR against the US dollar.

The Company has agreements with reinsurance companies in order to limit its losses from large insurance contracts, however, if the reinsurer is unable to meet its obligations, the Company retains the liability.

The value of insurance contract liabilities is based on best estimates assumptions of future experience plus prescribed margins, as required in the markets in which these products are offered, namely South Africa. The process of deriving the best estimates assumptions plus prescribed margins includes assumptions related to future mortality and morbidity (an appropriate base table of standard mortality is chosen depending on the type of contract and class of business), withdrawals (based on recent withdrawal investigations and expected future trends), investment returns (based on government treasury rates adjusted by an applicable margin), expense inflation (based on a 10-year real return on CPI-linked government bonds from the risk-free rate and adding an allowance for salary inflation and book shrinkage of 1% per annum) and claim reporting delays (based on average industry experience).

Assets and policy holder liabilities under investment contracts

Summarized below is the movement in assets and policy holder liabilities under investment contracts during the three months ended September 30, 2014:

	Assets (1)	Investment contracts (2)
Balance as of June 30, 2014	\$ 688	\$ (688)
Foreign currency adjustment ⁽³⁾	(41)	41
Balance as of September 30, 2014	\$ 647	\$ (647)

(1) Included in other long-term assets.

(2) Included in other long-term liabilities.

(3) The foreign currency adjustment represents the effects of the fluctuations between the ZAR against the US dollar.

The Company does not offer any investment products with guarantees related to capital or returns.

8. Short-term credit facility

The Company's short-term credit facilities are described in Note 12 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2014.

South Africa

As of September 30, 2014, and June 30, 2014, the Company had not utilized any of its ZAR 250.0 million (\$22.2 million, translated at exchange rates applicable as of September 30, 2014) overdraft facility. As of September 30, 2014, the interest rate on the overdraft facility was 8.10% . At September 30, 2014, the Company had utilized approximately ZAR 137.2 million (\$12.2 million, translated at exchange rates applicable as of September 30, 2014) of its indirect and derivative facilities to obtain foreign exchange contracts from the bank and to enable the bank to issue guarantees, including stand-by letters of credit, in order for the Company to honor its obligations to third parties requiring such guarantees (refer to Note 17). As of June 30, 2014, the Company had utilized approximately ZAR 139.0 million (\$13.1 million, translated at exchange rates applicable as of June 30, 2014) of its indirect and derivative facilities.

8. Short-term credit facility (continued)**Korea**

The Company had not utilized any of its KRW 10 billion (\$9.5 million, translated at exchange rates applicable as of September 30, 2014) overdraft facility as of September 30, 2014 and June 30, 2014. As of September 30, 2014, the interest rate on the overdraft facility was 4.71% . The facility expires in January 2015.

9. Long-term borrowings

The Company's Korean senior secured loan facility is described in Note 13 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2014. The current carrying value as of September 30, 2014, is \$75.6 million. As of September 30, 2014, the carrying amount of the long-term borrowings approximated fair value. The interest rate in effect on September 30, 2014, was 5.75% .

Interest expense incurred during the three months ended September 30, 2014 and 2013, was \$1.1 million and \$1.4 million, respectively. During each of the three months ended September 30, 2014 and 2013, respectively, the Company amortized prepaid facility fees of approximately \$0.1 million.

The first scheduled principal repayment of \$14.3 million, translated at exchange rates applicable as of September 30, 2014, was paid on October 29, 2014, and has been classified as current in the Company's unaudited condensed consolidated balance sheet.

10. Capital structure

The following table presents reconciliation between the number of shares, net of treasury, presented in the unaudited condensed consolidated statement of changes in equity during the three months ended September 30, 2014 and 2013, respectively, and the number of shares, net of treasury, excluding non-vested equity shares that have not vested during the three months ended September 30, 2014 and 2013, respectively:

	2014	2013
Number of shares, net of treasury:		
Statement of changes in equity	46,475,623	45,780,513
Less: Non-vested equity shares that have not vested (Note 12)	(453,333)	(576,282)
Number of shares, net of treasury excluding non-vested		
equity shares that have not vested	46,022,290	45,204,231

Common stock repurchases and transaction with noncontrolling interests

The Company did not repurchase any of its shares during the three months ended September 30, 2014 and 2013, under its share repurchase authorization. However, on August 27, 2014, the Company entered into a Subscription and Sale of Shares Agreement with Business Venture Investments No 1567 Proprietary Limited (RF) (BVI), one of the Company's BEE partners, in preparation for any new potential SASSA tender. Pursuant to the agreement: (i) the Company repurchased BVI's remaining 1,837,432 shares of the Company's common stock for approximately ZAR 97.4 million in cash (\$9.2 million translated at exchange rates prevailing as of August 27, 2014) and (ii) BVI has subscribed for new ordinary shares of Cash Paymaster Services (Pty) Ltd (CPS) representing approximately 12.5% of CPS' ordinary shares outstanding after the subscription for ZAR 15.0 million in cash (approximately \$1.4 million translated at exchange rates prevailing as of August 27, 2014). In connection with transactions described above, the CPS shareholder agreement that was negotiated as part of the original December 2013 Relationship Agreement

became effective.

11. Accumulated other comprehensive loss

The table below presents the change in accumulated other comprehensive (loss) income per component during the three months ended September 30, 2014:

	Three months ended September 30, 2014		
	Accumulated Foreign currency translation reserve 000	Net unrealized income (loss) on asset available for sale, net of tax 000	Total 000
Balance as of June 30, 2014	\$ (83,359)	\$ \$618	\$ (82,741)
Movement in foreign currency translation reserve	(21,159)	-	(21,159)
Unrealized loss on asset available for sale, net of tax of \$88	-	(226)	(226)
Balance as of September 30, 2014	\$ (104,518)	\$ 392	\$ (104,126)

There were no reclassifications from accumulated other comprehensive loss to comprehensive (loss) income during the three months ended September 30, 2014 or 2013, respectively.

12. Stock-based compensation**Stock option and restricted stock activity***Options*

The following table summarizes stock option activity for the three months ended September 30, 2014 and 2013:

	Number of shares	Weighted average exercise price (\$)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$ 000)	Weighted Average Grant Date Fair Value (\$)
Outstanding June 30, 2014	2,710,392	14.16	5.38	3,909	
Granted under Plan: August 2014	464,410	11.23	10.00	2,113	4.55
Exercised	(688,633)	8.24		3,697	
Outstanding September 30, 2014	2,486,169	15.24	5.45	1,820	
Outstanding June 30, 2013	2,648,583	15.15	5.98	313	
Granted under Plan: August 2013	224,896	7.35	10.00	568	2.53
Outstanding September 30, 2013	2,873,479	14.54	6.06	4,841	

The fair value of each option is estimated on the date of grant using the Cox Ross Rubinstein binomial model that uses the assumptions noted in the following table. The estimated expected volatility is calculated based on the

Company's 250 day volatility. The estimated expected life of the option was determined based on historical behavior of employees who were granted options with similar terms. The Company has estimated no forfeitures for options awarded in August 2013 and 2014, respectively.

12. Stock-based compensation (continued)**Stock option and restricted stock activity (continued)*****Options (continued)***

The table below presents the range of assumptions used to value options granted during the three months ended September 30, 2014 and 2013:

	Three months ended September 30,	
	2014	2013
Expected volatility	60%	50%
Expected dividends	0%	0%
Expected life (in years)	3	3
Risk-free rate	1.0%	0.9%

There were no forfeitures during the three months ended September 30, 2014 and 2013.

The following table presents stock options vested and expecting to vest as of September 30, 2014:

		Number of shares	Weighted average exercise price (\$)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$ 000)
Vested and expecting to vest	September 30, 2014	2,486,169	15.24	5.45	1,820

These options have an exercise price range of \$7.35 to \$24.46.

The following table presents stock options that are exercisable as of September 30, 2014:

		Number of shares	Weighted average exercise price (\$)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$ 000)
Exercisable	September 30, 2014	1,670,829	17.88	3.64	573

During the three months ended September 30, 2014 and 2013, respectively, 273,633 and 198,667 stock options became exercisable. During the three months ended September 30, 2014, the Company received approximately \$1.0 million from 116,395 stock options exercised. The remaining 572,238 stock options were exercised through recipients delivering 336,584 shares of the Company's common stock to the Company on September 9, 2014, to settle the exercise price due. No stock options were exercised during the three months ended September 30, 2013. The Company issues new shares to satisfy stock option exercises.

12. Stock-based compensation (continued)**Stock option and restricted stock activity (continued)*****Restricted stock***

The following table summarizes restricted stock activity for the three months ended September 30, 2014 and 2013:

		Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value (\$ 000)
Non-vested	June 30, 2014	385,778	3,534
Granted	August 2014	141,707	581
Vested	August 2014	(74,152)	828
Non-vested	September 30, 2014	453,333	3,568
Non-vested	June 30, 2013	405,226	4,393
Granted	August 2013	187,963	1,382
Vested	August 2013	(16,907)	161
Non-vested	September 30, 2013	576,282	5,630

Included in the 141,707 shares of restricted stock granted are 127,626 shares of restricted stock granted to employees on August 27, 2014, that will vest in full only on the date, if any, the following conditions are satisfied: (1) the closing price of the Company's common stock equals or exceeds \$19.41 (subject to appropriate adjustment for any stock split or stock dividend) for a period of 30 consecutive trading days during a measurement period commencing on the date that the Company files its Annual Report on Form 10-K for the fiscal year ended 2017 and ending on December 31, 2017 and (2) the recipient is employed by the Company on a full-time basis when the condition in (1) is met. If either of these conditions is not satisfied, then none of the shares of restricted stock will vest and they will be forfeited. The \$19.41 price target represents a 20% increase, compounded annually, in the price of the Company's common stock on Nasdaq over the \$11.23 closing price on August 27, 2014.

These 127,626 shares of restricted stock are effectively forward starting knock-in barrier options with a strike price of zero. The fair value of these shares of restricted stock was calculated utilizing an adjusted Monte Carlo simulation discounted cash flow model which was developed for the purpose of the valuation of these shares. For each simulated share price path, the market share price condition was evaluated to determine whether or not the shares would vest under that simulation. The adjustment to the Monte Carlo simulation model incorporates a jump diffusion process to the standard Geometric Brownian Motion simulation, in order to capture the discontinuous share price jumps observed in the Company's share price movements on stock exchanges on which it is listed. Therefore, the simulated share price paths capture the idiosyncrasies of the observed Company share price movements.

In scenarios where the shares do not vest, the final vested value at maturity is zero. In scenarios where vesting occurs, the final vested value on maturity is the share price on vesting date. The value of the grant is the average of the discounted vested values. The Company used an expected volatility of 76.01%, an expected life of approximately three years, a risk-free rate of 1.27% and no future dividends in its calculation of the fair value of the restricted stock. The estimated expected volatility was calculated based on the Company's 30 day VWAP share price using the exponentially weighted moving average of returns.

The fair value of restricted stock vesting during the three months ended September 30, 2014 and 2013, respectively, was \$0.8 million and \$0.2 million. The fair value of restricted stock is based on the closing price of the Company's stock quoted on The Nasdaq Global Select Market on the date of grant.

12. Stock-based compensation (continued)**Stock-based compensation charge and unrecognized compensation cost**

The Company has recorded a stock-based compensation charge of \$0.9 million during each of the three months ended September 30, 2014 and 2013, respectively, which comprised:

		Total charge	Allocated to cost of goods sold, IT processing, servicing and support	Allocated to selling, general and administration
Three months ended September 30, 2014				
Stock-based compensation charge	\$	916	\$ -	\$ 916
Total three months ended September 30, 2014	\$	916	\$ -	\$ 916
Three months ended September 30, 2013				
Stock-based compensation charge	\$	930	\$ -	\$ 930
Total three months ended September 30, 2013	\$	930	\$ -	\$ 930

The stock-based compensation charges have been allocated to selling, general and administration based on the allocation of the cash compensation paid to the employees.

As of September 30, 2014, the total unrecognized compensation cost related to stock options was approximately \$2.8 million, which the Company expects to recognize over approximately three years. As of September 30, 2014, the total unrecognized compensation cost related to restricted stock awards was approximately \$2.2 million, which the Company expects to recognize over approximately two years.

As of each of September 30, 2014 and June 30, 2014, respectively, the Company has recorded a deferred tax asset of approximately \$1.2 million related to the stock-based compensation charge recognized related to employees and directors of Net1 as it is able to deduct the grant date fair value for taxation purposes in the United States.

13. Earnings per share

Basic earnings per share include shares of restricted stock that meet the definition of a participating security because these shares are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the three months ended September 30, 2014 and 2013, reflects only undistributed earnings. The computation below of basic earnings per share excludes the net income attributable to shares of unvested restricted stock (participating non-vested restricted stock) from the numerator and excludes the dilutive impact of these unvested shares of restricted stock from the denominator.

Diluted earnings per share has been calculated to give effect to the number of shares of additional common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. Stock options are included in the calculation of diluted earnings per share utilizing the treasury stock method and are not considered to be participating securities as the stock options do not contain non-forfeitable dividend rights. The calculation of diluted earnings per share includes the dilutive effect of a portion of the restricted stock granted to employees in February 2012, August 2013 and August 2014 as these shares of restricted stock are considered contingently returnable shares for the purposes of the diluted earnings per share calculation and the vesting conditions in respect of a portion of the restricted stock had been satisfied. The vesting conditions are discussed in Note 18 to the Company's

audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2014.

13. Earnings per share (continued)

The following table presents net income attributable to Net1 (income from continuing operations) and the share data used in the basic and diluted earnings per share computations using the two-class method:

		Three months ended September 30, 20142013	
		(in thousands except percent and per share data)	
Numerator:			
Net income attributable to Net1	\$	24,089	\$ 11,596
Undistributed earnings		24,089	11,596
Percent allocated to common shareholders (Calculation 1)		99%	99%
Numerator for earnings per share: basic and diluted	\$	23,847	\$ 11,495
Denominator:			
Denominator for basic earnings per share: weighted-average common shares outstanding		46,751	45,216
Effect of dilutive securities:			
Stock options		109	71
Denominator for diluted earnings per share: adjusted weighted average common shares outstanding and assumed conversion		46,860	45,287
Earnings per share:			
Basic	\$	0.51	\$ 0.25
Diluted	\$	0.51	\$ 0.25
(Calculation 1)			
Basic weighted-average common shares outstanding (A)		46,751	45,216
Basic weighted-average common shares outstanding and unvested restricted shares expected to vest (B)		47,226	45,613
Percent allocated to common shareholders (A) / (B)		99%	99%

Options to purchase 1,858,853 shares of the Company's common stock at prices ranging from \$11.23 to \$24.46 per share were outstanding during the three months ended September 30, 2014, but were not included in the computation of diluted earnings per share because the options' exercise price were greater than the average market price of the Company's common stock. The options, which expire at various dates through August 27, 2024, were still outstanding as of September 30, 2014.

14. Supplemental cash flow information

The following table presents supplemental cash flow disclosures for the three months ended September 30, 2014 and 2013:

**Three months ended
September 30,**

	2014		2013	
Cash received from interest	\$	4,163	\$	3,241
Cash paid for interest	\$	1,218	\$	1,639
Cash paid for income taxes	\$	5,160	\$	498

The sale of the Company's NUETS business is described in Note 19 to its audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2014. The Company received cash sale proceeds of \$1.9 million related to this transaction in July 2014.

As discussed in Note 12, during the three months ended September 30, 2014, employees exercised stock options through the delivery 336,584 shares of the Company's common stock at the closing price on September 9, 2014 or \$13.93 under the terms of their option agreements. These shares are included in the Company's total share count and amount reflected as treasury shares on the unaudited condensed consolidated balance sheet as of September 30, 2014 and unaudited condensed consolidated statement of changes in equity for the three months ended September 30, 2014.

15. Operating segments

The Company discloses segment information as reflected in the management information systems reports that its chief operating decision maker uses in making decisions and to report certain entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets or reports material revenues. A description of the Company's operating segments is contained in Note 23 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2014.

The reconciliation of the reportable segments revenue to revenue from external customers for the three months ended September 30, 2014 and 2013, respectively, is as follows:

	Revenue		
	Reportable Segment	Inter-segment	From external customers
South African transaction processing	\$ 60,252	\$ 5,121	\$ 55,131
International transaction processing	43,204	-	43,204
Financial inclusion and applied technologies	65,197	7,091	58,106
Total for the three months ended September 30, 2014	168,653	12,212	156,441
South African transaction processing	57,161	700	56,461
International transaction processing	37,541	-	37,541
Financial inclusion and applied technologies	36,796	7,304	29,492
Total for the three months ended September 30, 2013	\$ 131,498	\$ 8,004	\$ 123,494

The Company does not allocate interest income, interest expense or income tax expense to its reportable segments. The Company evaluates segment performance based on segment operating income before acquisition-related intangible asset amortization which represents operating income before acquisition-related intangible asset amortization and allocation of expenses allocated to Corporate/Eliminations, all under GAAP. The reconciliation of the reportable segments measure of profit or loss to income before income taxes for the three months ended September 30, 2014 and 2013, respectively, is as follows:

	For the three months ended September 30,	
	2014	2013
Reportable segments measure of profit or loss	\$ 38,595	\$ 24,820
Operating income: Corporate/Eliminations	(5,470)	(8,420)
Interest income	4,090	3,319
Interest expense	(1,312)	(1,752)
Income before income taxes	\$ 35,903	\$ 17,967

The following tables summarize segment information which is prepared in accordance with GAAP for the three months ended September 30, 2014 and 2013:

	For the three months ended September 30,	
	2014	2013
Revenues		
South African transaction processing	\$ 60,252	\$ 57,161

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International transaction processing	43,204	37,541
Financial inclusion and applied technologies	65,197	36,796
Total	168,653	131,498
Operating income (loss)		
South African transaction processing	13,639	6,461
International transaction processing	7,349	5,524
Financial inclusion and applied technologies	17,607	12,835
Subtotal: Operating segments	38,595	24,820
Corporate/Eliminations	(5,470)	(8,420)
Total	\$ 33,125	\$ 16,400

20

15. Operating segments (continued)

	For the three months ended September 30,	
	2014	2013
Depreciation and amortization		
South African transaction processing	\$ 1,722	\$ 1,873
International transaction processing	4,372	4,259
Financial inclusion and applied technologies	179	149
Subtotal: Operating segments	6,273	6,281
Corporate/Eliminations	3,901	3,748
Total	10,174	10,029
Expenditures for long-lived assets		
South African transaction processing	682	556
International transaction processing	8,327	4,831
Financial inclusion and applied technologies	369	229
Subtotal: Operating segments	9,378	5,616
Corporate/Eliminations	-	-
Total	\$ 9,378	\$ 5,616

The segment information as reviewed by the chief operating decision maker does not include a measure of segment assets per segment as all of the significant assets are used in the operations of all, rather than any one, of the segments. The Company does not have dedicated assets assigned to a particular operating segment. Accordingly, it is not meaningful to attempt an arbitrary allocation and segment asset allocation is therefore not presented.

It is impractical to disclose revenues from external customers for each product and service or each group of similar products and services.

16. Income tax**Income tax in interim periods**

For the purposes of interim financial reporting, the Company determines the appropriate income tax provision by first applying the effective tax rate expected to be applicable for the full fiscal year to ordinary income. This amount is then adjusted for the tax effect of significant unusual or extraordinary items, for instance, changes in tax law, valuation allowances and non-deductible transaction-related expenses that are reported separately, and have an impact on the tax charge. The cumulative effect of any change in the enacted tax rate, if and when applicable, on the opening balance of deferred tax assets and liabilities is also included in the tax charge as a discrete event in the interim period in which the enactment date occurs.

For the three months ended September 30, 2014, the tax charge was calculated using the expected effective tax rate for the year. The Company's effective tax rate for the three months ended September 30, 2014, was 32.4% and was higher than the South African statutory rate primarily as a result of non-deductible expenses (including consulting and legal fees, interest expense related to the Company's long-term Korean borrowings and stock-based compensation charges).

The Company's effective tax rate for the three months ended September 30, 2013, was 36.1% and was higher than the South African statutory rate as a result of non-deductible expenses (including interest expense related to the Company's long-term Korean borrowings and stock-based compensation charges).

Uncertain tax positions

There were no changes during the three months ended September 30, 2014. As of September 30, 2014, the Company had accrued interest related to uncertain tax positions of approximately \$0.2 million on its balance sheet.

The Company does not expect changes related to its unrecognized tax benefits will have a significant impact on its results of operations or financial position in the next 12 months.

As of September 30, 2014 and June 30, 2014, respectively the Company has unrecognized tax benefits of \$1.1 million and \$1.2 million, all of which would impact the Company's effective tax rate. The Company files income tax returns mainly in South Africa, South Korea, Austria, Botswana and in the US federal jurisdiction. As of September 30, 2014, the Company's South African subsidiaries are no longer subject to income tax examination by the South African Revenue Service for periods before June 30, 2009. The Company is subject to income tax in other jurisdictions outside South Africa, none of which are individually material to its financial position, statement of cash flows, or results of operations.

17. Commitments and contingencies

Guarantees

The South African Revenue Service and certain of the Company's customers, suppliers and other business partners have asked the Company to provide them with guarantees, including standby letters of credit, issued by a South African bank. The Company is required to procure these guarantees for these third parties to operate its business.

Nedbank has issued guarantees to these third parties amounting to ZAR 135.0 million (\$12.0 million, translated at exchange rates applicable as of September 30, 2014) and thereby utilizing part of the Company's short-term facility. The Company in turn has provided nonrecourse, unsecured counter-guarantees to Nedbank for ZAR 125.0 million (\$11.1 million, translated at exchange rates applicable as of September 30, 2014). The Company pays commission of between 0.2% per annum to 2.0% per annum of the face value of these guarantees and does not recover any of the commission from third parties.

The Company has not recognized any obligation related to these counter-guarantees in its consolidated balance sheet as of September 30, 2014 and June 30, 2014. The maximum potential amount that the Company could pay under these guarantees is ZAR 135.0 million (\$12.0 million, translated at exchange rates applicable as of September 30, 2014). The guarantees have reduced the amount available for borrowings under the Company's short-term credit facility described in Note 8.

Contingencies

Securities Litigation

On December 24, 2013, Net1, its chief executive officer and its chief financial officer were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws. The lawsuit was brought on behalf of a purported shareholder of Net1 and all other similarly situated shareholders who purchased Net1's securities between August 27, 2009 and November 27, 2013. On July 23, 2014, the Court appointed a lead plaintiff and lead counsel. On September 22, 2014, the lead plaintiff filed an amended complaint alleging that Net1 made materially false and misleading statements in that it failed to disclose material adverse information and misrepresented the truth about the Company's finances and business prospects. The amended complaint seeks unspecified damages on behalf of the lead plaintiff and all other similarly situated shareholders who purchased Net1's securities between January 18, 2012 and December 4, 2012, which is a shorter class period than proposed in the original complaint. No motion for class certification has been filed. The Company believes this lawsuit has no merit and intends to defend it vigorously.

The Company is subject to a variety of insignificant claims and suits that arise from time to time in the ordinary course of business.

Management currently believes that the resolution of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's financial position, results of operations and cash flows.

18. Subsequent events

As ordered by the South African Constitutional Court in its April 2014 ruling, SASSA has initiated a new tender process for a five-year contract relating to the payment of social grants. SASSA issued a request for proposals on October 22, 2014. Bidders are required to submit proposals by December 12, 2014. The Company cannot predict with certainty what the timing or ultimate outcome of the tender process will be, or if a new tender award will be made at all after the process is complete.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended June 30, 2014, and the unaudited condensed consolidated financial statements and the accompanying notes included in this Form 10-Q.

Forward-looking statements

Some of the statements in this Form 10-Q constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. Such factors include, among other things, those listed under Item 1A. Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2014, and Item 1A Risk Factors and elsewhere in this Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, would, expects, plans, intends, anticipates, believes, estimates, projections, or the negative of such terms and other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we do not know whether we can achieve positive future results, levels of activity, performance, or goals. Actual events or results may differ materially. We undertake no obligation to update any of the forward-looking statements after the date of this Form 10-Q to conform those statements to reflect the occurrence of unanticipated events, except as required by applicable law.

You should read this Form 10-Q and the documents that we reference herein and the documents we have filed as exhibits hereto and which we have filed with the Securities and Exchange Commission completely and with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Recent Developments

Transactions in preparation for new SASSA tender

On August 27, 2014, we entered into a Subscription and Sale of Shares Agreement with Business Venture Investments No 1567 Proprietary Limited (RF), or BVI, one of our BEE partners, in preparation for any new potential SASSA tender. Pursuant to the agreement: (i) we repurchased BVI's remaining 1,837,432 shares of Net1 common stock for approximately ZAR 97.4 million in cash (\$9.2 million translated at exchange rates prevailing as of August 27, 2014) and (ii) BVI has subscribed for new ordinary shares of Cash Paymaster Services (Pty) Ltd, or CPS, representing approximately 12.5% of CPS' ordinary shares outstanding after the subscription for ZAR 15.0 million in cash (approximately \$1.4 million translated at exchange rates prevailing as of August 27, 2014). In connection with transactions described above, the CPS shareholder agreement that was negotiated as part of the original December 2013 Relationship Agreement became effective.

Commencement of new SASSA tender process

On October 10, 2014, SASSA announced the commencement of a new tender process in the South African Government Gazette by inviting proposals for the provision of payment services for social assistance benefits, or RFP. According to information provided on the website www.sa-tenders.co.za, the following is applicable to this process:

- Bids will be evaluated on functionality as stipulated in the Terms of References and only service providers who score a minimum of 70 percent on functionality will proceed to be evaluated further on price and

B-BBEE level of contribution.

- Bids will be evaluated in accordance with the 90/10 preference point system, where a weighting of 90 is allocated to price and a weighting of 10 is awarded to bidders in accordance with their B-BBEE contributor status level.

As reported on SASSA's website, the submission date was initially November 21, 2014. However, as per notices on the SASSA website, the bid submission date has been extended a number of times and currently the submission date is December 12, 2014. The bid instructions state that neither bidders nor their agents are allowed to circulate any news or press releases concerning the RFP, or the awarding of the RFP or any resulting agreements without the written consent of, or in consultation with SASSA. We cannot predict the timing of the tender process or what the outcome will be.

See Part II, Item 1A. Risk Factors, for additional details.

Critical Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in accordance with US GAAP, which requires management to make estimates and assumptions about future events that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities. As future events and their effects cannot be determined with absolute certainty, the determination of estimates requires management's judgment based on a variety of assumptions and other determinants such as historical experience, current and expected market conditions and certain scientific evaluation techniques.

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially may result in materially different results under different assumptions and conditions. Management has identified the following critical accounting policies that are described in more detail in our Annual Report on Form 10-K for the year ended June 30, 2014:

- Business combinations and the recoverability of goodwill;
- Intangible assets acquired through acquisitions;
- Deferred taxation;
- Stock-based compensation and equity instrument issued pursuant to BEE transaction;
- Accounts receivable and allowance for doubtful accounts receivable; and
- Research and development.

Recent accounting pronouncements adopted

Refer to Note 1 to our unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements adopted, including the dates of adoption and the effects on our condensed consolidated financial statements.

Recent accounting pronouncements not yet adopted as of September 30, 2014

Refer to Note 1 to our unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of September 30, 2014, including the expected dates of adoption and effects on our financial condition, results of operations and cash flows.

Currency Exchange Rate Information

Actual exchange rates

The actual exchange rates for and at the end of the periods presented were as follows:

Table 1	Three months ended		Year ended
	September 30,	September 30,	
	2014	2013	2014
ZAR : \$ average exchange rate	10.7581	10.0015	10.3798
Highest ZAR : \$ rate during period	11.2641	10.4936	11.2579
Lowest ZAR : \$ rate during period	10.5128	9.5436	9.6259
Rate at end of period	11.2641	10.1123	10.5887
KRW : \$ average exchange rate	1,027	1,113	1,068
Highest KRW : \$ rate during period	1,051	1,152	1,147
Lowest KRW : \$ rate during period	1,009	1,045	1,014
Rate at end of period	1,051	1,083	1,014

ZAR: US \$ Exchange Rates

KRW: US \$ Exchange Rates

Translation exchange rates for financial reporting purposes

We are required to translate our results of operations from ZAR and KRW to US dollars on a monthly basis. Thus, the average rates used to translate this data for the three months ended September 30, 2014 and 2013, vary slightly from the averages shown in the table above. The translation rates we use in presenting our results of operations are the rates shown in the following table:

Table 2	Three months ended		Year ended
	September 30,	September 30,	June 30,
	2014	2013	2014
Income and expense items: \$1 = ZAR	10.7431	10.0001	10.3966
Income and expense items: \$1 = KRW	1,029	1,141	1,049
Balance sheet items: \$1 = ZAR	11.2641	10.1123	10.5887
Balance sheet items: \$1 = KRW	1,051	1,083	1,014

Results of operations

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