

NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
May 05, 2011

**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 **March 31, 2011**

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

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

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 May 3, 2011 (the latest practicable date), 45,535,353 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.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets at March 31, 2011 and June 30, 2010</u>	<u>2</u>
<u>Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2011 and 2010</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Changes in Equity for the Three and Nine Months Ended March 31, 2011</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended March 31, 2011 and 2010</u>	<u>5</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three and Nine Months Ended March 31, 2011 and 2010</u>	<u>6</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>44</u>
<u>Item 4. Controls and Procedures</u>	<u>45</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>46</u>
<u>Item 1A. Risk Factors</u>	<u>46</u>
<u>Item 6. Exhibits</u>	<u>49</u>
<u>Signatures</u>	
EXHIBIT 31.1	
EXHIBIT 31.2	
EXHIBIT 32	

Part I. Financial Information

Item 1. Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Condensed Consolidated Balance Sheets

	Unaudited March 31, 2011	(A) June 30, 2010
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 88,890	\$ 153,742
Pre-funded social welfare grants receivable (Note 3)	3,199	6,660
Accounts receivable, net of allowances of March: \$398; June: \$807	75,125	41,854
Finance loans receivable	8,514	4,221
Inventory (Note 4)	7,113	3,622
Deferred income taxes	18,748	16,330
Total current assets before settlement assets	201,589	226,429
Settlement assets	146,441	83,661
Total current assets	348,030	310,090
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION OF March: \$46,189; June: \$35,271		
	33,861	7,286
EQUITY-ACCOUNTED INVESTMENTS (Note 5)	1,893	2,598
GOODWILL (Note 6)	187,026	76,346
INTANGIBLE ASSETS, NET OF ACCUMULATED AMORTIZATION OF March: \$31,764; June: \$34,226 (Note 6)		
	147,922	68,347
OTHER LONG-TERM ASSETS, including available for sale securities (Note 5)	21,640	7,423
TOTAL ASSETS	740,372	472,090
LIABILITIES		
CURRENT LIABILITIES		
Bank overdraft	454	-
Accounts payable	16,101	3,596
Other payables	62,471	50,855
Current portion of long-term borrowings (note 8)	7,347	-
Income taxes payable	12,771	3,476
Total current liabilities before settlement obligations	99,144	57,927
Settlement obligations	146,441	83,661
Total current liabilities	245,585	141,588
DEFERRED INCOME TAXES	58,698	38,858
LONG-TERM BORROWINGS (note 8)	115,205	-
OTHER LONG-TERM LIABILITIES, including non-controlling interest loans	1,029	4,343
TOTAL LIABILITIES	420,517	184,789
COMMITMENTS AND CONTINGENCIES	-	-
EQUITY		
NET1 EQUITY:		
COMMON STOCK (Note 9)	59	59
Authorized: 200,000,000 with \$0.001 par value;		
Issued and outstanding shares, net of treasury - March: 45,535,353;		

June:

45,378,397

PREFERRED STOCK		
Authorized shares: 50,000,000 with \$0.001 par value;		
Issued and outstanding shares, net of treasury: 2011: -; 2010: -	-	-
ADDITIONAL PAID-IN-CAPITAL	139,211	133,543
TREASURY SHARES, AT COST: March: 13,149,042; June: 13,149,042	(173,671)	(173,671)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(36,900)	(66,396)
RETAINED EARNINGS	388,158	392,343
TOTAL NET1 EQUITY	316,857	285,878
NON-CONTROLLING INTEREST	2,998	1,423
TOTAL EQUITY	319,855	287,301
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 740,372	\$ 472,090

(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		Nine months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
	(In thousands, except per share data)		(In thousands, except per share data)	
REVENUE	\$ 92,758	\$ 72,291	\$ 246,052	\$ 211,669
EXPENSE				
Cost of goods sold, IT processing, servicing and support	29,302	17,910	76,551	55,652
Selling, general and administration	32,618	22,381	91,707	58,987
Depreciation and amortization	11,192	5,141	25,188	14,384
Impairment loss (note 6)	41,771	-	41,771	-
OPERATING (LOSS) INCOME	(22,125)	26,859	10,835	82,646
INTEREST (EXPENSE) INCOME, net	(955)	2,206	(199)	6,470
(LOSS) INCOME BEFORE INCOME TAXES	(23,080)	29,065	10,636	89,116
INCOME TAX (BENEFIT) EXPENSE (Note 13)	(1,603)	10,441	14,440	32,964
NET (LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE LOSS FROM EQUITY- ACCOUNTED INVESTMENTS	(21,477)	18,624	(3,804)	56,152
LOSS FROM EQUITY-ACCOUNTED INVESTMENTS (Note 5)	(127)	(44)	(509)	(425)
NET (LOSS) INCOME	(21,604)	18,580	(4,313)	55,727
ADD NET LOSS ATTRIBUTABLE TO NON- CONTROLLING INTEREST	(42)	(192)	(128)	(270)
NET (LOSS) INCOME ATTRIBUTABLE TO NET1	\$ (21,562)	\$ 18,772	\$ (4,185)	\$ 55,997
Net (loss) income per share, in United States dollars (Note 10)	(\$0.47)	\$ 0.41	(\$0.09)	\$ 1.20

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

Basic (loss) earnings attributable to Net1
shareholders

Diluted (loss) earnings attributable to Net1 shareholders	(\$0.47) \$	0.41	(\$0.09) \$	1.20
--	-------------	------	-------------	------

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statement of Changes in Equity (in thousands)
Net 1 UEPS Technologies, Inc. Shareholder

	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Additional Paid-In Capital	Retained Earnings	Accumulated other comprehensive (loss) income	Total Net Equity
Balance July 1, 2010	58,527,439	\$ 59	(13,149,042)	\$ (173,671)	\$ 133,543	\$ 392,343	\$ (66,396)	\$ 285,878
Restricted stock granted	156,956							
Loan portion related to options					20			20
Stock-based compensation charge					4,593			4,593
Utilization of APIC pool related to vested restricted stock					(160)			(160)
Acquisition of KSNET (note 2)								-
Acquisition of 19.90% non-controlling interest (note 2)					1,215		(290)	925
Comprehensive loss, net of taxes:								
Net loss						(4,185)		(4,185)
Other comprehensive income:								
Movement in foreign currency translation reserve							29,786	29,786

Balance March

31, 2011 58,684,395 \$ 59 (13,149,042)\$ (173,671)\$ 139,211 \$ 388,158 \$ (36,900)\$ 316,857

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Net (loss) income	\$ (21,562)	\$ 18,772	\$ (4,185)	\$ 55,997
Other comprehensive income (loss), net of taxes:				
Net unrealized loss on asset available for sale, net of tax	-	-	-	(684)
Movement in foreign currency translation reserve	1,481	(4,830)	29,786	7,660
Total other comprehensive income (loss), net of taxes	1,481	(4,830)	29,786	6,976
Comprehensive (loss) income	(20,081)	13,942	25,601	62,973
(Add) Less comprehensive loss (gain)				
attributable to non-controlling interest	24	333	(287)	352
Comprehensive (loss) income attributable to Net1	\$ (20,105)	\$ 13,609	\$ 25,888	\$ 62,621

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
	(In thousands)		(In thousands)	
Cash flows from operating activities				
Net (loss) income	\$ (21,604)	\$ 18,580	\$ (4,313)	\$ 55,727
Depreciation and amortization	11,192	5,141	25,188	14,384
Impairment loss	41,771	-	41,771	-
Loss from equity-accounted investments	127	44	509	425
Fair value adjustments	417	183	655	12
Interest payable	1,406	74	1,546	229
(Loss) Profit on disposal of property, plant and equipment	(2)	29	(10)	31
Stock-based compensation charge	1,597	1,400	4,593	4,254
Facility fee amortized	113	-	1,841	-
Decrease (Increase) in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable	3,896	(3,314)	2,648	2,736
Decrease (Increase) in deferred expenditure on smart cards	-	55	-	(5)
(Increase) Decrease in inventory	(229)	(221)	(163)	2,465
(Decrease) Increase in accounts payable and other payables	(6,060)	1,325	(2,283)	(8,017)
Increase (Decrease) in taxes payable	7,140	7,343	5,910	7,027
(Decrease) Increase in deferred taxes	(11,500)	1,070	(24,438)	3,181
Net cash provided by operating activities	28,264	31,709	53,454	82,449
Cash flows from investing activities				
Capital expenditures	(4,679)	(984)	(9,458)	(2,310)
Proceeds from disposal of property, plant and equipment	10	62	28	124
Advance of loans to equity-accounted investment	-	-	(375)	-
Repayment of loan by equity-accounted investment	33	-	440	-
Acquisition of KSNET, net of cash acquired	-	-	(230,225)	-
Acquisition of MediKredit, net of cash acquired	-	(981)	-	(981)
Net change in settlement assets	7,397	280	(39,788)	280
Net cash provided by (used in) investing activities	2,761	(1,623)	(279,378)	(2,887)
Cash flows from financing activities				
Loan portion related to options	-	-	20	720
Treasury stock acquired	-	-	-	(126,304)
Long-term borrowings obtained (Note 8)	-	-	116,353	-
Facilities fees paid	-	-	(3,088)	-
Acquisition of remaining 19.9% of Net1 UTA	-	-	(594)	-
Repayment of short-term borrowings	(7,124)	-	(6,705)	(137)

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

Net change in settlement obligations	(7,397)	(280)	39,788	(280)
Net cash (used in) generated from financing activities	(14,521)	(280)	145,774	(126,001)
Effect of exchange rate changes on cash	1,003	1,664	15,298	9,994
Net increase (decrease) in cash and cash equivalents	17,507	31,470	(64,852)	(36,445)
Cash and cash equivalents beginning of period	71,383	152,871	153,742	220,786
Cash and cash equivalents end of period \$	88,890 \$	184,341 \$	88,890 \$	184,341

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the Unaudited Condensed Consolidated Financial Statements
for the three and nine months ended March 31, 2011 and 2010**

(All amounts stated in 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 and nine months ended March 31, 2011 and 2010 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, 2010 and the financial statements, accounting policies and financial notes thereto of KSNET, Inc. (KSNET) included in the Company s Current Report on Form 8-K/A filed on January 12, 2011. 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.

Translation of foreign currencies

The primary functional currency of the Company is the South African Rand (ZAR) and its reporting currency is the US dollar. The Company also has consolidated entities which have the euro, Russian ruble, Korean won (KRW) or Indian rupee as their functional currency. The current rate method is used to translate the financial statements of the Company to US dollar. Under the current rate method, assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the period. Translation gains and losses are reported in accumulated other comprehensive income in total equity.

Foreign exchange transactions are translated at the spot rate ruling at the date of the transaction. Monetary items are translated at the closing spot rate at the balance sheet date. Transactional gains and losses are recognized in income for the period.

Recent accounting pronouncements adopted

On July 1, 2010, the Company adopted the new Financial Accounting Standards Board (FASB) guidance on the consolidation of variable interest entities. This guidance changed how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity s purpose and design and the reporting entity s ability to direct the activities of the other entity that most significantly impact the other entity s economic performance. The guidance also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to such involvement. The adoption of this guidance did not have an impact on the Company s condensed

consolidated financial statements.

On July 1, 2010, the Company adopted the new FASB guidance issued on the accounting for transfers of financial assets. This guidance requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity, changes the requirements for de-recognizing financial assets, and requires additional disclosures. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

1. Basis of Presentation and Summary of Significant Accounting Policies

Recent accounting pronouncements adopted (continued)

On July 1, 2010, the Company adopted the new FASB guidance on revenue recognition in multiple-deliverable revenue arrangements. The guidance amended the existing guidance on allocating consideration received between the elements in a multiple-deliverable arrangement and established a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on VSOE if available, third-party evidence if VSOE is not available, or estimated selling price if neither VSOE nor third-party evidence is available. The guidance replaced the term *fair value* in the revenue allocation with *selling price* to clarify that the allocation of revenue is based on entity specific assumptions rather than the assumptions of a market place participant. The guidance eliminates the residual method of allocation and requires that arrangement consideration be allocated using the relative selling price method. It also significantly expands the disclosures related to a vendor's multiple-deliverable revenue arrangements. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements for the periods presented.

On July 1, 2010, the Company adopted the new FASB guidance which amended the scope of existing software revenue recognition accounting. Tangible products containing software components and non-software components that function together to deliver the product's essential functionality would be scoped out of the accounting guidance on software and accounted for based on other appropriate revenue recognition guidance. This guidance must be adopted in the same period that the company adopts the amended guidance for arrangements with multiple deliverables described in the preceding paragraph. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements for the periods presented.

On July 1, 2010, the Company adopted new FASB guidance on the effect of denominating the exercise price of a share-based payment award in the currency of the market in which the underlying equity security trades. This guidance clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements for the periods presented.

On January 1, 2011, the Company adopted new FASB guidance related to disclosure of supplementary pro forma information for business combinations. The guidance specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance has impacted the presentation of the Company's pro forma information for business combination disclosed in note 2 to the Company's unaudited condensed consolidated financial statements for the three and nine months ended March 31, 2011.

Recent accounting pronouncements not yet adopted as of March 31, 2011

In December 2010, the FASB issued guidance regarding *Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts*. The guidance modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires the company to perform Step 2 if it is more likely than not that a goodwill impairment may exist. The guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company will adopt the authoritative guidance on July 1, 2011 and is currently assessing the impact on its condensed consolidated financial statements.

2. Acquisitions

2011 acquisitions

98.73% of KSNET

On October 29, 2010, the Company acquired KSNET for KRW 270 billion (approximately \$240 million based on exchange rates on October 29, 2010), subject to post-closing working capital adjustment which is still being determined between the Company and the former shareholders of KSNET. The acquisition of KSNET expands the Company's international footprint as well as diversifies the Company's revenue, earnings and product portfolio. Over time, the combination is expected to capitalize on multiple revenue synergies and provide an established base in Asia for further business development activities in the region.

2. Acquisitions (continued)**2011 acquisitions (continued)****98.73% of KSNET (continued)**

Most of KSNET's revenue is derived from the provision of payment processing services to approximately 200,000 merchants and to card issuers in Korea through its value added network, or VAN. KSNET has a diverse product offering and the Company believes it is the only total payments solutions provider offering card VAN, payment gateway and banking VAN services in Korea, which differentiates KSNET from other Korean payment solution providers and allows it to cross-sell its products across its customer base.

The following table sets forth the preliminary allocation of the purchase price:

Cash and cash equivalents	\$	10,507
Accounts receivable, net		28,748
Inventory		2,788
Settlement assets		13,164
Long-term receivable,		288
Property, plant and equipment, net		24,052
Goodwill (note 6)		100,922
Intangible assets, net (note 6)		127,796
Other long-term assets		6,263
Trade payables		(9,643)
Other payables		(13,202)
Income taxes payable		(2,428)
Settlement obligations		(13,164)
Long-term deferred income tax liabilities		(31,063)
Other long-term liabilities		(1,199)
Total net assets of KSNET attributable to shareholders, including goodwill		243,829
Less attributable to non-controlling interest		(3,097)
Total purchase price	\$	240,732

The preliminary purchase price allocation is based on management estimates as of March 31, 2011, and may be adjusted up to one year following the closing of the acquisition. The purchase price allocation has not been finalized, as management has not yet analyzed in detail the assets acquired and liabilities assumed. The Company expects to finalize the purchase price allocation on or before June 30, 2011.

The Company incurred transaction-related expenditures of \$0.5 million and \$5.6 million, respectively, during the three and nine months ended March 31, 2011, related to this acquisition and expects to incur some additional expenses during the three months ending June 30, 2011. The Company is currently unable to quantify the amount of these additional expenditures.

The results of KSNET's operations are reflected in the Company's financial statements from November 1, 2010. The following pro forma revenue, net income and per share information has been prepared as if the acquisition of KSNET had occurred on July 1, 2009:

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
Revenue	\$ 92,758	\$ 94,940	\$ 278,157	\$ 274,463

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

Net (loss) income	(21,064)	13,636	(3,890)	39,574
(Loss) Earnings per share basic in United States dollars	(0.46)	0.30	(0.09)	0.85
(Loss) Earnings per share diluted in United States dollars	\$ (0.46)	\$ 0.30	\$ (0.09)	\$ 0.85

9

2. Acquisitions (continued)**2011 acquisitions (continued)*****98.73% of KSNET (continued)***

The pro forma financial information presented above includes the business combination accounting and other effects from the acquisition including (1) intangibles asset amortization expense related to acquired intangibles and the related deferred tax effects for the three and nine months ended March 31, 2011 and 2010; (2) the loss of interest income, net of taxation, as a result of funding a portion of the purchase price in cash for the three and nine months ended March 31, 2011 and 2010; (3) an increase in interest expense resulting from the long-term borrowing obtained to fund a portion of the purchase price for the three and nine months ended March 31, 2011 and 2010 and (4) an adjustment to exclude all applicable transaction-related costs recognized in our condensed consolidated statements of operations for the three and nine months ended March 31, 2010. The pro forma net income and per share information presented above does not include any cost savings or other synergies that may result from the acquisition.

The pro forma information as presented above is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had occurred on these dates.

Since the closing of the acquisition, KSNET has contributed revenue of \$41.0 million and a net loss, including transaction-related interest and intangible assets amortization related to assets acquired, net of deferred taxes, of \$4.3 million.

19.9% of Net1 UTA

On December 23, 2010, the Company acquired the remaining 19.9% of the issued share capital of Net 1 Universal Technologies (Austria) AG (Net1 UTA) for \$0.6 million in cash. The Company now owns 100% of Net1 UTA.

3. 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 April 2011 payment service commenced during the last four days of March 2011 and was offered at merchant locations only.

4. Inventory

The Company's inventory comprised the following categories as of March 31, 2011 and June 30, 2010.

	March 31, 2011	June 30, 2010
Raw materials	\$ 226	\$ 75
Finished goods	6,887	3,547
	\$ 7,113	\$ 3,622

5. Fair value of financial instruments and equity-accounted investments**Fair value of financial instruments*****Risk management***

The Company seeks to reduce its exposure to currencies other than the South African rand 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 uses foreign exchange forward contracts in order to limit its exposure in these transactions to fluctuations in exchange rates between the South African rand, on the one hand, and the US dollar and the euro, on the other hand.

5. Fair value of financial instruments and equity-accounted investments (continued)**Fair value of financial instruments (continued)***Risk management (continued)**Currency exchange risk (continued)*

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

As of March 31, 2011

None

As of March 31, 2010

Notional amount		Strike price		Fair market value price		Maturity
EUR	30,800	ZAR	10.4690	ZAR	9.9254	May 11, 2010
EUR	207,000	ZAR	10.1107	ZAR	10.0644	July 30, 2010
<i>Translation risk</i>						

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 two 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.

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.

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. 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.

5. Fair value of financial instruments and equity-accounted investments (continued)

Financial instruments

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

Investments in common stock

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.

The Company's Level 3 asset represents an investment of 84,632,525 shares of common stock of Finbond. The Company's ownership interest in Finbond as of March 31, 2011, is approximately 22%. The Company has no rights to participate in the financial, operating, or governance decisions made by Finbond. The Company also has no participation on Finbond's board of directors whether through contractual agreement or otherwise. Consequently, the Company has concluded that it does not have significant influence over Finbond and therefore equity accounting is not appropriate.

Finbond's shares are traded on the JSE Limited (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. Currently, the operations of Finbond include property investment and microlending. 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.

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 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				
Investment in common stock (available for sale assets included in OTHER LONG-TERM ASSETS)	- \$	90 \$	8,404 \$	8,494
Total assets at fair value	- \$	90 \$	8,404 \$	8,494

5. Fair value of financial instruments and equity-accounted investments (continued)**Financial instruments (continued)**

The following table presents the Company's assets measured at fair value on a recurring basis as of March 31, 2010 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				
Investment in common stock (available for sale assets included in OTHER LONG-TERM ASSETS)	-	-	\$ 6,754	\$ 6,754
Total assets at fair value	-	-	\$ 6,754	\$ 6,754
Liabilities				
Foreign exchange contracts	-	\$ 4	-	\$ 4
Total liabilities at fair value	-	\$ 4	-	\$ 4
<i>Assets and liabilities measured at fair value on a nonrecurring basis</i>				

The Company measures its equity-accounted investments at fair value on a nonrecurring basis. The Company has no liabilities that are measured at fair value on a nonrecurring basis. These equity-accounted investments are recognized at fair value when they are deemed to be other-than-temporarily impaired.

The Company reviews the carrying values of its investments 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 investments 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 investment 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.

During the three and nine months ended March 31, 2011, SmartSwitch Namibia repaid outstanding loans, including outstanding interest. The repayments received have been allocated to the equity-accounted investments presented in our condensed consolidated balance sheet as of March 31, 2011, and reduce this balance. The cash inflow from principal repayments have been allocated to cash flows from investing activities and the cash inflow from the interest repayments have been included in cash flow from operating activities in our condensed consolidated statement of cash flows for the three and nine months ended March 31, 2011.

During the three months ended March 31, 2011, SmartSwitch Botswana capitalized all shareholder loan funding provided and shareholders agreed to waive all interest on these loans. The net effect of the reversal of the interest and related foreign exchange effects are included in the Company's condensed consolidated statements of operations for the three and nine months ended March 31, 2011.

In July 2010, the Company provided additional loan funding of \$375,000 for a specific growth initiative at VTU Colombia. As of March 31, 2011, the Company's share in VTU Colombia's accumulated losses continued to exceed its investment. VTU Colombia's other shareholders are providing short-term funding for continued operations and the Company has no obligation to provide any additional funding at this stage.

The Company has sold hardware, software and/or licenses to SmartSwitch Namibia and SmartSwitch Botswana and defers recognition of 50% of the net income after tax related to these sales until SmartSwitch Namibia and SmartSwitch Botswana has used the purchased asset or has sold it to a third party. The deferral of the net income after tax is shown in the Elimination column in the table below.

The functional currency of the Company's equity-accounted investments is not the US dollar and thus the investments are restated at the period end US dollar/foreign currency exchange rate with an entry against accumulated other comprehensive loss. The functional currency of SmartSwitch Namibia is the Namibian dollar, the functional currency of SmartSwitch Botswana is the Botswana pula, the functional currency of VTU Colombia is the Colombian peso and the functional currency of Vinapay is the Vietnamese dong.

5. Fair value of financial instruments and equity-accounted investments (continued)**Financial instruments (continued)***Assets and liabilities measured at fair value on a nonrecurring basis (continued)*

Summarized below is the Company's interest in equity-accounted investments as of June 30, 2010 and March 31, 2011:

	Equity	Loans	Earnings (Loss)	Elimination	Total
Balance as of June 30, 2010	\$ 3,549	\$ 2,512	\$ (3,905)	\$ 442	\$ 2,598
Loans provided	-	375	-	-	375
Loan repaid	-	(510)	-	-	(510)
Interest repaid	-	-	-	(186)	(186)
Loans converted to equity	1,015	(1,015)	-	-	-
(Loss) Earnings from equity-accounted investments	-	-	(122)	(387)	(509)
SmartSwitch Namibia ⁽¹⁾	-	-	71	60	131
SmartSwitch Botswana ⁽¹⁾	-	-	329	(447)	(118)
VTU Colombia	-	-	(449)	-	(449)
VinaPay	-	-	(73)	-	(73)
Foreign currency adjustment ⁽²⁾	39	231	(74)	(71)	125
Balance as of March 31, 2011	\$ 4,603	\$ 1,593	\$ (4,101)	\$ (202)	\$ 1,893

(1) includes the recognition of realized net income.

(2) the foreign currency adjustment represents the effects of the combined net currency fluctuations between the functional currency of the equity-accounted investments and the US dollar.

Summarized below is the Company's equity-accounted (loss) earnings for the three months ended March 31, 2011:

	Loss	Elimination	Total
(Loss) Earnings from equity-accounted investments	\$ 432	\$ (559)	\$ (127)
SmartSwitch Namibia	29	16	45
SmartSwitch Botswana	423	(575)	(152)
VTU Colombia	-	-	-
VinaPay	\$ (20)	-	\$ (20)

There were no significant sales to these investees that require elimination during the three and nine months ended March 31, 2011 and 2010.

6. Goodwill and intangible assets**Goodwill**

Summarized below is the movement in the carrying value of goodwill for the nine months ended March 31, 2011.

Carrying
value

Balance as of June 30, 2010	\$	76,346
Acquisitions ⁽¹⁾		100,922
Foreign currency adjustment ⁽²⁾		9,758
Balance as of March 31, 2011	\$	187,026

(1) represents goodwill arising from the acquisition of KSNET and translated at the foreign exchange rate applicable on the date the transactions became effective. This goodwill has been allocated to the International transaction-based activities operating segment.

(2) the foreign currency adjustment represents the effects of the fluctuations between the ZAR against the US dollar and the KRW against the US dollar.

Goodwill associated with the acquisition of KSNET represents the excess of cost over the fair value of acquired net assets and is not tax deductible.

6. Goodwill and intangible assets (continued)**Goodwill (continued)**

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

	As of March 31, 2011	As of June 30, 2010
SA transaction-based activities	\$ 42,001	\$ 37,568
International transaction-based activities	102,359	-
Smart card accounts	-	-
Financial services	-	-
Hardware, software and related technology sales	42,666	38,778
Total	\$ 187,026	\$ 76,346

Intangible assets***Impairment loss***

The Company assesses the carrying value of intangible assets for impairment whenever events occur or circumstances change indicating that the carrying amount of the intangible asset may not be recoverable. During the three months ended March, 2011, one of Net1 UTA's largest customers advised the Company of its intention to transition to an alternative payment platform which will negatively impact the Company's revenue, net income and cash flow in the medium term. As a consequence of this development, as well as deteriorating trading conditions and uncertainty surrounding the timing and quantum of future net cash inflows, the Company reviewed customer relationships acquired as part of the Net1 UTA acquisition for impairment. As a result of this review, the Company recognized an impairment loss of approximately \$41.8 million related to the entire carrying value of customer relationships acquired in the Net1 UTA acquisition in August 2008. In addition, the Company reversed the deferred tax liability of \$10.4 million associated with this intangible asset.

The expected undiscounted future cash flows related to the Net1 UTA customer relationships was compared to the carrying value of the asset and management determined that the carrying value exceeded the undiscounted future cash flows. Accordingly, management performed the second step in the asset impairment analysis to determine the impairment loss. The second step requires a comparison of the carrying value of the customer relationships with its fair value. The fair value of the customer relationships was determined using an income approach valuation technique. The calculation of the fair value required the Company to make a number of assumptions and estimates about the fair value of assets and liabilities where the fair values were not readily available or observable.

The impairment loss has been allocated to the Company's Hardware, software and related technology sales operating segment.

KSNET intangible assets acquired

Summarized below is the fair value of the KSNET intangible assets acquired, translated at the exchange rate applicable as of October 31, 2010, and the weighted-average amortization period of the intangible assets:

Fair value as of October 31,	Weighted- Average Amortization period (in
---	--

	2010	years)
Finite-lived intangible asset:		
Customer relationships	\$ 95,066	10
Software and unpatented technology	28,397	5
Trademarks	\$ 4,333	9

On acquisition, the Company recognized a deferred tax liability of approximately \$31.0 million related to the acquisition of the intangible assets.

6. Goodwill and intangible assets (continued)**Intangible assets (continued)***Carrying value and amortization of intangible assets*

Summarized below is the carrying value and accumulated amortization of the intangible assets as of March 31, 2011 and June 30, 2010:

	As of March 31, 2011			As of June 30, 2010		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:						
Customer relationships (1)(2)	\$ 118,953	\$ (12,364)	\$ 106,589	\$ 77,452	\$ (22,519)	\$ 54,933
Software and unpatented technology (1)	41,151	(6,989)	34,162	11,047	(1,343)	9,704
FTS patent	5,598	(5,550)	48	5,007	(4,880)	127
Exclusive licenses	4,506	(4,427)	79	4,506	(3,941)	565
Trademarks (1)	8,590	(2,064)	6,526	3,766	(1,411)	2,355
Customer database	888	(370)	518	795	(132)	663
Total finite-lived intangible assets	\$ 179,686	\$ (31,764)	\$ 147,922	\$ 102,573	\$ (34,226)	\$ 68,347

(1) Includes the customer relationships, software and unpatented technology and trademarks acquired as part of the KSNET acquisition in October 2010.

(2) The Net1 UTA customer relationships that have been impaired are excluded from the March 31, 2011, balances but included in the June 30, 2010, balances.

Aggregate amortization expense on the finite-lived intangible assets for the three and nine months ended March 31, 2011, was approximately \$7.3 million and \$17.3 million, respectively (three and nine months ended March 31, 2010, was approximately \$4.0 million and \$11.3 million, respectively).

Future estimated annual amortization expense for the next five fiscal years, assuming exchange rates prevailing on March 31, 2011, 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.

2011	\$15,259
2012	18,921
2013	17,271
2014	14,509
2015	\$14,509

7. Short-term facilities

As of March 31, 2011, the Company had a short-term facility in South African rand of approximately \$36.5 million, translated at exchange rates applicable as of March 31, 2011, with Nedbank Limited (Nedbank). As of March 31, 2011, the overdraft rate on this facility was 7.85% . Certain of the Company s South African subsidiaries have provided a cross deed of suretyship whereby each of these companies has bound itself as surety and co-principal

debtor with each other for the fulfillment of each other's obligations under the facility. These South African subsidiaries have agreed that any debit and credit bank account balances with Nedbank may be set off against each other. Certain South African subsidiaries have ceded trade receivables with an aggregate value of approximately \$19.7 million, translated at exchange rates applicable as of March 31, 2011, as security for the facility as well as the Company's investment in Cash Paymaster Services (Proprietary) Limited, a wholly owned South African subsidiary. As of March 31, 2011, the Company had utilized none of its South African short-term facility.

In addition, Net1 UTA had short-term facilities of approximately \$1.4 million, translated at exchange rates applicable as of March 31, 2011, with each of two of Austria's largest banks. These facilities are available to the Company. The interest rate applicable to these short-term facilities is negotiated when the facilities are utilized. As of March 31, 2011, the Company had utilized none of its Austrian short-term facilities.

Management believes that the Company's current short-term facilities are sufficient in order to meet its future obligations as they arise.

8. Long-term borrowings

The Company financed a portion of the KSNET acquisition price and related transaction expenses with the proceeds of a KRW 130.5 billion (approximately \$115.9 million based on October 29, 2010 exchange rates) five-year senior secured loan facility provided by a consortium of banks under a facilities agreement (the Facilities Agreement). The Facilities Agreement provides for three separate facilities: a Facility A loan to the Company's wholly owned subsidiary, Net1 Applied Technologies Korea (Net1 Korea), of up to KRW 130.5 billion (divided into Facility A1 (KRW 65.5 billion) and Facility A2 (KRW 65.0 billion)) and a Facility B loan to KSNET of up to KRW 65.0 billion. The Facility B loan, if drawn, must be used to repay the Facility A2 loan and may be borrowed only if Net1 Korea and KSNET complete a merger transaction with each other. Interest on the loans is payable quarterly and is based on the Korean CD rate in effect from time to time plus a margin of 4.10% for Facility A loans and 3.90% for the Facility B loan. The CD rate was 3.0% on March 31, 2011. Total interest expense for the three and nine months ended March 31, 2011, was \$2.0 million and \$3.4 million, respectively. Interest of approximately \$1.4 million, translated at exchange rates applicable as of March 31, 2011, has been accrued as of March 31, 2011.

The Facility A1 loan matures on the fifth anniversary of the initial drawdown with no required principal prepayments. Principal on the Facility A2 loan and Facility B loan is repayable in scheduled installments, beginning twelve months after initial drawdown and thereafter, semi-annually with final maturity scheduled for 54 months after initial drawdown. The first scheduled installment of \$7.3 million, translated at exchange rates applicable as of March 31, 2011, is due on October 29, 2011, and has been classified as current in our condensed consolidated balance sheet.

The loans are secured by substantially all of KSNET's assets, a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of the Company's subsidiaries) of its entire equity interest in Net1 Korea. The Facilities Agreement contains customary covenants that require Net1 Korea and its consolidated subsidiaries to maintain certain specified financial ratios (including a leverage ratio and a debt service coverage ratio) 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 and engage in other corporate activities. The loans under the Facilities Agreement are without recourse to, and the covenants and other agreements contained therein do not apply to, the Company or any of our subsidiaries (other than Net1 Korea and its subsidiaries, including KSNET).

9. Capital structure

The Company's capital structure is described in Note 11 to the Company's audited consolidated financial statements included within the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

Common stock repurchases

During the three and nine months ended March 31, 2011, the Company did not repurchase any shares. On July 28, 2009, the Company repurchased an aggregate of 9,221,526 shares of its common stock from two shareholders, who originally acquired their shares in connection with the Aplitec transaction. The purchase price was \$13.50 (ZAR 105.98) per share and was paid from the Company's cash reserves in ZAR for an aggregate purchase price of \$124.5 million (ZAR 977.3 million).

10. Earnings per share

Basic earnings per share includes restricted stock awards that meet the definition of a participating security. Restricted stock awards 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 and nine months ended March 31, 2011 and 2010, reflects only undistributed earnings.

Diluted earnings per share have been calculated to give effect to the number of additional shares of common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. The calculation of diluted earnings per share for the three and nine months ended March 31, 2011 and 2010, includes the dilutive effect of a portion of the restricted stock awards granted to employees as these restricted stock awards are considered contingently issuable shares for the purposes of the diluted earnings per share calculation and as of March 31, 2011 and 2010, the vesting conditions in respect of a portion of the awards had not been satisfied.

10. Earnings per share (continued)

The following table details the weighted average number of outstanding shares used for the calculation of earnings per share for the three and nine months ended March 31, 2011 and 2010.

	Three months ended March 31,		Nine months ended March 31,	
	2011 000	2010 000	2011 000	2010 000
Weighted average number of outstanding shares of common stock basic	45,452	45,378	45,423	46,532
Weighted average effect of dilutive securities:				
employee stock options	107	265	66	193
Weighted average number of outstanding shares of common stock diluted	45,559	45,643	45,489	46,725

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

The following table summarizes stock option activity for the three and nine months ended March 31, 2011, and 2010:

		Number of shares	Weighted average exercise price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value
Outstanding	July 1, 2010	1,813,656	\$ 19.76	7.41	\$ 585	
Granted under Plan		307,000	10.59	10.00		\$ 801
Outstanding	March 31, 2011	2,120,656	\$ 18.44	7.08	\$ 239	
Outstanding	July 1, 2009	1,896,994	\$ 19.03	8.30	\$ 1,576	
Exercised		(83,338)	-	-	\$ 1,667	
Outstanding	March 31, 2010	1,813,656	\$ 19.76	7.66	\$ 3,586	

No stock options became exercisable during the three and nine months ended March 31, 2011 and 2010.

No stock options were exercised during the three and nine months ended March 31, 2011. During the nine months ended March 31, 2010, the Company received approximately \$0.3 million from stock options exercised and approximately \$0.4 million from repayment of stock option-related loans. The Company issues new shares to satisfy stock option exercises.

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

The following table summarizes restricted stock activity for the three and nine months ended March 31, 2011, and 2010:

		Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value
Non-vested	July 1, 2010	407,828	-
Granted	August 2010	13,956	\$185
Granted	October 2010	60,000	\$740
Granted	November 2010	83,000	\$879
Vested	September 2010	(201,704)	-
Non-vested	December 31, 2010	363,080	-
Vested	February 2011	(1,094)	-
Non-vested	March 31, 2011	361,986	-
Non-vested	July 1, 2009	597,162	-
Granted	August 2009	10,098	\$185
Vested	September 2009	(198,338)	-
Non-vested	December 31, 2009	408,922	-
Vested	February 2010	(1,094)	-
Non-vested	March 31, 2010	407,828	-

The fair value of restricted stock vested during the three and nine months ended March 31, 2011 was \$0.01 million and \$2.3 million, respectively and during the nine months ended March 31, 2010, was \$3.8 million.

Stock-based compensation charge and unrecognized compensation cost

The Company has recorded a stock compensation charge of \$1.6 million and \$1.4 million for the three months ended March 31, 2011 and 2010, 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 March 31, 2011			
Stock-based compensation charge	\$ 1,595	\$ 50	\$ 1,545
Total three months ended March 31, 2011	\$ 1,595	\$ 50	\$ 1,545
Three months ended March 31, 2010			
Stock-based compensation charge	\$ 1,400	\$ 50	\$ 1,350
Total three months ended March 31, 2010	\$ 1,400	\$ 50	\$ 1,350

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

The Company has recorded a stock compensation charge of \$4.6 million and \$4.3 million for the nine months ended March 31, 2011 and 2010, respectively, which comprised:

		Total charge		Allocated to cost of goods sold, IT processing, servicing and support		Allocated to selling, general and administration
Nine months ended March 31, 2011						
	Stock-based compensation charge	\$ 4,592	\$	152	\$	4,440
	Total	4,592	\$	152	\$	4,440
Nine months ended March 31, 2010						
	Stock-based compensation charge	\$ 4,254	\$	152	\$	4,102
	Total	4,254	\$	152	\$	4,102

The stock-based compensation charges have been allocated to cost of goods sold, IT processing, servicing and support and selling, general and administration based on the allocation of the cash compensation paid to the employees.

As of March 31, 2011, the total unrecognized compensation cost related to stock options was approximately \$3.6 million, which the Company expects to recognize over approximately three years. As of March 31, 2011, the total unrecognized compensation cost related to restricted stock awards was approximately \$3.0 million, which the Company expects to recognize over approximately four years.

As of March 31, 2011, the Company has recorded a deferred tax asset of approximately \$1.1 million related to the stock-based compensation charge recognized related to employees of Net1 as it is able to deduct the grant date fair value for taxation purposes in the United States.

12. 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.

The Company allocated its international transaction-based activities to a new operating segment, namely International transaction-based activities. This operating segment comprises the transaction processing activities of KSNET, Net1 Virtual Card, and NUETS transaction processing activities in Iraq. Segment results for fiscal 2010 have not been restated due to the insignificance of the transaction processing activities of Net1 Virtual Card, and NUETS transaction processing activities in Iraq. However, for comparative purposes in future periods, the Company's reported results for the nine months ended March 31, 2011, include all legacy international transaction-processing activities from July 1, 2010 and include KSNET from November 1, 2010.

The Company currently has five reportable segments: SA transaction-based activities, International transaction-based activities, Smart card accounts, Financial services and Hardware, software and related technology

sales. Each segment, other than International transaction-based activities and the Hardware, software and related technology sales segment, operates mainly within South Africa. The Company's reportable segments offer different products and services and require different resources and marketing strategies and share the Company's assets.

The SA transaction-based activities segment currently consists mainly of a state pension and welfare benefit distribution service provided to the South African government and transaction processing for retailers, utilities, medical-related claim service customers and banks. Fee income is earned based on the number of beneficiaries included in the government pay-file as well as from merchants and card holders using the Company's merchant retail application. In addition, utility providers and banks are charged a fee for transaction processing services performed on their behalf at retailers. This segment has individually significant customers that each provides more than 10% of the total revenue of the Company. For the three and nine months ended March 31, 2011, there was one such customer providing 44% and 48%, respectively, of total revenue (the three and nine months ended March 31, 2010: there was one such customer providing 65% and 67%, respectively, of total revenue).

12. Operating segments (continued)

The International transaction-based activities segment currently consists mainly of KSNET which generates revenue from the provision of payment processing services to merchants and card issuers through its VAN. This segment generates fee revenue from the provision of payment processing services and to a lesser extent from the sale of goods, primarily point of sale terminals, to customers in Korea. The segment also generates transaction fee revenue from transaction processing of UEPS-enabled smartcards through NUETS initiative in Iraq.

The Smart card accounts segment derives revenue from the provision of smart card accounts, as a fixed monthly fee per card is charged for the maintenance of these accounts.

The Financial services segment provides short-term loans as a principal and life insurance products on an agency basis and generates initiation and services fees.

The Hardware, software and related technology sales segment markets, sells and implements the UEPS as well as develops and provides Prism secure transaction technology, solutions and services. The segment also includes the operations of Net1 UTA, which comprise mainly hardware sales and licenses of the DUET system. The segment undertakes smart card system implementation projects, delivering hardware, software and business solutions in the form of customized systems. Sales of hardware, SIM cards, cryptography services, SIM card licenses and other software licenses are recorded within this segment. This segment also generates rental income from hardware provided to merchants enrolled in the Company's merchant retail application.

Corporate/Eliminations includes the Company's head office cost centers in addition to the elimination of inter-segment transactions.

The Company evaluates segment performance based on operating income. The following tables summarize segment information which is prepared in accordance with GAAP:

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
Revenues to external customers				
SA transaction-based activities	\$ 47,313	\$ 50,854	\$ 138,323	\$ 141,247
International transaction-based activities	24,627	-	42,047	-
Smart card accounts	8,288	7,956	24,692	24,167
Financial services	2,168	1,149	5,039	2,799
Hardware, software and related technology sales	10,362	12,332	35,951	43,456
Total	92,758	72,291	246,052	211,669
Inter-company revenues				
SA transaction-based activities	985	1,013	2,923	3,064
International transaction-based activities	-	-	-	-
Smart card accounts	-	-	-	-
Financial services	-	-	-	-
Hardware, software and related technology sales	517	664	1,509	1,548
Total	1,502	1,677	4,432	4,612
Operating income (loss)				

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

SA transaction-based activities	18,309	26,837	54,295	80,238
International transaction-based activities	780	-	896	-
Smart card accounts	3,767	3,616	11,221	10,985
Financial services	1,701	831	3,861	1,908
Hardware, software and related technology sales	(44,584)	(1,798)	(47,563)	(1,851)
Corporate/Eliminations	(2,098)	(2,627)	(11,875)	(8,634)
Total	(22,125)	26,859	10,835	82,646
Interest earned				
SA transaction-based activities	-	-	-	-
International transaction-based activities	-	-	-	-
Smart card accounts	-	-	-	-
Financial services	-	-	-	-
Hardware, software and related technology sales	-	-	-	-
Corporate/Eliminations	1,516	2,450	5,950	7,257
Total	\$ 1,516	\$ 2,450	\$ 5,950	\$ 7,257

21

12. Operating segments (continued)

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2011	2010	2011	2010
Interest expense				
SA transaction-based activities	\$ 178	\$ 222	\$ 526	\$ 744
International transaction-based activities	156	-	335	-
Smart card accounts	-	-	-	-
Financial services	15	-	15	1
Hardware, software and related technology sales	15	-	43	4
Corporate/Eliminations	2,107	22	5,230	38
Total	2,471	244	6,149	787
Depreciation and amortization				
SA transaction-based activities	2,237	2,108	6,708	4,552
International transaction-based activities	6,047	-	9,946	-
Smart card accounts	-	-	-	-
Financial services	131	129	402	380
Hardware, software and related technology sales	2,568	2,611	7,550	8,575
Corporate/Eliminations	209	293	582	877
Total	11,192	5,141	25,188	14,384
Income taxation expense				
SA transaction-based activities	5,077	7,511	15,056	22,517
International transaction-based activities	(55)	-	248	-
Smart card accounts	1,055	1,012	3,142	3,074
Financial services	473	233	1,077	534
Hardware, software and related technology sales	(11,041)	(389)	(11,618)	124
Corporate/Eliminations	2,888	2,074	6,535	6,715
Total	(1,603)	10,441	14,440	32,964
Net income (loss)				
SA transaction-based activities	13,054	19,140	38,714	57,145
International transaction-based activities	899	-	532	-
Smart card accounts	2,712	2,605	8,081	7,911
Financial services	1,214	599	2,768	1,373
Hardware, software and related technology sales	(36,561)	(1,491)	(39,057)	(2,085)
Corporate/Eliminations	(2,880)	(2,081)	(15,223)	(8,347)
Total	(21,562)	18,772	(4,185)	55,997
Segment assets				

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

Total	740,372	476,512	740,372	476,512
Expenditures for long-lived assets				
SA transaction-based activities	649	831	1,933	1,845
International transaction-based activities	3,848	-	7,086	-
Smart card accounts	-	-	-	-
Financial services	124	122	340	240
Hardware, software and related technology sales	58	31	99	225
Corporate/Eliminations	-	-	-	-
Total	\$ 4,679	\$ 984	\$ 9,458	\$ 2,310

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.

13. 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 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 and nine months ended March 31, 2011, the tax charge was calculated using the expected effective tax rate for the year. The Company's effective tax rate for the three and nine months ended March 31, 2011, was 7.0% and 135.8%, respectively, as a result of non-deductible expenses, the impairment loss (see note 6) including transaction-related expenses and interest expense related to the acquisition of KSNET.

The Company increased its unrecognized tax benefits by \$0.1 million and \$0.3 million, respectively, during the three and nine months ended March 31, 2011. As of March 31, 2011, the Company had accrued interest related to uncertain tax positions of approximately \$0.2 million on its balance sheet.

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

The Company files income tax returns mainly in South Africa, Korea, Austria, the Russian Federation and in the US federal jurisdiction. As of March 31, 2011, the Company is no longer subject to income tax examination by the South African Revenue Service for years before March 31, 2008. In 2007, the Korea National Tax Service had effectively completed the examination of the Company's returns in Korea related to years 2002 through 2006. The Company is subject to income tax in other jurisdictions outside South Africa and Korea, none of which are individually material to its financial position, statement of cash flows, or results of operations.

14. Subsequent events

Under the Company's SASSA contract, it provides its social welfare grants distribution service to SASSA in five of South Africa's nine provinces (KwaZulu-Natal, Limpopo, North West, Northern Cape and Eastern Cape). The contract contains a standard pricing formula for all provinces based on a transaction fee per beneficiary paid, regardless of the number or amount of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month. As it has previously disclosed, the Company's SASSA contract has been extended and now runs through September 30, 2011, unless it is further extended. On April 15, 2011, SASSA publicly issued an invitation to bid, inviting service providers to submit proposals for the provision of payment services for social grants in any one or more of the nine provinces of South Africa by May 27, 2011. The Company will participate in the bid process.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

Forward-looking statements

Some of the statements in this Quarterly Report on 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 "Risk Factors" in Item 1A. below and "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2010 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, we expect, plans, intends, anticipates, believes, estimates, predicts, potential or continue or the negative 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 Quarterly Report on Form 10-Q to conform those statements to reflect the occurrence of unanticipated events, except as required by applicable law.

You should read this Quarterly Report on 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.

Business Developments During the Third Quarter of Fiscal 2011

South Africa

SASSA update

Under our SASSA contract, we provide our social welfare grants distribution service to SASSA in five of South Africa's nine provinces (KwaZulu-Natal, Limpopo, North West, Northern Cape and Eastern Cape). The contract contains a standard pricing formula for all provinces based on a transaction fee per beneficiary paid, regardless of the number or amount of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month. As we have previously disclosed, our SASSA contract has been extended and now runs through September 30, 2011, unless it is further extended. On April 15, 2011, SASSA publicly issued an invitation to bid, inviting service providers to submit proposals for the provision of payment services for social grants in any one or more of the nine provinces of South Africa by May 27, 2011. We will participate in the bid process.

See "1. Legal Proceedings" and "Item 1A. Risk Factors" for more information and the risks associated with our SASSA contract, the recently initiated new tender process and for an update on litigation between us and SASSA.

EasyPay Kiosk pilot project extended to end of fiscal 2011

In September 2010, we launched our EasyPay Kiosk, or EP Kiosk, pilot project at select locations in the Gauteng province of South Africa. The EP Kiosk enables users to purchase prepaid electricity and airtime and perform any post paid bill payment service requirements using the interactive user-friendly touch screen kiosk interface. The user will also be able to transfer prepaid voucher value to other mobile phone users. Users can register their own prepaid voucher wallet on the EP Kiosk, with access to the wallet guaranteed via biometric identification of the user at time of registration. A five digit personal identification number, or PIN, is also required by the user so as to facilitate transactions done via their own mobile phones or via the website.

South African transaction processors

During the third quarter of fiscal 2011 our South African transaction processors were awarded various new business contracts to perform transaction processing including, for a top five petroleum company and a medium-size retailer, as well as perform distribution of prepaid electricity for a large metropolitan area (near Johannesburg) in the Gauteng province. In addition, FIHRST continues to expand its client base and number and value of transactions processed.

Outside South Africa

Republic of Korea

KSNET'S operating performance during fiscal 2011 has been largely in-line with our expectations and the integration of KSNET has progressed well since the acquisition closed at the end of October 2010. We have commenced a number of strategic initiatives in the Republic of Korea to maintain our current market share and to expand into adjacent markets. Specifically, we have embarked on a number of medium-term initiatives which will be funded from our existing Korean cash reserves. We do not expect to use funds generated by our other operations to fund these initiatives in Korea. Our management teams are actively engaged in identifying and evaluating opportunities in the Korean market place.

The African Continent and Iraq

During the third quarter of fiscal 2011, Net1 Universal Electronic Technological Solutions (Proprietary) Limited, or NUETS, recorded revenue from transaction fees and the delivery of UEPS-enabled smartcards under its contract with the government of Iraq. NUETS expects to generate ongoing revenues from transaction fees under the Iraqi contract during the fourth quarter of fiscal 2011. NUETS has entered the second phase of its initiative in Ghana and now generates recurring income in the form of hardware and software maintenance fees.

NUETS continued to service its current customers on the African continent and in Iraq and continued its business development efforts, including responding to a number of tenders, in multiple new countries on the African continent during the quarter.

During the third quarter of fiscal 2011, SmartSwitch Namibia generated incremental transaction fees from transactions conducted between Namibian merchants and UEPS-enabled smartcards. SmartSwitch Botswana generated transaction fees during the third quarter of fiscal 2011 from the payment of food voucher grants. We expect SmartSwitch Namibia and Botswana to continue generating transaction fees during the fourth quarter of fiscal 2011. During the third quarter of fiscal the shareholders of SmartSwitch Botswana agreed to convert their loan funding to equity funding and waive all interest due. The net effect of the reversal of the interest and related foreign exchange effects are included in our results for the third quarter of fiscal 2011.

Net 1 Universal Technologies (Austria) AG, or Net1 UTA

During the third quarter of fiscal 2011, one of Net1 UTA's largest customers advised us of its intention to transition to an alternative payment platform which will negatively impact our revenue, net income and cash flow in the medium term. As a consequence of this development, as well as deteriorating trading conditions and uncertainty surrounding the timing and quantum of future net cash inflows, we reviewed customer relationships acquired as part of the Net1 UTA acquisition for impairment. As a result of this review, we recognized an impairment loss of approximately \$41.8 million related to the entire carrying value of customer relationships acquired in the Net1 UTA acquisition in August 2008. In addition, we reversed the deferred tax liability of \$10.4 million associated with this intangible asset.

The impairment loss has been allocated to our hardware, software and related technology sales operating segment.

Net1 Virtual Card

We launched our VCPay™, offering in the United States during the second quarter of fiscal 2011. Our mobile phone-based virtual payment card application is designed to eliminate fraud in Card-Not-Present (CNP) transactions. We have teamed up with MetroPCS Communications, Inc., or MetroPCS, The Bancorp Bank, a wholly-owned subsidiary of The Bancorp, Inc., FSV Payment Systems and MoneyGram International to offer a comprehensive card issuing, processing and distribution network to wireless subscribers in the United States.

MetroPCS offers our VCPay™ to its prepaid customers as an application that is pre-loaded on new Smartphones or can be downloaded on select existing devices. VCPay™ allows a subscriber to generate a unique, one-time use prepaid virtual card number to securely purchase goods and services or perform bill payments in any CNP environment. We believe that the VCPay™ application is the first mobile phone-based prepaid program with no requirement for the user to have a physical card or a bank account. Subscribers can load their prepaid virtual accounts with cash at any of MoneyGram's 40,000 U.S. agent locations, which are located in most communities including many grocery, pharmacy and convenience store chains, or electronically via their bank accounts or via direct deposit.

Medikredit / XeoHealth

During the third quarter of fiscal 2011, our wholly owned subsidiary XeoHealth Corporation, Inc., or XeoHealth, intensified its marketing efforts in the United States of its Real Time Adjudication, or RTA, solutions for the end-to-end electronic processing of medical claims information. There has been significant interest from various participants in the United States healthcare industry in the solutions offered by XeoHealth for the current and newly mandated Health Insurance Portability and Accountability Act, or HIPAA, Electronic Data Interchange, or EDI, transactions and we will intensify our marketing and business development activities in the United States.

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, 2010.

- Deferred taxation;
- Stock-based compensation;
- Intangible assets acquired through acquisitions;
- Accounts receivable and provision for doubtful debts; and
- Research and development.

Recent accounting pronouncements adopted

Refer to Note 1 of the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements adopted as of March 31, 2011, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

Recent accounting pronouncements not yet adopted as of March 31, 2011

Refer to Note 1 of the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of March 31, 2011, including the expected dates of adoption and effects on 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		Nine months ended		Year ended
	March 31,		March 31,		June 30,
	2011	2010	2011	2010	2010
ZAR : \$ average exchange rate	7.0160	7.5359	7.1017	7.6287	7.6117
Highest ZAR : \$ rate during period	7.3457	7.8939	7.7809	8.3187	8.3187
Lowest ZAR : \$ rate during period	6.4925	7.2129	6.4925	7.2120	7.1731
Rate at end of period	6.8456	7.3926	6.8456	7.3926	7.6529

Translation exchange rates

We are required to translate our results of operations from ZAR to US dollars on a monthly basis. Thus, the average rates used to translate this data for the three and nine months ended March 31, 2011 and 2010, 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		Nine months ended		Year ended
	March 31,		March 31,		June 30,
	2011	2010	2011	2010	2010
Income and expense items: \$1 = ZAR .	6.9853	7.5341	7.0891	7.6247	7.6092
Balance sheet items: \$1 = ZAR	6.8456	7.3926	6.8456	7.3926	7.6529

Results of operations

The discussion of our consolidated overall results of operations is based on amounts as reflected in Item 1 Financial Statements which are reported in US dollars and are prepared in accordance with US GAAP. Our discussion analyzes our results of operations both in US dollars and ZAR, because ZAR is the functional currency of the entities which contribute the majority of our profits and is the currency in which the majority of our transactions are initially incurred and measured. Due to the significant impact of currency fluctuations between the US dollar and ZAR on our reported results and because we use the US dollar as our reporting currency, we believe that the supplemental presentation of our results of operations in ZAR is useful to investors to understand the changes in the underlying trends of our business. The results of operations for the three and nine months ended March 31, 2011, include:

- KSNET from November 1, 2010, (allocated to our International transaction-based activities operating segment);
- FIHRST for the entire period (allocated to our SA transaction-based activities operating segment); and
- MediKredit for the entire period as well as for the three months ended March 31, 2010 as the transaction closed in January 2010 (allocated to our SA transaction-based activities operating segment.)

We analyze our business and operations in terms of five inter-related but independent operating segments: (1) SA transaction-based activities, (2) International transaction-based activities, (3) smart card accounts, (4) financial services, and (5) hardware, software and related technology sales. In addition, corporate and corporate office activities that are impracticable to ascribe directly to any of the other operating segments, as well as any inter-segment eliminations, are included in corporate/eliminations.

Third quarter fiscal 2011 compared to third quarter of fiscal 2010

The following factors had an influence on our results of operations during the third quarter of fiscal 2011 as compared with the same period in the prior year:

- ***Impairment loss related to Net1 UTA customer relationships:*** We recorded an impairment loss of \$41.8 million related to Net1 UTA's customer relationships, which resulted in an operating loss for the quarter;
- ***SASSA price and volume reductions:*** Our contract with SASSA has reduced our revenue and operating income, before impairment loss, as a result of the previously announced price and volume reductions;
- ***Favorable impact from the weakness of the US dollar:*** The US dollar depreciated by 7% compared to the ZAR during the third quarter of fiscal 2011 compared to fiscal 2010 which positively impacted our reported results;
- ***Increased revenue from KSNET at lower operating margins than our legacy businesses, before acquired intangible asset amortization:*** Our KSNET acquisition increased our revenue during the entire third quarter of fiscal 2011, however, because KSNET has an operating margin that is lower than our legacy businesses, before acquired intangible asset amortization, it reduced our consolidated operating margin. The inclusion of KSNET in our results has also contributed to the increase in selling, general and administration and depreciation and amortization expenses;
- ***Increased transaction volumes at EasyPay:*** Our reported results were favorably impacted by increased transaction volumes at EasyPay resulting from growth in value-added services;
- ***Lower revenue and operating loss generated by MediKredit:*** MediKredit's revenue for the third quarter of fiscal 2011 was lower than the comparable period due to the inclusion in the third quarter of fiscal 2010 of claims processing support fees received from a customer it lost in late calendar 2009 and which contractually continued to pay fees through the end of April 2010. MediKredit generated an operating loss during the third quarter of fiscal 2011, in line with our expectations;
- ***Increased revenue from FIHRST at lower operating margins than other SA transaction-based activity business:***
FIHRST increased our revenue during the third quarter of fiscal 2011, however, because FIHRST has an operating margin that is lower than our other SA transaction-based activity businesses, it negatively impacted our consolidated operating margin. The inclusion of FIHRST in our results has also contributed to the increase in selling, general and administration expense;
- ***Increased user adoption in Iraq:*** We recorded increased transaction revenues at NUETS from the adoption of our UEPS technology in Iraq;
- ***Lower revenues and margins from hardware, software and related technology sales segment:*** Our hardware, software and related technology sales segment was adversely impacted by lower revenues at NUETS, partially offset by increased sales by Net1 UTA;
- ***Intangible asset amortization related to acquisitions:*** Our reported results were adversely impacted by additional intangible asset amortization of approximately \$3.1 million related to the acquisition of KSNET in the second quarter of fiscal 2011, as well as FIHRST during the third quarter of fiscal 2010;
- ***Lower interest income and increased interest expense resulting from KSNET acquisition:*** Our reported results were adversely impacted by lower interest income due to the payment of a portion of the KSNET purchase price in cash and increased interest expense due to the payment of a portion of the KSNET purchase price utilizing long-term debt; and
- ***Non-recurring items included in selling, general and administration expense:*** During the third quarter of fiscal 2011, we incurred transaction-related expenses of \$0.5 million, primarily for the acquisition of KSNET.

Consolidated overall results of operations

This discussion is based on the amounts which were prepared in accordance with US GAAP.

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

The following tables show the changes in the items comprising our statements of operations, both in US dollars and in ZAR:

Table 3

**In United States Dollars
(US GAAP)**

Three months ended March 31,

	2011	2010	\$ %
	\$ 000	\$ 000	change
Revenue	92,758	72,291	28%
Cost of goods sold, IT processing, servicing and support	29,302	17,910	64%
Selling, general and administration	32,618	22,381	46%
Depreciation and amortization	11,192	5,141	118%
Impairment loss	41,771	-	nm
Operating (loss) income	(22,125)	26,859	(182)%
Interest income, net	(955)	2,206	(143)%
(Loss) Income before income taxes	(23,080)	29,065	(179)%
Income tax expense	(1,603)	10,441	(115)%
Net (loss) income before loss from equity-accounted investments	(21,477)	18,624	(215)%
Loss from equity-accounted investments	(127)	(44)	189%
Net income	(21,604)	18,580	(216)%
Add net loss attributable to non-controlling interest	(42)	(192)	(78)%
Net (loss) income attributable to us	(21,562)	18,772	(215)%

Table 4

**In South African Rand
(US GAAP)**

Three months ended March 31,

	2011	2010	ZAR
	ZAR	ZAR	%
	000	000	change
Revenue	647,942	544,651	19%
Cost of goods sold, IT processing, servicing and support	204,683	134,937	52%
Selling, general and administration	227,846	168,622	35%
Depreciation and amortization	78,179	38,732	102%
Impairment loss	291,783	-	nm
Operating (loss) income	(154,549)	202,360	(176)%
Interest income, net	(6,671)	16,620	(140)%
(Loss) Income before income taxes	(161,220)	218,980	(174)%
Income tax expense	(11,197)	78,664	(114)%
Net (loss) income before loss from equity-accounted investments	(150,023)	140,316	(207)%
Loss from equity-accounted investments	(887)	(332)	167%
Net income	(150,910)	139,984	(208)%
Add net loss attributable to non-controlling interest	(293)	(1,447)	(80)%
Net (loss) income attributable to us	(150,617)	141,431	(207)%

Analyzed in ZAR, the increase in revenue for the third quarter of fiscal 2011, was primarily due to higher revenues from the inclusion of KSNET and FIHRST, an increase in the number of UEPS-based loans made, increased transaction volumes at EasyPay and higher utilization of our UEPS system in Iraq, which was partially offset by lower revenues under our new SASSA contract, discussed under Business Developments during the Third Quarter of Fiscal

2011 South Africa SASSA update and fewer sales of hardware, software and related technology. Analyzed in ZAR, cost of goods sold, IT processing, servicing and support for the third quarter of fiscal 2011 was higher primarily due to the inclusion of KSNET and FIHRST.

Analyzed in ZAR, selling, general and administration expense increased during the third quarter of fiscal 2011 primarily due to increases in goods and services purchased from third parties and the inclusion of KSNET and FIHRST's operations. During the third quarter of fiscal 2011, selling, general and administration expense also included transaction-related costs of \$0.5 million (ZAR 3.7 million), primarily for the KSNET acquisition.

Our operating income margin, before the impairment loss discussed below, for the third quarter of fiscal 2011 and 2010 was 21% and 37%, respectively. We discuss the components of the operating income margin under Results of operations by operating segment, however the significant decrease from the prior period is attributable to the price and volume reductions under our SASSA contract, lower margin contribution from KSNET and transaction-related costs.

Our direct costs of maintaining a listing on Nasdaq and the JSE, as well as compliance with the Sarbanes-Oxley Act of 2002, or Sarbanes, particularly Section 404 of Sarbanes, primarily includes independent directors' fees, legal fees, fees paid to Nasdaq and the JSE, investor relations expenses, our compliance officer's salary, fees paid to consultants who assist with Sarbanes compliance and fees paid to our independent accountants related to the audit and review process. This has resulted in expenditures of \$0.9 million (ZAR 6.1 million) and \$0.6 million (ZAR 4.5 million) during the third quarter of fiscal 2011 and 2010, respectively.

In ZAR, depreciation and amortization increased during fiscal 2011 primarily as a result of intangible asset amortization related to the KSNET and FIHRST acquisitions. The intangible asset amortization related to our various acquisitions has been allocated to our operating segments as presented in the tables below:

Table 5

	Three months ended	
	March 31,	
	2011	2010
	\$ 000	\$ 000
Amortization included in depreciation and amortization expense:	7,007	3,780
SA transaction-based activities	1,428	1,306
International transaction-based activities	3,124	-
Hardware, software and related technology	2,455	2,474

Table 6

	Three months ended	
	March 31,	
	2011	2010
	ZAR 000	ZAR 000
Amortization included in depreciation and amortization expense:	48,946	28,478
SA transaction-based activities	9,973	9,843
International transaction-based activities	21,822	-
Hardware, software and related technology	17,151	18,635

During the third quarter of fiscal 2011, customer relationships acquired as part of the Net1 UTA acquisition were reviewed for impairment following deteriorating trading conditions and uncertainty surrounding the timing and quantum of future net cash inflows. As a consequence of this review, we recognized an impairment loss of approximately \$41.8 million related to the entire carrying value of customer relationships acquired in the Net1 UTA acquisition in August 2008. In addition, we reversed the deferred tax liability of \$10.4 million associated with this intangible asset.

The expected undiscounted future cash flows related to the Net1 UTA customer relationships was compared to the carrying value of the asset and management determined that the carrying value exceeded the undiscounted future cash flows. Accordingly, management performed the second step in the asset impairment analysis in order to determine the impairment loss. The second step requires a comparison of the carrying value of the customer relationships with its fair value. The fair value of the customer relationships was determined using an income approach valuation technique. The calculation of the fair value required the Company to make a number of assumptions and estimates about the fair value of assets and liabilities where the fair values were not readily available or observable.

Interest on surplus cash for the third quarter of fiscal 2011 decreased to \$1.5 million (ZAR 10.6 million) from \$2.5 million (ZAR 18.8 million) for the third quarter of fiscal 2010. The decrease in interest on surplus cash held in South Africa was due to a lower average daily ZAR cash balance during the third quarter of fiscal 2011 compared with the third quarter of fiscal 2010 as a result of the payment of a portion of the KSNET purchase price in cash as well as lower deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 10.47% per annum for the third quarter of fiscal 2010 to 9.00% per annum for the third quarter of fiscal 2011.

Finance costs increased to \$2.5 million (ZAR 17.3 million) for the third quarter of fiscal 2011 from \$0.2 million (ZAR 1.5 million) for the third quarter of fiscal 2010. Interest expense increased during the third quarter of fiscal 2011 due to the incurrence of long-term debt.

Total tax benefit for the third quarter of fiscal 2011 was \$1.6 million (ZAR 11.2 million) compared with an income tax expense of \$10.4 million (ZAR 78.7 million) during the same period in the prior fiscal year. Our total tax expense decreased primarily due to the reversal of deferred tax liabilities associated with the intangible assets impaired and lower taxable income resulting from the SASSA price and volume reductions and a decrease in overall profitability. Our effective tax rate for the third quarter of fiscal 2011 was 7.0%, compared to 35.9% for the third quarter of fiscal 2010. The change in our effective tax rate was primarily due to an increase in non-deductible expenses, the impairment loss and the interest expense related to the acquisition of KSNET, during the third quarter of fiscal 2011 compared to the third quarter of fiscal 2010.

Net loss from equity-accounted investments for the third quarter of fiscal 2011 increased from the prior year primarily due to waiver of interest and related currency effects at SmartSwitch Botswana offset by an increase in transaction fees generated by SmartSwitch Namibia and SmartSwitch Botswana.

Results of operations by operating segment

The composition of revenue and the contributions of our business activities to operating (loss) income are illustrated below.

Table 7

In United States Dollars (US GAAP)

Operating Segment	Three months ended March 31,				
	2011 \$ 000	% of total	2010 \$ 000	% of total	% change
Consolidated revenue:					
SA transaction-based activities	47,313	51%	50,854	70%	(7)%
International transaction-based activities	24,627	27%			nm
Smart card accounts	8,288	9%	7,956	11%	4%
Financial services	2,168	2%	1,149	2%	89%
Hardware, software and related technology sales	10,362	11%	12,332	17%	(16)%
Total consolidated revenue	92,758	100%	72,291	100%	28%
Consolidated operating income (loss):					
SA transaction-based activities	18,309	(83)%	26,837	100%	(32)%
Operating income before amortization	19,737		28,143		(30)%
Amortization of intangible assets	(1,428)		(1,306)		9%
International transaction-based activities	780	(4)%	-		nm
Operating income before amortization	3,904		-		nm
Amortization of intangible assets	(3,124)				nm
Smart card accounts	3,767	(17)%	3,616	13%	4%
Financial services	1,701	(8)%	831	3%	105%
Hardware, software and related technology sales	(44,584)	202%	(1,798)	(7)%	nm
Operating (loss) income before amortization .	(358)		676		(153)%
Impairment loss	(41,771)		-		nm
Amortization of intangible assets	(2,455)		(2,474)		(1)%
Corporate/eliminations	(2,098)	10%	(2,627)	(9)%	(20)%
Total consolidated operating (loss) income	(22,125)	100%	26,859	100%	(182)%

Table 8***In South African Rand (US GAAP)***
Three months ended March 31,

Operating Segment	2011 ZAR 000	% of total	2010 ZAR 000	% of total	% change
Consolidated revenue:					
SA transaction-based activities	330,495	51%	383,141	70%	(14)%
International transaction-based activities	172,027	27%			
Smart card accounts	57,894	9%	59,942	11%	(3)%
Financial services	15,144	2%	8,657	2%	75%
Hardware, software and related technology sales	72,382	11%	92,911	17%	(22)%
Total consolidated revenue	647,942	100%	544,651	100%	19%
Consolidated operating income (loss):					
SA transaction-based activities	127,894	(83)%	202,194	99%	(37)%
Operating income before amortization	137,867		212,037		(35)%
Amortization of intangible assets	(9,973)		(9,843)		1%
International transaction-based activities	5,449	(4)%		nm	nm
Operating income before amortization	27,271		-		nm
Amortization of intangible assets	(21,822)				nm
Smart card accounts	26,314	(17)%	27,243	13%	(3)%
Financial services	11,882	(8)%	6,261	3%	90%
Hardware, software and related technology sales	(311,433)	202%	(13,546)	(7)%	nm
Operating (loss) income before amortization .	(2,499)		5,089		(149)%
Impairment loss	(291,783)		-		nm
Amortization of intangible assets	(17,151)		(18,635)		(8)%
Corporate/eliminations	(14,655)	10%	(19,792)	(8)%	(26)%
Total consolidated operating (loss) income	(154,549)	100%	202,360	100%	(176)%

SA transaction-based activities

In ZAR, the decreases in revenue were primarily due to lower revenue generated under our SASSA contract and by MediKredit, which was partially offset by increased transaction volumes at EasyPay and the inclusion of FIHRST.

Revenues for SA transaction-based activities include the transaction fees we earn through our merchant acquiring system and reflect the elimination of inter-company transactions.

Operating income margin of our SA transaction-based activities decreased to 39% from 53% a year ago. The decrease was primarily due to the lower revenues generated under our SASSA contract, additional intangible asset amortization related to the acquisition of FIHRST and lower margins at FIHRST and MediKredit compared with legacy SA transaction-based activities.

Pension and welfare operations:

Our revenue and operating income related to our pension and welfare operations were impacted by our SASSA contract. Our pension and welfare operations continue to generate the majority of our revenues and operating income in this operating segment and for us as a whole.

South African transaction processors:

The table below presents the total volume and value processed during the third quarter of fiscal 2011 and 2010 by our transaction processors:

Table 9

Transaction processor	Total volume (000s)		Total value \$ (000)		Total value ZAR (000)	
	2011	2010	2011	2010	2011	2010
EasyPay	170,818	161,636	5,784,228	4,693,139	40,404,565	35,358,746
MediKredit	2,507	2,738	132,370	115,532	924,647	870,432
FIHRST	5,281	-	2,387,363	-	16,676,447	-

Our results for the third quarter of fiscal 2011 include the intangible asset amortization related to our FIHRST acquisition but excludes RMT's intangible assets which were fully amortized in the third quarter of fiscal 2010. Our results for the third quarter of fiscal 2010 include amortization related to the RMT intangible assets.

Key statistics of our merchant acquiring system:

The key statistics and indicators of our merchant acquiring system during the third quarter of fiscal 2011 and 2010, in each of the South African provinces where we distribute social welfare grants are summarized in the table below:

Province included (1)	Three months ended March 31,	
	2011 NC, EC, KZN, L and NW	2010 NC, EC, KZN, L and NW
Total POS devices installed	4,835	4,700
Number of participating UEPS retail locations	2,541	2,552
Value of transactions processed through POS devices during the quarter (2) (in \$ 000)	411,233	397,141
Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in \$ 000)	401,723	381,993
Value of transactions processed through POS devices during the quarter (2) (in ZAR 000)	2,920,454	2,992,828
Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in ZAR 000)	2,852,913	2,878,675
Number of grants paid through POS devices during the quarter (2)	4,804,540	4,370,553
Number of grants paid through POS devices during the completed pay cycles for the quarter (3)	4,739,062	4,699,620
Average number of grants processed per terminal during the quarter (2)	995	933
Average number of grants processed per terminal during the completed pay cycles for the quarter (3)	981	1,003

(1) NC = Northern Cape, EC = Eastern Cape, KZN = KwaZulu-Natal, L = Limpopo, NW = North West.

(2) Refers to events occurring during the quarter (i.e., based on three calendar months).

(3) Refers to events occurring during the completed pay cycle.

International transaction-based activities

KSNET currently contributes the majority of our revenues in this operating segment. Operating margin for the segment is lower than our legacy South African transaction-based businesses and was negatively impacted by start-up expenditures related to our Virtual Card launch in the United States, but was partially offset by improving profitability of NUETS initiative in Iraq.

Our results for the third quarter of fiscal 2011 include the intangible asset amortization related to our KSNET acquisition.

Smart card accounts

In ZAR, revenue from the provision of smart card-based accounts decreased in proportion to the lower number of beneficiaries serviced through our SASSA contract. A total number of 3,537,126 smart card-based accounts were active at March 31, 2011, compared to 3,609,652 active accounts as at March 31, 2010. The year over year decrease in the number of active accounts resulted largely from the suspension and removal of invalid or fraudulent grants by SASSA, however active accounts were flat on a sequential basis.

Operating income margin from providing smart card accounts was constant at 45% for the third quarter of fiscal 2011 and 2010.

Financial services

Revenue from UEPS-based lending increased primarily due to an increase in the number of loans granted. In addition, on average, the return on these UEPS-based loans was higher. Our current UEPS-based lending portfolio comprises loans made to elderly pensioners in some of the provinces where we distribute social welfare grants. We insure the UEPS-based lending book against default and thus no allowance is required.

Operating income margin for the financial services segment increased to 78% for the third quarter of fiscal 2011 from 72% for the third quarter of fiscal 2010 primarily due to an increase in lending activity.

Hardware, software and related technology sales

The following table presents our revenue and operating income during the third quarter of fiscal 2011 and 2010:

Table 11	Three months ended	
	March 31,	
	2011	2010
	\$000	\$ 000
Revenue	10,362	12,332
Hardware, software and related technology sales excluding Net1 UTA	7,775	10,408
Net1 UTA	2,587	1,924
Operating (loss) income before amortization of intangible assets	(358)	676
Operating loss	(44,584)	(1,798)
Hardware, software and related technology sales excluding Net1 UTA	(360)	1,587
Net1 UTA	(44,224)	(3,385)
Net1 UTA excluding amortization of acquisition related intangible assets	(161)	(1,063)
Impairment loss	(41,771)	-
Amortization of acquisition related intangible assets	(2,292)	(2,322)

Table 12	Three months ended	
	March 31,	
	2011	2010
	ZAR 000	ZAR 000
Revenue	72,382	92,911
Hardware, software and related technology sales excluding Net1 UTA	54,311	78,415
Net1 UTA	18,071	14,496
Operating (loss) income before amortization of intangible assets	(2,499)	5,089
Operating loss	(311,433)	(13,546)
Hardware, software and related technology sales excluding Net1 UTA	(2,515)	11,957
Net1 UTA	(308,918)	(25,503)
Net1 UTA excluding amortization of acquisition related intangible assets	(1,125)	(8,009)
Impairment loss	(291,783)	-
Amortization of acquisition related intangible assets	(16,010)	(17,494)

The decrease in revenue and operating loss incurred, before amortization of intangible assets and the impairment loss, was primarily due to lower revenues generated by NUETS and other South African-based hardware, software and related technology sales business units, partially offset by an increase in sales at Net1 UTA.

As we expand internationally, whether through traditional selling arrangements to provide products and services (such as in Ghana and Iraq) or through joint ventures (such as with SmartSwitch Namibia and SmartSwitch Botswana), we expect to receive revenues from sales of hardware and from software customization and licensing to establish the infrastructure of POS terminals and smart cards necessary to enable utilization of the UEPS technology in a particular country. To the extent that we enter into joint ventures and account for the investment as an equity investment, we are required to eliminate our portion of the sale of hardware, software and licenses to the investees. The sale of hardware, software and licenses under these arrangements occur on an ad hoc basis as new arrangements are established, which can materially affect our revenues and operating income in this segment from period to period.

Corporate/eliminations

The decrease in our corporate expenses resulted primarily from higher foreign exchange losses in the comparable period, partially offset by higher corporate head office-related expenditure, including the effects of inflation in South Africa, stock-based compensation charges and transaction-related expenditures of \$0.5 million (ZAR 3.7 million).

Our corporate expenses also include expenditure related to compliance with Sarbanes; non-executive directors fees; employee and executive salaries and bonuses; legal and audit fees; directors and officer's insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

Year to date fiscal 2011 compared to year to date fiscal 2010

The following factors had an influence on our results of operations during the year to date fiscal 2011 as compared with the same period in the prior year (confirm with above):

- **Impairment loss related to Net1 UTA customer relationships:** We recorded an impairment loss of \$41.8 million related to Net1 UTA's customer relationships, which resulted in an operating loss for year to date fiscal 2011;
- **SASSA price and volume reductions:** Our new contract with SASSA has reduced our revenue and operating income as a result of the previously announced price and volume reductions;
- **Favorable impact from the weakness of the US dollar:** The US dollar depreciated by 7% compared to the ZAR during the year to date fiscal 2011 compared to fiscal 2010 which positively impacted our reported results;
- **Increased revenue from KSNET at lower operating margins than our legacy businesses, before acquired intangible asset amortization:** Our KSNET acquisition increased our revenue during year to date fiscal 2011, however, because KSNET has an operating margin that is lower than our legacy businesses, before acquired intangible asset amortization, it reduced our consolidated operating margin. The inclusion of KSNET in our results has also contributed to the increase in selling, general and administration and depreciation and amortization expenses;
- **Increased transaction volumes at EasyPay:** Our reported results were favorably impacted by increased transaction volumes at EasyPay resulting from growth in value-added services;
- **Lower revenue and operating loss generated by MediKredit:** MediKredit's revenue for the year to date fiscal 2011 was lower than the comparable period due to the inclusion in the year to date fiscal 2010 of claims processing support fees received from a customer it lost in late calendar 2009 and which contractually continued to pay fees through the end of April 2010;
- **Increased revenue from FIHRST at lower operating margins than other SA transaction-based activity business:** FIHRST increased our revenue during the year to date fiscal 2011, however, because FIHRST has an operating margin that is lower than our other SA transaction-based activity businesses, it negatively impacted our consolidated operating margin. The inclusion of FIHRST in our results has also contributed to the increase in selling, general and administration expense;
- **Increased user adoption in Iraq:** We recorded increased transaction revenues at NUETS from the adoption of our UEPS technology in Iraq;
- **Lower revenues and margins from hardware, software and related technology sales segment:** Our hardware, software and related technology sales segment continues to be adversely impacted by lower revenues from NUETS and Net1 UTA;
- **Intangible asset amortization related to acquisitions:** Our reported results were adversely impacted by additional intangible asset amortization of approximately \$5.2 million related to the acquisitions of KSNET in the year to date fiscal 2011, as well as MediKredit and FIHRST during the third quarter of fiscal 2010;
- **Lower interest income and increased interest expense resulting from KSNET acquisition:** Our reported results were adversely impacted by lower interest income due to the payment of a portion of the KSNET purchase price in cash and increased interest expense due to the payment of a portion of the KSNET purchase price utilizing long-term debt and facility fees of approximately \$1.8 million; and
- **Non-recurring items included in selling, general and administration expense:** During the year to date fiscal 2011, we recognized transaction-related expenses of \$5.7 million, primarily for the acquisition of KSNET.

Consolidated overall results of operations

This discussion is based on the amounts which were prepared in accordance with US GAAP.

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

The following tables show the changes in the items comprising our statements of operations, both in US dollars and in ZAR:

Table 13

**In United States Dollars
(US GAAP)**

Nine months ended March 31,

	2011	2010	\$%
	\$ 000	\$ 000	change
Revenue	246,052	211,669	16%
Cost of goods sold, IT processing, servicing and support	76,551	55,652	38%
Selling, general and administration	91,707	58,987	55%
Depreciation and amortization	25,188	14,384	75%
Impairment loss	41,771	-	nm
Operating (loss) income	10,835	82,646	(87)%
Interest income, net	(199)	6,470	(103)%
(Loss) Income before income taxes	10,636	89,116	(88)%
Income tax expense	14,440	32,964	(56)%
Net (loss) income before loss from equity-accounted investments	(3,804)	56,152	(107)%
Loss from equity-accounted investments	(509)	(425)	20%
Net income	(4,313)	55,727	(108)%
Add net loss attributable to non-controlling interest	(128)	(270)	(53)%
Net (loss) income attributable to us	(4,185)	55,997	(107)%

Table 14

**In South African Rand
(US GAAP)**

Nine months ended March 31,

	2011	2010	ZAR
	ZAR	ZAR	%
	000	000	change
Revenue	1,744,287	1,613,904	8%
Cost of goods sold, IT processing, servicing and support	542,677	424,327	28%
Selling, general and administration	650,120	449,755	45%
Depreciation and amortization	178,560	109,673	63%
Impairment loss	296,119	-	nm
Operating (loss) income	76,811	630,149	(88)%
Interest income, net	(1,411)	49,332	(103)%
(Loss) Income before income taxes	75,400	679,481	(89)%
Income tax expense	102,367	251,339	(59)%
Net (loss) income before loss from equity-accounted investments	(26,967)	428,142	(106)%
Loss from equity-accounted investments	(3,608)	(3,240)	11%
Net income	(30,575)	424,902	(107)%
Add net loss attributable to non-controlling interest	(907)	(2,059)	(56)%
Net (loss) income attributable to us	(29,668)	426,961	(107)%

Analyzed in ZAR, the increase in revenue for the year to date fiscal 2011, was primarily due to higher revenues from the inclusion of KSNET, FIHRST and MediKredit, an increase in the number of UEPS-based loans made, increased transaction volumes at EasyPay and higher utilization of our UEPS system in Iraq, which was partially offset by lower revenues from our SASSA contract, discussed under Business Developments during the Third Quarter

of Fiscal 2011 South Africa SASSA update and fewer sales of hardware, software and related technology. Analyzed in ZAR, cost of goods sold, IT processing, servicing and support for the year to date fiscal 2011 was higher primarily due to the inclusion of KSNET, FIHRST and MediKredit.

Analyzed in ZAR, selling, general and administration expense increased during the year to date fiscal 2011 primarily due to increases in goods and services purchased from third parties and the inclusion of KSNET, FIHRST and MediKredit operations. During the year to date fiscal 2011, selling, general and administration expense was also adversely impacted by transaction-related costs of \$5.7 million (ZAR 40.1 million), primarily for the KSNET acquisition.

Our operating income margin, before the impairment loss, for the year to date fiscal 2011 and 2010 was 21% and 39%, respectively. We discuss the components of the operating income margin under Results of operations by operating segment, however the significant decrease from the prior period is attributable to the price and volumes reductions under our SASSA contract and transaction-related costs.

Our direct costs of maintaining a listing on Nasdaq and JSE, as well as compliance with Sarbanes, primarily includes independent directors' fees, legal fees, fees paid to Nasdaq and the JSE, investor relations expenses, our compliance officer's salary, fees paid to consultants who assist with Sarbanes compliance and fees paid to our independent accountants related to the audit and review process. This has resulted in expenditures of \$2.5 million (ZAR 18.0 million) and \$1.8 million (ZAR 13.3 million) during the year to date fiscal 2011 and 2010, respectively.

In ZAR, depreciation and amortization increased during fiscal 2011, primarily as a result of intangible asset amortization related to the KSNET, MediKredit and FIHRST acquisitions. The intangible asset amortization related to our various acquisitions has been allocated to our operating segments as presented in the tables below:

Table 15

	Nine months ended	
	March 31,	
	2011	2010
	\$ 000	\$ 000
Amortization included in depreciation and amortization expense:	16,594	10,532
SA transaction-based activities	4,220	2,889
International transaction-based activities	5,156	-
Hardware, software and related technology	7,218	7,643

Table 16

	Nine months ended	
	March 31,	
	2011	2010
	ZAR 000	ZAR 000
Amortization included in depreciation and amortization expense:	117,644	80,308
SA transaction-based activities	29,918	22,026
International transaction-based activities	36,551	-
Hardware, software and related technology	51,175	58,282

During the third quarter of fiscal 2011, customer relationships acquired as part of the Net1 UTA acquisition were reviewed for impairment following deteriorating trading conditions and uncertainty surrounding the timing and quantum of future net cash inflows. As a consequence of this review, we recognized an impairment loss of approximately \$41.8 million related to the entire carrying value of customer relationships acquired in the Net1 UTA acquisition in August 2008. In addition, we reversed the deferred tax liability of \$10.4 million associated with this intangible asset.

Analyzed in ZAR, interest on surplus cash for the year to date fiscal 2011 decreased to \$6.0 million (ZAR 42.2 million) from \$7.4 million (ZAR 56.5 million) for the year to date fiscal 2010. The decrease in interest on surplus cash held in South Africa was due to a lower average daily ZAR cash balance during the year to date fiscal 2011 compared with the year to date fiscal 2010 as a result of the payment of a portion of the KSNET purchase price in cash as well as lower deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 10.57% per annum for the year to date fiscal 2010 to 9.39% per annum for the year to date fiscal 2011.

Finance costs increased to \$6.1 million (ZAR 43.6 million) for the year to date fiscal 2011 from \$0.8 million (ZAR 6.1 million) for the year to date fiscal 2010. Interest expense increased during the year to date fiscal 2011 due to the incurrence of long-term debt and the amortization of the facility fee related to this facility.

Total tax expense for the year to date fiscal 2011 was \$14.4 million (ZAR 102.4 million) compared with \$33.0 million (ZAR 251.3 million) during the same period in the prior fiscal year. Our total tax expense decreased primarily due to the reversal of deferred tax liabilities associated with the intangible assets impaired and lower taxable income resulting from the SASSA price and volume reductions and a decrease in overall profitability. Our effective tax rate for the year to date fiscal 2011 was 135.8%, compared to 37.0% for the year to date fiscal 2010. The change in our effective tax rate was primarily due to the impairment loss, higher transaction-related expenses and interest expense related to the acquisition of KSNET, during the year to date fiscal 2011 compared to the year to date fiscal 2010.

Net loss from equity-accounted investments for the year to date fiscal 2011 increased from the prior year primarily due to waiver of interest and related currency effects at SmartSwitch Botswana offset by an increase in transaction fees generated by SmartSwitch Namibia and SmartSwitch Botswana.

Results of operations by operating segment

The composition of revenue and the contributions of our business activities to operating income are illustrated below.

Table 17*In United States Dollars (US GAAP)*

Operating Segment	Nine months ended March 31,				
	2011 \$ 000	% of total	2010 \$ 000	% of total	% change
Consolidated revenue:					
SA transaction-based activities	138,323	56%	141,247	67%	(2)%
International transaction-based activities	42,047	17%			nm
Smart card accounts	24,692	10%	24,167	11%	2%
Financial services	5,039	2%	2,799	1%	80%
Hardware, software and related technology sales	35,951	15%	43,456	21%	(17)%
Total consolidated revenue	246,052	100%	211,669	100%	16%
Consolidated operating income (loss):					
SA transaction-based activities	54,295	501%	80,238	97%	(32)%
Operating income before amortization	58,515		83,127		(30)%
Amortization of intangible assets	(4,220)		(2,889)		46%
International transaction-based activities	896	8%	-		nm
Operating income before amortization	6,052		-		nm
Amortization of intangible assets	(5,156)				nm
Smart card accounts	11,221	104%	10,985	13%	2%
Financial services	3,861	36%	1,908	2%	102%
Hardware, software and related technology sales	(47,563)	(439)%	(1,851)	(2)%	nm
Operating (loss) income before amortization	1,426		5,792		(75)%
Impairment loss	(41,771)		-		nm
Amortization of intangible assets	(7,218)		(7,643)		(6)%
Corporate/eliminations	(11,875)	(110)%	(8,634)	(10)%	38%
Total consolidated operating (loss) income	10,835	100%	82,646	100%	(87)%

Table 18*In South African Rand (US GAAP)*

Operating Segment	Nine months ended March 31,				
	2011 ZAR 000	% of total	2010 ZAR 000	% of total	% change
Consolidated revenue:					
SA transaction-based activities	980,586	56%	1,076,961	67%	(9)%
International transaction-based activities	298,075	17%			nm
Smart card accounts	175,044	10%	184,265	11%	(5)%
Financial services	35,722	2%	21,341	1%	67%
Hardware, software and related technology sales	254,860	15%	331,337	21%	(23)%
Total consolidated revenue	1,744,287	100%	1,613,904	100%	8%
Consolidated operating income (loss):					
SA transaction-based activities	384,903	501%	611,788	97%	(37)%

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

Operating income before amortization	414,821		633,814		(35)%
Amortization of intangible assets	(29,918)		(22,026)		36%
International transaction-based activities	6,352	8%			nm
Operating income before amortization	42,903		-		nm
Amortization of intangible assets	(36,551)				nm
Smart card accounts	79,547	104%	83,757	13%	(5)%
Financial services	27,371	36%	14,548	2%	88%
Hardware, software and related technology sales	(337,179)	(439)%	(14,113)	(2)%	nm
Operating (loss) income before amortization .	10,115		44,169		(77)%
Impairment loss	(296,119)		-		nm
Amortization of intangible assets	(51,175)		(58,282)		(12)%
Corporate/eliminations	(84,183)	(102)%	(65,831)	(10)%	28%
Total consolidated operating income	76,811	100%	630,149	100%	(88)%

38

SA transaction-based activities

In ZAR, the decreases in revenue were primarily due to lower revenue generated under our SASSA contract, which was partially offset by increased transaction volumes at EasyPay and the inclusion of MediKredit and FIHRST.

Revenues for SA transaction-based activities include the transaction fees we earn through our merchant acquiring system and reflect the elimination of inter-company transactions.

Operating income margin of our SA transaction-based activities decreased to 39% from 57% a year ago. The decrease was primarily due to the lower revenues generated under our SASSA contract, additional intangible asset amortization related to the acquisition of MediKredit and FIHRST and lower margins at MediKredit and FIHRST compared with legacy SA transaction-based activities.

Pension and welfare operations:

Our revenue and operating income related to our pension and welfare operations were impacted by our new contract discussed under Business Developments during the Third Quarter of Fiscal 2011 South Africa SASSA update. Our pension and welfare operations continue to generate the majority of our revenues and operating income in this operating segment and for us as a whole.

South African transaction processors:

The table below presents the total volume and value processed during the year to date fiscal 2011 and 2010 by our transaction processors:

Table 19

Transaction processor	Total volume (000s)		Total value \$ (000)		Total value ZAR (000)	
	2011	2010	2011	2010	2011	2010
EasyPay	532,772	487,920	17,093,625	14,097,102	121,178,418	107,485,648
MediKredit	7,221	2,738	359,236	114,160	2,546,663	870,432
FIHRST	16,349	-	6,981,903	-	49,495,412	-

Our results for the year to date fiscal 2011, include the intangible asset amortization related to our MediKredit and FIHRST acquisitions but excludes RMT's intangible assets which were fully amortized in the third quarter of fiscal 2010. Our results for the year to date fiscal 2010 include amortization related to the RMT intangible assets for nine months and MediKredit for three months.

International transaction-based activities

See discussion under Third quarter of fiscal 2011 compared to the third quarter of fiscal 2010 Results of operations by operating segment International transaction-based activities.

Smart card accounts

In ZAR, revenue from the provision of smart card-based accounts decreased in proportion to the lower number of beneficiaries serviced through our SASSA contract. A total number of 3,537,126 smart card-based accounts were active at March 31, 2011, compared to 3,609,652 active accounts as at March 31, 2010. The year over year decrease in the number of active accounts resulted largely from the suspension and removal of invalid or fraudulent grants by SASSA, however active accounts were flat on a sequential basis.

Operating income margin from providing smart card accounts was constant at 45% for the year to date fiscal 2011 and 2010.

Financial services

Revenue from UEPS-based lending increased primarily due to an increase in the number of loans granted. In addition, on average, the return on these UEPS-based loans was higher. Our current UEPS-based lending portfolio comprises loans made to elderly pensioners in some of the provinces where we distribute social welfare grants. We insure the UEPS-based lending book against default and thus no allowance is required.

Operating income margin for the financial services segment increased to 77% for the year to date fiscal 2011 from 68% for the year to date fiscal 2010 primarily due to an increase in lending activity.

Hardware, software and related technology sales

The following table presents our revenue and operating income during the year to date fiscal 2011 and 2010:

Table 20	Nine months ended	
	March 31,	
	2011	2010
	\$ 000	\$ 000
Revenue	35,951	43,456
Hardware, software and related technology sales excluding Net1 UTA	26,446	31,792
Net1 UTA	9,505	11,664
Operating income before amortization of intangible assets	1,426	5,792
Operating loss	(47,563)	(1,851)
Hardware, software and related technology sales excluding Net1 UTA	741	5,661
Net1 UTA	(48,304)	(7,512)
Net1 UTA excluding amortization of acquisition related intangible assets	203	(317)
Impairment loss	(41,771)	-
Amortization of acquisition related intangible assets	(6,736)	(7,195)

Table 21	Nine months ended	
	March 31,	
	2011	2010
	ZAR 000	ZAR 000
Revenue	254,860	331,337
Hardware, software and related technology sales excluding Net1 UTA	187,478	242,403
Net1 UTA	67,382	88,934
Operating income before amortization of intangible assets and impairment loss	10,115	44,169
Operating loss	(337,179)	(14,113)
Hardware, software and related technology sales excluding Net1 UTA	5,253	43,163
Net1 UTA	(342,432)	(57,276)
Net1 UTA excluding amortization of acquisition related intangible assets	1,439	(2,417)
Impairment loss	(296,119)	-
Amortization of acquisition related intangible assets	(47,752)	(54,859)

The decrease in revenue was primarily due to lower revenues generated by NUETS and Net1 UTA. In ZAR, the decrease in operating income, before the impairment loss, was primarily due to lower sales activity.

Corporate/eliminations

The increase in our corporate expenses resulted from higher corporate head office-related expenditure, including the effects of inflation in South Africa, stock-based compensation charges and transaction related expenditures of \$5.7 million (ZAR 40.1 million).

Our corporate expenses also includes expenditure related to compliance with Sarbanes; non-executive directors fees; employee and executive salaries and bonuses; stock-based compensation; legal and audit fees; directors and

officer's insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

Liquidity and Capital Resources

Our business has historically generated and continues to generate high levels of cash. At March 31, 2011, our cash balances were \$88.9 million, which comprised mainly ZAR-denominated balances of ZAR 402.9 million (\$58.9 million), KRW-denominated balances of KRW 19.8 billion (\$17.9 million) and US dollar-denominated balances of \$5.6 million and other currency deposits, primarily euro, of \$6.5 million. The decrease in our cash balances from June 30, 2010, is primarily as a result of the payment of approximately \$124.3 million to fund a portion of the KSNET purchase price and the Secondary Taxation on Companies, or STC, of \$14.7 million incurred related to dividends paid from South Africa to the United States connected with the KSNET transaction.

We generally invest the surplus cash held by our South African operations in overnight call accounts that we maintain at South African banking institutions, and surplus cash held by our non-South African companies in the US and European money markets. We have invested surplus cash in Korea in short term investment accounts at Korean banking institutions. In addition, under our Korean facilities agreement (the Facilities Agreement) we are required to invest the interest payable on these facilities in the next six months in an interest reserve account in Korea.

Historically, we have financed most of our operations, research and development, working capital, capital expenditures and acquisitions through our internally generated cash. We take the following factors into account when considering whether to borrow under our financing facilities:

- cost of capital;
- cost of financing;
- opportunity cost of utilizing surplus cash; and
- availability of tax efficient structures to moderate financing costs.

We financed a portion of the KSNET acquisition price and related transaction expenses with the proceeds of a KRW 130.5 billion (approximately \$115.9 million based on October 29, 2010 exchange rates) loan under the Facilities Agreement. We are required to make the first scheduled installment of approximately \$7.3 million (KRW 8.1 billion), translated at exchange rates applicable as of March 31, 2011 on October 29, 2011. We intend to service this installment using cash generated from operations. In addition, we used cash generated from operating activities to settle our first interest payment under the Facilities Agreement on January 29, 2011, of approximately \$2.1 million (KRW 2.3 billion) and made our second scheduled interest payment of approximately \$2.0 million (KRW 2.2 billion) on April 29, 2011.

In February 2011, the Monetary Policy Committee of the Bank of Korea, or BoK, announced a 25 basis point increase in the Korean base rate to 3.00% . Adjustments to the base rate in Korea affect us because our Korea-based lending used to fund a portion of the KSNET purchase price is linked to the base rate.

We have a unique cash flow cycle due to the funding mechanism under our SASSA contract and our pre-funding of certain merchants. Under our SASSA contract, we receive the grant funds 48 hours prior to the provision of the service and any interest we earn on these amounts is for the benefit of SASSA. We pre-fund certain merchants for grants paid through our merchant acquiring system on our behalf before the start of the payment service at pay points. We typically reimburse merchants that are not pre-funded within 48 hours after they distribute the grants to the social welfare beneficiaries.

We currently believe that our cash and available credit facilities are sufficient to meet our business requirements for at least the next four quarters, including working capital requirements, capital expenditures and debt service obligations.

Cash flows from operating activities

Third quarter of fiscal 2011

Net cash provided by operating activities for the third quarter of fiscal 2011 was \$28.3 million (ZAR 197.4 million) compared to \$31.7 million (ZAR 238.9 million) for the third quarter of fiscal 2010. The movement in cash was primarily due to the SASSA price and volume reductions which were effective July 1, 2010.

During the third quarter of fiscal 2011, we commenced servicing interest related to the Facilities Agreement as described above under Liquidity and capital resources.

We paid STC of \$1.1 million (ZAR 8.0 million) to the South African tax authority related to intercompany dividends paid from South Africa to the United States. We paid tax \$0.5 million (ZAR 3.2 million) related to our 2010 tax year to the Korean tax authority. During the third quarter of fiscal 2010 we made additional first provisional tax payments of \$2.0 million (ZAR 14.7 million) related to our 2010 tax year in South Africa.

We expect to pay our second provisional payments in South Africa related to our 2011 tax year in the fourth quarter of fiscal 2011.

Year to date fiscal 2011

Net cash provided by operating activities for the year to date fiscal 2011 was \$53.4 million (ZAR 378.9 million) compared to \$82.4 million (ZAR 628.6 million) for the year to date of fiscal 2010. Our net cash from operating activities decreased primarily due to the SASSA price and volume reductions which were effective July 1, 2010.

During the year to date fiscal 2011, we commenced servicing interest related to the Facilities Agreement as described above under Liquidity and capital resources.

During the year to date fiscal 2011 we paid the South African tax authority provisional tax payments related to fiscal 2011 of approximately \$16.9 million (ZAR 116.0 million), tax payments related to fiscal 2010 of approximately \$1.8 million (ZAR 12.7 million) and STC of approximately \$14.7 million (ZAR 103 million) related to intercompany dividends paid from South Africa to the United States. We paid tax \$1.0 million (ZAR 6.9 million) related to our 2010 tax year to the Korean tax authority.

During the year to date fiscal 2010 we paid the South African tax authority provisional tax payments related to fiscal 2010 of approximately \$17.8 million (ZAR 133.5 million) and tax payments related to fiscal 2009 of approximately \$3.9 million (ZAR 29.6 million).

Cash flows from investing activities

Third quarter of fiscal 2011

Cash used in investing activities for the third quarter of fiscal 2011 includes capital expenditure of \$4.7 million (ZAR 32.7 million), primarily for the acquisition of payment processing terminals in Korea, kiosks to service our EasyPay Kiosk pilot project and the acquisition of POS devices to service our merchant acquiring system.

We received principal loan repayments from SmartSwitch Namibia of \$0.1 million during the third quarter of fiscal 2011.

During the third quarter of fiscal 2011 we continued to determine the post-closing working capital adjustment with the former shareholders of KSNET and expect finalization during the fourth quarter of fiscal 2011.

Cash used in investing activities for the third quarter of fiscal 2010 includes capital expenditure of \$1.0 million (ZAR 7.4 million), primarily for the acquisition of POS devices to service our merchant acquiring system, improvements to leasehold property and the acquisition of computer equipment.

During the third quarter of fiscal 2010, we paid \$1.0 million (ZAR 7.3 million), net of cash received, for 100% of the outstanding ordinary capital of MediKredit and all claims outstanding.

Year to date fiscal 2011

During the year to date of fiscal 2011, we paid approximately \$230.2 million (ZAR 1.6 billion), net of cash received for 98.73% of KSNET.

Cash used in investing activities for the year to date fiscal 2011 includes capital expenditure of \$9.5 million (ZAR 67.0 million), primarily for the acquisition of payment processing terminals in Korea, kiosks to service our EasyPay Kiosk pilot project, the acquisition of POS devices to service our merchant acquiring system, the replacement of computer and electronic hardware and the replacement of motor vehicles.

SmartSwitch Namibia commenced repayment of loans provided by its shareholders during the year to date of fiscal 2010 and cash flows from investing activities for the year to date fiscal 2011 includes principal repayments of \$0.4 million. In July 2010, we provided additional loan funding to VTU Colombia of approximately \$0.4 million.

Cash used in investing activities for the fiscal period to March 2010 includes capital expenditure of \$2.3 million (ZAR 17.6 million), primarily for the acquisition of POS devices to service our merchant acquiring system, improvements to leasehold property and the acquisition of computer equipment.

During the third quarter of fiscal 2010, we paid \$1.0 million (ZAR 7.3 million), net of cash received, for 100% of the outstanding ordinary capital of MediKredit and all claims outstanding.

Cash flows from financing activities

Third quarter of fiscal 2011

During the third quarter of fiscal 2011, we repaid KSNET's outstanding debt of \$7.1 million.

There were no significant cash flows from financing activities during the third quarter of 2010.

Year to date fiscal 2011

During the year to date fiscal 2011 we obtained loans under the Facilities Agreement to fund a portion of the KSNET purchase price. In addition, we paid the facility fee under the Facilities Agreement of approximately \$3.1 million in October 2010. In addition, we paid approximately \$0.6 million for the remaining 19.9% of Net1 UTA during the year to date of fiscal 2011.

During the year to date fiscal 2011, we repaid KSNET's outstanding debt of \$7.1 million.

During the year to date fiscal 2010 we repurchased, using our ZAR reserves, 9,221,526 shares of our common stock from Brait S.A. and its investment entities affiliates for \$13.50 (ZAR 105.98) per share, for an aggregate repurchase price of \$124.5 million (ZAR 977.3 million). In addition, we incurred costs of approximately \$0.5 million (ZAR 3.9 million) related to the repurchase of these shares. During the year to date fiscal 2010, we also paid \$1.3 million on account of shares we repurchased on June 30, 2009, under our share buy-back program. We also received \$0.7 (ZAR 5.5 million) from employees exercising stock options and repaying loans.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Capital Expenditures

We discuss our capital expenditures during the third quarter of fiscal 2011 under **Liquidity and capital resources** Cash flows from investing activities. All of our capital expenditures for the past three fiscal years have been funded through internally generated funds. We had outstanding capital commitments of \$0.1 million as of March 31, 2011. We anticipate that capital spending for the fourth quarter of fiscal 2011 will relate primarily to on-going replacement of equipment used to administer and distribute social welfare grants, provide a switching service through EasyPay and expand our operations in Korea. We expect to fund these expenditures through internally generated funds.

Contingent Liabilities, Commitments and Contractual Obligations

We lease various premises under operating leases. Our minimum future commitments for leased premises as well as other commitments are as follows:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Interest-bearing liabilities (A)	122,552	7,347	29,389	81,274	4,542
Operating lease obligations	5,813	3,026	2,545	242	-
Purchase obligations	890	890	-	-	-
Capital commitments	93	93	-	-	-
Total	129,348	11,356	31,934	81,516	4,542

(A) - Includes \$118.0 million of loans under the Facilities Agreement discussed under **Liquidity and capital resources**

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We seek to reduce our exposure to currencies other than the South African rand, or ZAR, through a policy of matching, to the extent possible, assets and liabilities denominated in those currencies. In addition, we use financial instruments to economically hedge our exposure to exchange rate and interest rate fluctuations arising from our operations. We are also exposed to equity price and liquidity risks as well as credit risks.

Currency Exchange Risk

We are subject to currency exchange risk because we purchase inventories that we are required to settle in other currencies, primarily the euro and US dollar. We have used forward contracts to limit our 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. As of March 31, 2011 and 2010, our outstanding foreign exchange contracts were as follows:

As of March 31, 2011

None.

As of March 31, 2010

	Notional amount	Strike price	Fair market value price	Maturity
EUR	30,800	ZAR 10.4690	ZAR 9.9254	May 11, 2010
EUR	207,000	ZAR 10.1107	ZAR 10.0644	July 30, 2010

Translation Risk

Translation risk relates to the risk that our results of operations will vary significantly as the US dollar is our reporting currency, but we earn most of our revenues and incur most of our expenses in ZAR and generate a significant amount of revenue and related and operating expenses in KRW. The US dollar fluctuated significantly over the past three years, including against the ZAR and KRW. As exchange rates are outside our control, there can be no assurance that future fluctuations will not adversely affect our results of operations and financial condition.

Interest Rate Risk

As a result of our normal borrowing and leasing activities, our operating results are exposed to fluctuations in interest rates, which we manage primarily through our regular financing activities. Our outstanding long-term debt under the Facilities Agreement to acquire KSNET currently bears interest at the Korean CD rate plus 4.10%. As interest rates, and specifically the Korean CD rate, are outside our control, there can be no assurance that future increases in interest rates, specifically the Korean CD rate, will not adversely affect our results of operations and financial condition.

The following table illustrates the effect on our annual expected interest charge, translated at exchange rates applicable as of March 31, 2011, of a hypothetical 1% increase and a 1% decrease in the Korean CD rate. This 1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

Table 23	As of March 31, 2011	Estimated annual expected
-----------------	-----------------------------	----------------------------------

	Annual expected interest charge (\$ 000)	Hypothetical change in Korean CD rate	interest charge after change in Korean CD rate (\$ 000)
Interest on Facilities Agreement	8,379	1%	9,559
		(1)%	7,199

We generally maintain limited investment in cash equivalents and have occasionally invested in marketable securities. The interest earned on our bank balances and short term cash investments is dependent on the prevailing interest rates in the jurisdictions where our cash reserves are invested.

Credit Risk

Credit risk relates to the risk of loss that we would incur as a result of non-performance by counterparties. We maintain credit risk policies with regard to our 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 our management deems appropriate.

With respect to credit risk on financial instruments, we maintain 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.

Equity Price and Liquidity Risk

Equity price risk relates to the risk of loss that we would incur as a result of the volatility in the exchange-traded price of equity securities that we hold and the risk that we may not be able to liquidate these securities. We have invested in approximately 22% of the issued share capital of Finbond Group Limited, which are exchange-traded equity securities. The fair value of these securities as of March 31, 2011, represented approximately 1% of our total assets, including these securities. We expect to hold these securities for an extended period of time and we are 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.

The market price of these securities may fluctuate for a variety of reasons, consequently, the amount we 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 we would incur as a result of the lack of liquidity on the exchange on which these securities are listed. We 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.

The following table summarizes our exchange traded equity securities with equity price risk as of March 31, 2011. The effects of a hypothetical 10% increase and a 10% decrease in market prices as of March 31, 2011 is also shown. The selected 10% hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned liquidity risk.

As of March 31, 2011

Table 24

	Fair value (\$ 000)	Hypothetical price change	Estimated fair value after hypothetical change in price (\$ 000)	Hypothetical Percentage Increase (Decrease) in Shareholders Equity
Exchange-traded equity securities	8,404	10%	9,244	0.26%
		(10)%	7,564	(0.26)%

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of March 31,

2011. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2011.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

In 2009, we instituted a lawsuit against SASSA in the North Gauteng High Court of South Africa, or High Court, in which we challenged SASSA's right to contract with the South African Post Office, or SAPO, to provide banking or payment services relating to social grant beneficiaries, without having followed a proper procurement process in accordance with South African legislation as it applies to organs of state. In December 2009, the High Court ruled in our favor and prohibited SASSA from further execution of the contracting with SAPO for these services, finding that SASSA had not followed a proper procurement process to comply with the South African Constitution and the Public Finance Management Act, or PFMA, when the previous executive management team at SASSA contracted with SAPO for the payment of grants in 2009. SASSA appealed the High Court's judgment to the South African Supreme Court of Appeal, which overturned the High Court's judgment on March 11, 2011. We have decided to approach the Constitutional Court and have applied for leave to appeal the Supreme Court of Appeal's judgment in favor of SASSA as we believe that the final outcome of the case could have a significant impact on broader interpretation of government procurement laws in South Africa and in particular the application of section 217 of the South African Constitution and section 51(1)(a)(iii) of the PFMA which prescribes a fair, equitable, transparent, competitive and cost effective procurement process. During the appeal process, the High Court's judgment remains in effect and prohibits SASSA from further execution of the contracting with SAPO to provide banking or payment services relating to social grant beneficiaries until SASSA follows a proper procurement process which complies with the Constitution and the PFMA. Although the High Court prohibited SASSA from further execution of the contracting with SAPO, it did not prohibit SASSA from issuing a new tender in which SAPO, as well as others, could participate. SASSA has recently initiated a new tender process, as discussed below in Item 1A. Risk Factors. We cannot assure you that we will be permitted to appeal the decision of the Supreme Court of Appeal or that even if we are so permitted, that the appeal would be decided in our favor.

We have also instituted multiple claims against SASSA for damages due to breach of contract in the ordinary course of business and launched an application to review SASSA's decision to cancel the previous tender process. We cannot assure you that we will be successful in these claims. We remain one of the incumbent service providers to SASSA and the litigation does not affect the validity of our SASSA contract, which remains in effect through its current expiration date of September 30, 2011.

For a discussion of the risks associated with the litigation against SASSA, please refer to Item 1A. Risk Factors and in particular to the risk factor captioned --The South African Supreme Court of Appeal recently reversed a lower court judgment in our favor in a lawsuit we instituted against SASSA challenging SASSA's right to contract with the South African Post Office to provide banking or payment services relating to social grant beneficiaries, without having followed a proper procurement process in accordance with South African legislation as it applies to organs of state. If we are not permitted to appeal this decision or if our appeal is ultimately denied, the future revenue and operating income we may derive from any potential SASSA contracts or tenders could be substantially reduced, which could have a material adverse effect on us. We are unable to provide any indication of when the decision regarding the leave to appeal will be made, or how long any appeal process may take as there are no mandated time guidelines in this regard.

There are no other material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or of which any of our property is the subject.

Item 1A. Risk Factors

See Item 1A RISK FACTORS in Part I of our Annual Report on Form 10-K for the year ended June 30, 2010 and in Part II of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, for a discussion of risk factors relating to (i) our business, including our KSNET acquisition, (ii) operating in South Africa and other

emerging markets, (iii) governmental regulation, (iv) intellectual property and (v) our common stock. In addition, we describe below material changes from the first two risk factors included in our Form 10-K.

We currently derive a substantial portion of our revenues from the social welfare grants distribution service that we perform for SASSA. Our contract with SASSA currently expires on September 30, 2011, and SASSA recently initiated a new tender process for the award of new contracts for all of South Africa's nine provinces. We may be required to bid with competitors for a new contract which may not be awarded to us. If we were to discontinue providing our distribution service to SASSA, we would lose all of these revenues.

We currently derive a substantial portion of our revenues from the social welfare grants distribution service that we perform for SASSA, whereby we distribute these grants in five of the nine provinces of South Africa. For the foreseeable future, our revenues, results of operations and cash flows will depend on this activity. For the year ended June 30, 2010, and the three and nine months ended March 31, 2011, we derived approximately 66%, 44% and 48%, respectively, of our revenues from our contract with SASSA to distribute social welfare grants. We entered into our current contract with SASSA in late August 2010 for an original term expiring on March 31, 2011. The contract was subsequently extended to September 30, 2011, and at the time of the extension, SASSA indicated that it intended to initiate a new contract tender process shortly. On April 15, 2011, SASSA recommenced the tender process by issuing an invitation to bid inviting service providers to submit proposals by May 27, 2011, for the provision of payment services for social grants in any one or more of the nine provinces of South Africa. Although we intend to participate in the tender process, we will be required to bid with competitors for a new contract.

If we are unsuccessful in obtaining a new contract and were to discontinue providing our distribution service to SASSA, we would lose all of these revenues.

Our current contract with SASSA is the latest in a series of short-term contracts and extensions that resulted from the conduct of a tender process which began in early 2007 and was ultimately terminated by SASSA in late November 2008 without awarding new contracts. We participated in the tender process and timely submitted proposals for each of South Africa's nine provinces, as well as a proposal for the entire country. There were a series of extensive delays during the tender process which resulted in numerous extensions of our bid proposals as well as an extension of our existing contracts. When SASSA terminated the tender process, it cited a number of defects in the original request for proposals published by SASSA and in the bid evaluation process. In March 2009, we signed a new one-year contract with SASSA which expired on March 31, 2010 and which was subsequently extended to June 30, 2010. We signed a new agreement with SASSA on August 24, 2010, which was originally scheduled to expire on March 31, 2011, but which was extended to September 30, 2011.

SASSA's decision to terminate the original tender process and the ensuing short-term agreements have created substantial uncertainty about the timing and ultimate outcome of the future contract award process. We cannot assure you that the tender process that SASSA recently initiated will result in our receiving a contract to continue to distribute social welfare grants in each of the five South African provinces where we currently distribute them. Even if we do receive a new contract, or one or more extensions of the existing contract, we cannot predict the terms that such contract will contain. Any new contract or extension we receive may contain pricing or other terms, such as provisions relating to early termination, that would be unfavorable to us.

The previous tender process and the negotiation of the additional contracts and extensions have consumed a substantial amount of our management's time and attention during the past four years. We expect that the current tender process will also require our management to devote further resources to the process which could adversely affect their ability to focus on other matters, including potential international business development activities. In addition, we have initiated several lawsuits against SASSA, including one which challenged the cancellation of the previous tender process. We cannot predict the outcome of our lawsuits against SASSA, or whether or how such litigation will affect the outcome of the current tender process.

Moreover, even if we were to receive a new contract or contract extensions containing similar economic terms to those of our current contract, our profit margin could be adversely affected to the extent that any such contracts would require us to incur significant capital expenditures during the initial implementation phase. Historically, we have incurred a significant portion of the expenses, and recognized operating losses, associated with these contracts during the initial implementation phase, which averages approximately 18 months, and have historically enjoyed higher profit margins on these contracts after the completion of the implementation period. Therefore, to the extent that we were to be awarded a new contract that required significant capital expenditures, our profit margins would be adversely affected if the contract were to be terminated for any reason during the implementation period.

Finally, if we were to be awarded one or more contracts by SASSA, an unsuccessful tenderor could seek to challenge the award, which could result in the contract being set aside or could require us to expend time and resources in an attempt to defeat any such challenge.

Our current contract with SASSA is less favorable to us than our previous contract which has adversely affected our results of operations. Furthermore, the terms of any further renewals or extensions or a contract awarded under the tender process that has recently been initiated may be even less favorable to us than the current contract. To the extent that we are unsuccessful in diversifying our business and reducing our dependence on SASSA, our business and profitability will likely suffer.

Our current service level agreement with SASSA, which became effective retroactively to July 1, 2010, contains a standard pricing formula for all provinces based on a transaction fee per beneficiary paid, regardless of the number or amount of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month. The contract replaced a prior contract which was more favorable to us. Because we continue to derive a substantial percentage of our revenues from our SASSA contract, the terms of the current contract have adversely affected our revenues and operating income. Further, as described in the immediately preceding risk factor, it is possible that any further extension or renewal of the current contract or a contract which we may be awarded under the recently initiated tender process may be even less favorable to us. While we are making significant efforts to reduce our dependence on our SASSA contract by diversifying our business in South Africa and expanding internationally, to the extent that these efforts are not successful, we may not be able to offset the effects of the current and possible future less favorable terms from SASSA which would have a material adverse effect on our results of operations, financial position and cash flows.

The South African Supreme Court of Appeal recently reversed a lower court judgment in our favor in a lawsuit we instituted against SASSA challenging SASSA's right to contract with SAPO to provide banking or payment services relating to social grant beneficiaries, without having followed a proper procurement process in accordance with South African legislation as it applies to organs of state. If we are not permitted to appeal this decision or if our appeal is ultimately denied, the future revenue and operating income we may derive from any potential SASSA contracts or tenders could be substantially reduced, which could have a material adverse effect on us. We are unable to provide any indication of when the decision regarding the leave to appeal will be made, or how long any appeal process may take as there are no mandated time guidelines in this regard.

In 2009, we instituted a lawsuit against SASSA in the High Court in which we challenged SASSA's right to contract with SAPO to provide banking or payment services relating to social grant beneficiaries, without having followed a proper procurement process in accordance with South African legislation as it applies to organs of state. In December 2009, the High Court ruled in our favor and prohibited SASSA from the further execution of the contracting with SAPO for these services, finding that SASSA had not followed a proper procurement process to comply with the South African Constitution and the PFMA when the previous executive management team at SASSA contracted with SAPO for the payment of grants in 2009. SASSA appealed the High Court's judgment to the South African Supreme Court of Appeal, which overturned the High Court's judgment on March 11, 2011. We have decided to approach the Constitutional Court and have applied for leave to appeal the Supreme Court of Appeal's judgment in favor of SASSA as we believe that the final outcome of the case could have a significant impact on broader interpretation of government procurement laws in South Africa and in particular the application of section 217 of the South African Constitution and section 51(1)(a)(iii) of the PFMA which prescribes a fair, equitable, transparent, competitive and cost effective procurement process. During the appeal process, the High Court's judgment remains in effect and prohibits SASSA from further execution of the contracting with SAPO to provide banking or payment services relating to social grant beneficiaries until SASSA follows a proper procurement process which complies with the Constitution and the PFMA. Our SASSA contract remains in effect through its current expiration date of September 30, 2011.

We cannot assure you that we will be permitted to appeal the decision of the Supreme Court of Appeal or that even if we are so permitted, that the appeal would be decided in our favor. If SASSA ultimately prevails in this lawsuit, then it would likely pursue contracts with SAPO to provide banking or payment services relating to social grant beneficiaries, which would reduce the number of beneficiaries we serve under our SASSA contract. Although our current SASSA contract guarantees us a transaction fee per beneficiary based on a guaranteed minimum number of beneficiaries, our future revenues from the contract could suffer because we would be unable to serve more than the minimum number of beneficiaries. Because we continue to derive a substantial portion of our revenue from our SASSA contract, if this source of revenue were to decline substantially, our results of operations, financial condition and cash flows would suffer.

Further, although the High Court prohibited SASSA from further execution of the contracting with SAPO, it did not prohibit SASSA from issuing a new tender in which SAPO, as well as others, could participate. SASSA has recently initiated a new tender process, as discussed in the two immediately preceding risk factors. We cannot predict whether or how this lawsuit will affect the outcome of the new tender process.

Item 6. Exhibits

The following exhibits are filed as part of this Form 10-Q:

Exhibit Number	Description
<u>31.1*</u>	<u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act</u>
<u>31.2*</u>	<u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act</u>
<u>32*</u>	<u>Certification pursuant to 18 USC Section 1350</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 5, 2011.

NET 1 UEPS TECHNOLOGIES, INC.

By: /s/ Dr. Serge C.P. Belamant

Dr. Serge C.P. Belamant

Chief Executive Officer, Chairman of the Board and Director

By: /s/ Herman Gideon Kotzé

Herman Gideon Kotzé

Chief Financial Officer, Treasurer and Secretary, Director