NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
May 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2009**

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	**98-0171860**
(State or other jurisdiction of incorporation or organization)	(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 [X] 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 [ ]

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):

[X] Large accelerated filer [ ] Accelerated filer

[ ] Non-accelerated filer (do not check if a smaller reporting company) [ ] Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES [ ] NO [X]

As of April 30, 2009 (the latest practicable date), 55,673,186 shares of the registrant s common stock, par value $0.001 per share, were outstanding.

Form 10-Q

NET 1 UEPS TECHNOLOGIES, INC.

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Part I. Financial Information

Item 1. Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Condensed Consolidated Balance Sheets

	Unaudited March 31, 2009	(A) June 30, 2008
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 121,025	$ 272,475
Pre-funded social welfare grants receivable	57,891	35,434
Accounts receivable, net of allowances of March: $318; June: $260	40,076	21,797
Finance loans receivable, net of allowances of March: $-; June: $1,007	2,552	4,301
Deferred expenditure on smart cards	-	78
Inventory	6,983	6,052
Deferred income taxes	6,617	5,597
Total current assets	235,144	345,734
OTHER LONG-TERM ASSETS, including available for sale securities	7,096	207
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION OF March: $23,264; June: $24,753	6,139	6,291
EQUITY-ACCOUNTED INVESTMENTS	2,509	2,685
GOODWILL	100,435	76,938
INTANGIBLE ASSETS, NET OF ACCUMULATED AMORTIZATION OF March: $23,022; June: $16,486	71,509	22,216
TOTAL ASSETS	422,832	454,071
LIABILITIES		
CURRENT LIABILITIES		
Bank overdraft	220	-
Accounts payable	4,221	4,909
Other payables	46,109	57,432
Income taxes payable	15,341	14,162
Total current liabilities	65,891	76,503
DEFERRED INCOME TAXES	33,519	33,474
OTHER LONG-TERM LIABILITIES, including minority interest loans	4,098	3,766
COMMITMENTS AND CONTINGENCIES	-	-
TOTAL LIABILITIES	103,508	113,743
MINORITY INTEREST	2,415	-
SHAREHOLDERS EQUITY		
COMMON STOCK		
Authorized: 200,000,000 with $0.001 par value;		
Outstanding shares - March: 55,673,186; June: 53,423,552	59	52
SPECIAL CONVERTIBLE PREFERRED STOCK		
Authorized: 50,000,000 with $0.001 par value;		
Issued and outstanding shares - March: -; June: 4,882,429	-	5
B CLASS PREFERENCE SHARES		
Authorized: 330,000,000 with $0.001 par value;		

Issued and outstanding shares (net of shares held by Net1) - March: -; June: 35,975,818		-		6
ADDITIONAL PAID-IN-CAPITAL		124,291		119,283
TREASURY SHARES, AT COST: March: 2,726,409; June: 306,269		(32,707)		(7,950)
ACCUMULATED OTHER COMPREHENSIVE LOSS		(109,871)		(37,820)
RETAINED EARNINGS		335,137		266,752
TOTAL SHAREHOLDERS EQUITY		316,909		340,328
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	422,832	$	454,071

(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 March 31,		Nine months ended March 31,	
	2009	**2008**	**2009**	**2008**
	(In thousands, except per share data)		(In thousands, except per share data)	
REVENUE	$ 55,878	$ 63,066	$ 185,201	$ 191,825
EXPENSE				
COST OF GOODS SOLD, IT PROCESSING, SERVICING AND SUPPORT	15,225	16,515	51,636	51,833
SELLING, GENERAL AND ADMINISTRATION	14,772	15,185	48,081	48,915
DEPRECIATION AND AMORTIZATION	4,266	2,716	11,950	8,295
LOSS ON SALE OF MICROLENDING BUSINESS	742	-	742	-
IMPAIRMENT OF GOODWILL	-	-	1,836	-
OPERATING INCOME	20,873	28,650	70,956	82,782
FOREIGN EXCHANGE GAIN RELATED TO SHORT-TERM INVESTMENT	-	-	26,657	-
INTEREST INCOME, net	2,125	3,754	7,590	10,852
INCOME BEFORE INCOME TAXES	22,998	32,404	105,203	93,634
INCOME TAX EXPENSE	8,543	5,156	35,444	27,816
NET INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND LOSS FROM EQUITY-ACCOUNTED INVESTMENTS	14,455	27,248	69,759	65,818
MINORITY INTEREST	(185)	-	577	(196)
LOSS FROM EQUITY-ACCOUNTED INVESTMENTS	261	281	797	801

NET INCOME	$	14, 379	$	26,967	$	68,385	$	65,213
Net income per share								
Basic earnings, in cents common stock and linked units		26.1		47.2		121.4		114.1
Diluted earnings, in cents common stock and linked units		26.0		46.7		121.0		113.1

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,	
	2009	**2008**	**2009**	**2008**
	(In thousands)		(In thousands)	
Cash flows from operating activities				
Net income	$ 14,379	$ 26,967	$ 68,385	$ 65,213
Depreciation and amortization	4,266	2,716	11,950	8,295
Impairment of goodwill	-	-	1,836	-
Loss from equity-accounted investments	261	281	797	801
Fair value adjustment related to financial liabilities	201	(14)	815	(256)
Fair value of FAS 133 derivative adjustments	286	(11)	(2,772)	(21)
Unrealized foreign exchange gain related to short-term investment	-	-	(1,015)	-
Interest payable	105	126	336	367
Loss (Profit) on disposal of property, plant and equipment	9	(23)	9	(109)
Loss on sale of microlending business	742	-	742	-
Minority interest	(185)	-	577	(196)
Stock-based compensation charge	1,317	1,108	3,868	2,860
Facility fee amortized	-	-	1,100	-
(Increase) Decrease in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable	(17,329)	15,842	(55,120)	(2,406)
Decrease in deferred expenditure on smart cards	84	236	57	496
(Increase) Decrease in inventory	(1,538)	1,286	(1,244)	(293)
Increase (Decrease) in accounts payable and other payables	2,215	13,177	(15,374)	13,490
Increase in taxes payable	475	7,666	4,659	1,034
(Decrease) Increase in deferred taxes	(182)	(4,182)	(1,601)	574
Net cash provided by operating activities	5,106	65,175	18,005	89,849
Cash flows from investing activities				
Capital expenditures	(413)	(1,004)	(3,696)	(2,880)
Proceeds from disposal of property, plant and equipment	1	24	3	142
Acquisition of available for sale securities	(3,422)	-	(3,422)	-
Acquisition of BGS, net of cash acquired	(1,906)	-	(97,992)	-
Acquisition of shares in equity-accounted investments	(150)	-	(450)	-

Net cash used in investing activities	(5,890)	(980)	(105,557)	(2,738)
Cash flows from financing activities				
Proceeds from issue of share capital, net of share issue expenses	-	25	155	175
Treasury stock acquired	-	-	(24,752)	-
Proceeds from short-term loan facility	-	-	110,000	-
Repayment of short-term loan facility	-	-	(110,000)	-
Payment of facility fee	-	-	(1,100)	-
Proceeds from bank overdrafts	2,401	-	2,496	1,462
Repayment of bank overdraft	(2,252)	(1)	(2,252)	(1,443)
Net cash provided by (used in) financing activities	149	24	(25,453)	194
Effect of exchange rate changes on cash	(2,996)	(29,330)	(38,445)	(23,402)
Net (decrease) increase in cash and cash equivalents	(3,631)	34,889	(151,450)	63,903
Cash and cash equivalents beginning of period	124,656	200,741	272,475	171,727
Cash and cash equivalents end of period	$ 121,025	$ 235,630	$ 121,025	$ 235,630

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, 2009 and 2008
(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, 2009 and 2008 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, 2008. 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 rouble 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 shareholders 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

Effective July 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (FAS 157) for financial assets and liabilities, which provides a single definition of fair value, establishes a framework for the measurement of fair value and expands disclosure about the use of fair value to measure assets and liabilities; however, it does not require any new fair value measurements.

FAS 157 establishes a hierarchy for information and valuations used in measuring fair value that is broken down into three levels based on its reliability. Level 1 valuations are based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Level 2 valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Level 3 valuations are based on

information that is unobservable and significant to the overall fair value measurement.

In October 2008, the FASB issued FASB Staff Position (FSP) No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3) which clarifies the application of FAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FAS 157-3 was effective upon issuance.

The adoption of FAS 157 and FSP 157-3 for financial assets and liabilities has not had a material effect on the Company s results of operations or financial position.

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Recent accounting pronouncements adopted (continued)

Effective July 1, 2008, the Company adopted FASB SFAS No.159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 expands the use of fair value accounting to eligible financial assets and liabilities. The Company evaluated its existing financial instruments and elected not to adopt the fair value option on its financial instruments. However, because the FAS 159 election is based on an instrument-by-instrument election at the time the Company first recognizes an eligible item or enters into an eligible firm commitment, the Company may decide to exercise the option on new items when business reasons support doing so in future. As a result, the adoption of FAS 159 has not had a material effect on the Company s results of operations or financial position.

Recent accounting pronouncements not yet adopted as of March 31, 2009

In December 2007, the FASB issued SFAS No. 141(revised 2007), *Business Combinations* (FAS 141R). FAS 141R replaces SFAS No. 141, Business Combinations (FAS 141). FAS 141R retains the fundamental requirements in FAS 141 that the acquisition method of accounting (defined in FAS 141 as the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. FAS 141R requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed at the acquisition date. FAS 141R also requires acquisition-related costs to be recognized separately from the business combination. FAS 141R applies prospectively to 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, 2008. The Company is currently assessing FAS 141R and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). FAS 160 establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that does not result in deconsolidation. FAS 160 clarifies that all of those transactions are equity transactions if the parent retains its controlling financial interest in the subsidiary. FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. However, FAS 160 shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is currently assessing FAS 160 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (FAS 162). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements under US GAAP. FAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* . It is not expected that FAS 162 will change current practice.

In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2) which delays the effective date of FAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. Entities are encouraged to adopt FAS 157 for measurements of nonfinancial assets and nonfinancial liabilities in its entirety as long as they have not yet issued financial statements during that year. An entity that chooses to adopt FAS 157 in its entirety must do so for all nonfinancial assets and nonfinancial liabilities within its scope. The Company is currently reviewing the impact of the adoption of FAS No. 157 for all non-financial assets and liabilities on its financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* (FAS 142). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of an intangible asset determined under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently assessing FSP FAS 142-3 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

Recent accounting pronouncements not yet adopted as of March 31, 2009 (continued)

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP FAS 141R-1). Under FSP FAS 141R-1 an acquirer is required to recognize at fair value an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the acquirer applies the recognition criteria in SFAS No. 5, *Accounting for Contingencies*, and Interpretation 14 to determine whether the contingency should be recognized as of the acquisition date or after it. Like FAS141R, FSP FAS 141R-1 is effective for business combinations whose acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently assessing FSP FAS 141R-1 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP FAS 107-1 and APB 28-1 also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 shall be effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company expects the adoption of FSP FAS 107-1 and APB 28-1 to result in increased disclosures in its interim period reporting.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 shall be effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company is currently assessing FSP FAS 115-2 and FAS 124-2 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with FAS 157, when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 shall be effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The Company is currently assessing FSP FAS 157-4 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

2. Acquisition of BGS

On August 27, 2008, the Company acquired 80.1% of the issued share capital of BGS Smartcard Systems AG (BGS), an Austrian private company for a total consideration of $101.6 million in cash and the issuance of an aggregate of 40,134 shares of Net1 common stock to certain former BGS shareholders. As described in note 10, the Company financed the cash portion of the purchase price with the proceeds of short-term bank financing which was repaid in full on October 16, 2008. For practical purposes the acquisition date has been set as August 31, 2008.

BGS provides smart card-based payment systems to banks, enterprises and government authorities in Russia, Ukraine, Uzbekistan, India and Oman. BGS system, Dual Universal Electronic Transactions (DUET), was developed by BGS as a derivative of the first version of our Universal Electronic Payment System (UEPS) technology that the Company licensed to BGS in 1993. BGS largest customer is Sberbank, the largest financial institution in Russia, which owns the remaining 19.9% of BGS. The Company acquired BGS because it fits in well with the Company s strategy to grow in developing economies. BGS operations are highly seasonal, with its second and fourth quarters typically being its most profitable and its first and third quarters generally the weakest.

2. Acquisition of BGS (continued)

The following table sets forth the components of the purchase price for the BGS acquisition using exchange rates applicable as of August 31, 2008:

Cash paid at closing to former BGS shareholders	$	101,611
Cash paid to former BGS shareholders on March 31, 2009		1,906
40,134 shares of Net1 common stock valued at $24.46 per share issued to certain former BGS shareholders		982
Estimated costs directly related to the acquisition		2,915
Total purchase price	$	107,414

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

Cash and cash equivalents	$	6,283
Accounts receivable, net		3,218
Inventory		740
Property, plant and equipment		350
Intangible assets (see Note 9)		68,859
Trade and other payables		(7,181)
Other long-term liabilities		(631)
Deferred tax assets		10,657
Deferred tax liabilities (see Note 9)		(17,214)
Minority interests		(1,838)
Goodwill (see Note 9)		44,171
Total purchase price	$	107,414

The preliminary purchase price allocation was based on management estimates as of March 31, 2009, and may be adjusted up to one year following the closing of the transaction. The purchase price allocation has not been finalized as management is still in the process of performing its detailed analysis of assets and liabilities and contingencies acquired.

The results of BGS operations are reflected in the Company s financial statements from September 1, 2008. The following pro forma consolidated results of operations have been prepared as if the acquisition of BGS had occurred on July 1, 2008 and 2007, respectively:

	Three months ended March 31,				Nine months ended March 31,			
		Actual 2009		Pro forma 2008		Pro forma 2009		Pro forma 2008
Revenue[(1)]	$	55,878	$	66,602	$	187,604	$	210,632
Net income from continuing operations before minority interest and loss from equity-accounted investments[(1)]	$	14,455	$	23,794	$	63,843	$	59,019
Net income[(1)]	$	14,379	$	23,530	$	62,474	$	57,400
Earnings per share basic (in cents)	$	26.1	$	41.1	$	110.9	$	100.4

Earnings per share diluted (in cents)	$ 26.0	$ 40.8	$ 110.5	$ 99.5
Weighted-average number of outstanding shares of common stock and linked units used to calculate basic earnings per share	55,074,930	57,181,363	56,344,262	57,169,392
Weighted-average number of outstanding shares of common stock and linked units used to calculate diluted earnings per share	55,200,180	57,724,668	56,537,451	57,683,562

(1) Revenue, net income from continuing operations before minority interest and loss from equity-accounted investments and net income have been translated from the functional currencies, primarily ZAR and euro (€), to US dollar, using the average exchange rate applicable for the period. The average US dollar/ ZAR exchange rate for the three and nine months ended March 31, 2009 and 2008, was $1:9.9584; $1:7.5459; $1:9.2287 and $1:7.1516, respectively. The average US dollar/ € exchange rate for the three and nine months ended March 31, 2009 and 2008, was $1:0.7654; $1:0.6683; $1:0.7298 and $1:0.6958, respectively. The significant fluctuation in the US dollar/ ZAR exchange rates has negatively impacted the Company s reported results.

2. Acquisition of BGS (continued)

The unaudited pro forma financial information above reflects the following pro forma adjustments applied using the principles of Article 11 of Regulation S-X under the Securities Exchange Act of 1934:

a) An adjustment to reduce interest income on the Company s cash reserves for the three months ended March 31, 2008 and the nine months ended March 31, 2009 and 2008, as a result of the payment of the cash portion of the purchase price of $107.4 million, at an assumed pre-tax South African interest rate of 10.7%, 10.8% and 10.7% respectively. This adjustment also assumes that the cash had been paid out 50 days after the beginning of the period presented, rather than at the beginning of the period, because the Company financed the cash portion of the purchase price with the proceeds of a loan facility that was repaid in full 50 days after closing of the acquisition, and thus, continued to earn interest on these cash reserves for the first 50 days of the period until the loan was repaid in full. The adjustment has been tax-effected using a fully-distributed rate for the three months ended March 31, 2008 and the nine months ended March 31, 2009 and 2008, of 35.45%, 34.55% and 35.45%, respectively;

b) An adjustment to decrease interest income, net for the three months ended March 31, 2008 and the nine months ended March 31, 2009 and 2008, for the interest on the short-term facility of $0.3 million, $0.8 million and $0.8 million and the facility fee of $0.4 million, $1.1 million and $1.1 million, respectively. The interest and facility fee are not deductible for taxation purposes;

c) An adjustment to increase amortization expense based on the estimated fair value of the identifiable intangible asset from the purchase price allocation, which are being amortized over its estimated useful life of seven years, of approximately $2.5 million, $6.9 million and $7.2 million for the three months ended March 31, 2008 and the nine months ended March 31, 2009 and 2008, as well as the related adjustment to deferred tax of $0.6 million, $1.7 million and $1.8 million, respectively.

3. Costs related to JSE listing

The Company completed its inward listing, a secondary listing, on the JSE Limited (JSE) in South Africa on October 8, 2008. The Company did not issue any additional shares in connection with the listing, however, the listing did result in a trigger event which converted all of the Company s special convertible preferred stock to common stock (see note 11). The Company s selling, general and administration expense includes the costs incurred related to the listing on the JSE.

The table below presents the costs incurred in connection with the Company s listing on the JSE during the nine months ended March 31, 2009 (no costs were incurred in the three months ended March 31, 2009):

		Nine months ended March 31, 2009
Advisory fee to sponsor	$	122
Legal fees		174
Regulatory and filing fees		93
Printing		47
Accounting fees		27
Other		32
Total costs related to JSE listing	$	495

4. Foreign exchange gain related to short-term investment

The Company entered into an asset swap arrangement (in the form of a $110 million 32-day call account instrument) in order to facilitate the short-term loan facility described in note 10, however this asset swap arrangement was not linked to the loan facility and did not require redemption on the same date as the repayment of the loan facility. The Company earned interest at a rate of one month US dollar London Interbank Offered Rate (LIBOR) plus 0.25% on this instrument. The Company gave a call notice to the obligor on September 10, 2008, and the capital of $110 million (or ZAR 1,100.7 million) and interest on this instrument was repaid on October 16, 2008. The Company has realized a foreign exchange gain of approximately $26.7 million for the nine months ended March 31, 2009. The foreign exchange gain was realized during the second quarter of fiscal 2009.

5. Pre-funded social welfare grants receivable

The pre-funded social welfare grants receivable represents the amounts due from provincial governments, as the Company pre-funds social welfare grant payments on behalf of the government in these provinces and pre-funding provided to certain merchants participating in its merchant acquiring system. The pre-funded amounts are typically reimbursed to the Company within two weeks after the disbursement of the grants. The grant payment service normally commences during the week before the start of a calendar month at government pay points and merchant locations. The April 2009 payment service commenced during the last two days of March 2009 and was offered at merchant locations only.

In March 2009, the Company signed a contract with the South Africa Social Security Agency (SASSA) which included, amongst other conditions, that the Company would discontinue pre-funding social welfare grants from May 2009 in the two provinces in which the Company provided this service, namely, the KwaZulu-Natal and Eastern Cape provinces. The Company will continue to pre-fund certain merchants participating in its merchant acquiring system and the Company expects to continue the practice of pre-funding these merchants in the last few days of every month.

6. Deferred expenditure on smart cards

The deferred expenditure on smart cards represents amounts paid for smart cards used in the administration and distribution of grants to beneficiaries. These expenditures are deferred and written off over the period of the contract with the provincial government.

7. Inventory

The Company s inventory comprised the following categories as of March 31, 2009 and June 30, 2008.

	March 31, 2009	June 30, 2008
Raw materials	$ 321	$ 111
Finished goods	6,662	5,941
	$ 6,983	$ 6,052

8. Financial instruments and equity-accounted investments

Financial instruments

The Company adopted FAS 157 on July 1, 2008 for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in its financial statements on a recurring basis (at least annually). FAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

FAS 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including the Company s own credit risk.

In addition to defining fair value, FAS 157 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement

in its entirety.

These levels are:

- Level 1 inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are generally unobservable and 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.

8. Financial Instruments and equity-accounted investments (continued)

Financial instruments (continued)

The following section describes the valuation methodologies we use to measure financial assets and liabilities 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 would apply 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 would be 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 in the common stock of Finbond Property Finance Limited (Finbond). The Company acquired 43,495,150 shares for cash in Finbond for $3.4 million and received 41,137,375 shares, as consideration for the sale of its traditional microlending business. The Company s ownership interest in Finbond, as of March 31, 2009 is approximately 20%. 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, and consequently are within the scope of FAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*; the Company has designated such shares as available for sale investments. Pursuant to FSP 157-3, however, 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 primarily mortgage brokering services and microlending. 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.

Derivative transactions - Foreign exchange contracts

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

The following table presents the Company s assets and liabilities measured at fair value on a recurring basis as of March 31, 2009:

	Quoted Price in Active Markets for	**Significant Other**	**Significant**

	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets				
Investment in common stock				
(available for sale assets included in				
OTHER LONG-TERM ASSETS)	-	-	$ 6,966	$ 6,966
Total assets at fair value	-	-	$ 6,966	6,966
Liabilities				
Foreign exchange contracts	-	$ 3	-	3
Total liabilities at fair value	-	$ 3	-	$ 3

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8. Financial Instruments and equity-accounted investments (continued)

Financial instruments (continued)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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.

In accordance with the provisions of APB No. 18, *The Equity Method of Accounting for Investments in Common Stock*, 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 based on valuation techniques 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 determined that there was not a decline in the fair value below cost of the equity-accounted investments during the reporting periods presented herein, and therefore has not recorded an impairment charge during the three and nine months ended March 31, 2009.

Equity-accounted investments

The percentage ownership and functional currency of the Company s equity-accounted investments is presented in the table below:

Equity-accounted investment	% Owned by Net1	Functional currency of the equity-accounted investment
SmartSwitch Namibia (Pty) Ltd (SmartSwitch Namibia)	50%	Namibia Dollar
SmartSwitch Botswana (Pty) Ltd (SmartSwitch Botswana)	50%	Botswana Pula
VTU De Colombia S.A. (VTU Colombia)	50%	Colombian Peso
Vietnam Payment Technologies Joint Stock Company (VinaPay)	30%	Vietnamese Dong

In October 2008, SmartSwitch Namibia converted approximately $1.6 million of its total loan funding to equity. The Company s current shareholding remains at 50%. As a result, the Company s loan funding has decreased by $0.8 million and its interest in SmartSwitch Namibia s equity has increased by $0.8 million.

In August 2008, the Company acquired additional shares in VinaPay for approximately $0.3 million. The Company s current shareholding remains at 30%. These funds will be used to fund operating activities.

During the nine months ended December 31, 2008, the Company acquired additional shares in VTU Colombia for approximately $0.3 million and extended additional loans of $0.2 million. The Company s current shareholding remains at 50%. These funds will be used to fund operating activities.

The functional currency of the Company s equity-accounted investments is not the US dollar and thus the equity-accounted investments are restated at the period end US dollar/foreign currency exchange rate with an entry against accumulated other comprehensive loss.

8. Financial Instruments and equity-accounted investments (continued)

Equity-accounted investments (continued)

Summarized below is the Company s interest in equity-accounted investments as of June 30, 2008 and March 31, 2009:

	Equity	Loans	Loss	Elimination	Total
Balance as of June 30, 2008	$ 1,984	$ 3,312	$ (2,295)	$ (316)	$ 2,685
Share capital acquired	1,423	(673)	-	-	750
Share capital acquired VinaPay	300				300
Share capital acquired VTU Colombia	300	150			450
Loan converted to equity SmartSwitch Namibia	823	(823)			-
(Loss) Earnings from equity-accounted investments	-	-	(1,104)	307	(797)
(Loss) Earnings from equity-accounted investment SmartSwitch Namibia[1]	-	-	(130)	130	-
(Loss) Earnings from equity-accounted investment SmartSwitch Botswana[1]	-	-	(223)	177	(46)
Loss from equity-accounted investment VTU Colombia	-	-	(645)	-	(645)
Loss from equity-accounted investment VinaPay	-	-	(106)	-	(106)
Foreign currency adjustment[2]	(393)	(440)	554	150	(129)
Balance as of March 31, 2009	$ 3,014	$ 2,199	$ (2,845)	$ 141	$ 2,509

(1) includes the recognition of realized net income as described below.

(2) the foreign currency adjustment represents the effects of the combined net 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, 2009:

	Loss	Elimination	Total
(Loss) Earnings from equity-accounted investments	$ (342)	$ 81	$ (261)
SmartSwitch Namibia	(25)	28	3
SmartSwitch Botswana	(69)	$ 53	(16)
VTU Colombia	(201)	-	(201)
VinaPay	$ (47)	-	$ (47)

The Company is required to eliminate its percentage of the net income generated from sales to its equity-accounted investments. The revenue generated and associated costs related to these sales are included in the line item captions above net income from continuing operations before minority interest and loss from equity-accounted investments in the unaudited condensed consolidated statement of operations for the three and nine months ended March 31, 2009 and 2008. The realized amount related to the elimination is included in the loss from equity-accounted investments line in the unaudited condensed consolidated statement of operations for the three and nine months ended March 31,

2009 and 2008. The Company will recognize this net income from these sales during the period in which the hardware and software it has sold to its equity-accounted investments are utilized in its operations, or has been sold to third party customers, as the case may be.

9. Goodwill and intangible assets

On August 27, 2008, the Company acquired 80.1% of the issued share capital of BGS, for a total consideration of $101.6 million in cash and the issuance of an aggregate of 40,134 shares of Net1 common stock to certain former BGS shareholders. As described in note 10, the Company financed the cash portion of the purchase price with the proceeds of short-term bank financing which was repaid in full on October 16, 2008. For practical purposes the acquisition date has been set as August 31, 2008. The goodwill associated with the acquisition of BGS represents the excess of cost over the fair value of acquired net assets. A portion of the goodwill is tax deductible. See note 2 for the allocation of the purchase price to the fair value of acquired net assets.

Goodwill

The goodwill associated with the acquisition of BGS has been allocated to the Company s hardware, software and related technology sales segment on August 31, 2008 (see note 2).

Summarized below is the movement in carrying value of goodwill for the nine months ended March 31, 2009.

	Carrying value
Balance as of July 1, 2008	$ 76,938
Acquisition of BGS as of August 31, 2008	44,171
Impairment of goodwill	(1,836)
Financial services segment - sale of traditional microlending business	(1,759)
Foreign currency adjustment [1]	(17,079)
Balance as of March 31, 2009	$ 100,435

(1) the foreign currency adjustment represents the effects of the fluctuations between the South African rand and the euro against the US dollar on the carrying value of goodwill.

The Company recognized an impairment loss of approximately $1.8 million on goodwill allocated to the Financial services segment during the second quarter of fiscal 2009 as a result of the deteriorating trading conditions of this segment, the Company s management s strategic decision not to grow this business and the offer received for the traditional microlending business in January 2009. On March 1, 2009, the Company sold all traditional microfinance loans receivables and goodwill and received shares in Finbond as consideration.

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

	As of March 31, 2009	As of June 30, 2008
Transaction-based activities	$ 28,674	$ 34,997
Smart card accounts	-	-
Financial services	-	4,455
Hardware, software and related technology sales	71,761	37,486
Total	$ 100,435	$ 76,938

Intangible assets

Summarized below is the fair value of the intangible asset acquired, translated at the exchange rate applicable as of August 31, 2008, and the weighted-average amortization period of the intangible asset:

	Fair value as of August 31, 2008	Weighted-Average Amortization period (in years)
Finite-lived intangible asset:		
Customer relationships	$ 68,859	7

A deferred tax liability of $17.2 million, at exchange rates applicable as of August 31, 2008, was recognized at the Austrian statutory tax rate of 25% on August 31, 2008, related to the intangible asset acquired.

9. Goodwill and intangible assets (continued)

Intangible assets (continued)

Summarized below is the carrying value and accumulated amortization of the intangible assets as of March 31, 2009 and June 30, 2008:

	As of March 31, 2009			As of June 30, 2008		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:						
Customer relationships[1]	$ 74,832	$ (8,094)	$ 66,738	$ 15,679	$ (2,581)	13,098
Software and unpatented technology	8,173	(7,489)	684	9,974	(6,638)	3,336
FTS patent	3,942	(3,432)	510	4,811	(3,850)	961
Exclusive licenses	4,506	(3,131)	1,375	4,506	(2,645)	1,861
Trademarks	2,964	(762)	2,202	3,618	(674)	2,944
Customer contracts	114	(114)	-	114	(98)	16
Total finite-lived intangible assets	$ 94,531	$ (23,022)	$ 71,509	$ 38,702	$ (16,486)	$ 22,216

(1) Includes the customer relationships acquired as part of the BGS acquisition in August 2008.

Aggregate amortization expense on the finite-lived intangible assets for the three and nine months ended March 31, 2009, was approximately $3.4 million and $9.3 million, respectively (three and nine months ended March 31, 2008 was approximately $1.7 million and $5.1 million, respectively). Future annual amortization expense is estimated at approximately $12.4 million, however, this amount could differ from the actual amortization as a result of changes in useful lives, exchange rate fluctuations and other relevant factors.

10. Short-term facilities

As of March 31, 2009, the Company had short-term facilities in South African Rand of approximately $51.4 million, translated at exchange rates applicable as of March 31, 2009. As of March 31, 2009 the overdraft rate on these facilities was 11.85% . In addition, BGS has short-term facilities of approximately $1.3 million, translated at exchange rates applicable as of March 31, 2009, 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, 2009, the Company had utilized $0.2 million of its South African short-term facilities. The Company s management believes its current short-term facilities are sufficient in order to meet its future obligations to distribute social welfare grants.

Short-term loan facility obtained to fund the BGS acquisition

The Company obtained a $110 million six month bank loan facility to fund the cash portion of the purchase price for the BGS acquisition. The Company was entitled to settle the full facility at any time during the six month period without incurring a prepayment penalty. During the nine months ended March 31, 2009, the Company utilized approximately $103 million of this facility to pay the cash portion of the purchase price, the $1.1 million facility fee and transaction-related costs. The interest rate charged on this facility was LIBOR plus 2.50% .

The Company pledged $25 million of its US dollar-denominated cash reserves and the A class shares and B class shares it owned in its South African subsidiary, Net1 Applied Technologies South Africa Limited (New Aplitec), as collateral security for the bank loan.

The Company paid the lender an upfront facility fee of $1.1 million which was amortized over the period that the loan was outstanding. Included in interest income, net for nine months ended March 31, 2009, is $1.1 million related to the facility fee.

On October 16, 2008, the Company used internally generated funds to repay the loan in full and all collateral security arrangements were terminated.

11. Capital structure and creditor rights attached to the B Class Loans

As 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, 2008, the Company s balance sheet reflected two classes of equity - common stock and linked units. Effective October 2008, the linked units were all converted to common stock as a result of the listing of the Company s common stock on the JSE. The Company now has one class of equity, namely common stock.

11. Capital structure and creditor rights attached to the B Class Loans (continued)

During the nine months ended March 31, 2009, 4,882,429 shares of special convertible preferred stock were converted to common stock. The trigger event that gave rise to these conversions was the listing on the JSE Limited and requests by linked unit-holders to sell and/or convert 35,975,818 linked units during the nine months ended March 31, 2009. The net result of these conversions was that 35,975,818 B class preference shares and B class loans were ceded to Net1 during the nine months ended March 31, 2009, which converted 4,882,429 shares of special convertible preferred stock to 4,882,429 shares of common stock in return for the ownership of 35,975,818 B class preference shares and B class loans. As a result of the conversion, the number of outstanding shares of common stock has increased by 4,882,429 and the number of outstanding shares of special convertible preferred stock has decreased by 4,882,429. In addition, as a result of the conversion, Net1 owned all of the 236,977,187 B class preference shares and B class loans.

On October 16, 2008, New Aplitec repaid the A and B class loans to Net1 and acquired the B class preference shares from Net1 for a total of approximately $84.7 million (ZAR 847.4 million at the negotiated $:ZAR