NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
May 10, 2012

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, 2012**

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 [X] 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):

[ ] Large accelerated filer	[X] 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 May 8, 2012 (the latest practicable date), 45,552,304 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.

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Part I. Financial Information

Item 1. Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Condensed Consolidated Balance Sheets

	Unaudited March 31, 2012	(A) June 30, 2011
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 88,250	$ 95,263
Pre-funded social welfare grants receivable (note 3)	2,741	4,579
Accounts receivable, net of allowances of March: $841; June: $728	98,159	82,780
Finance loans receivable	8,720	8,141
Deferred expenditure on smart cards	115	51
Inventory (note 4)	6,157	6,725
Deferred income taxes	7,590	15,882
Total current assets before settlement assets	211,732	213,421
Settlement assets (note 5)	39,408	186,668
Total current assets	251,140	400,089
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION OF March: $77,519; June: $50,007	44,167	35,807
EQUITY-ACCOUNTED INVESTMENTS (note 6)	1,552	1,860
GOODWILL (note 7)	190,149	209,570
INTANGIBLE ASSETS, NET OF ACCUMULATED AMORTIZATION OF March: $48,722; June: $37,118 (note 7)	101,172	119,856
OTHER LONG-TERM ASSETS, including reinsurance assets (note 8)	42,148	14,463
TOTAL ASSETS	630,328	781,645
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	11,817	11,360
Other payables	62,145	71,265
Current portion of long-term borrowings (note 10)	14,316	15,062
Income taxes payable	8,975	6,709
Total current liabilities before settlement obligations	97,253	104,396
Settlement obligations (note 5)	39,408	186,668
Total current liabilities	136,661	291,064
DEFERRED INCOME TAXES	24,425	52,785
LONG-TERM BORROWINGS (note 10)	88,610	110,504
OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (note 8)	27,024	1,272
TOTAL LIABILITIES	276,720	455,625
COMMITMENTS AND CONTINGENCIES		
EQUITY		
NET1 EQUITY:		
COMMON STOCK	59	59
Authorized: 200,000,000 with $0.001 par value;		

Issued and outstanding shares, net of treasury - March: 45,552,304; June: 45,152,805				
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		138,289		136,430
TREASURY SHARES, AT COST: March: 13,455,090; June: 13,274,434		(175,823)		(174,694)
ACCUMULATED OTHER COMPREHENSIVE LOSS		(59,832)		(33,779)
RETAINED EARNINGS		447,618		394,990
TOTAL NET1 EQUITY		350,311		323,006
NON-CONTROLLING INTEREST		3,297		3,014
TOTAL EQUITY		353,608		326,020
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	630,328	$	781,645

(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,	
	2012	**2011**	**2012**	**2011**
	(In thousands, except per share data)		(In thousands, except per share data)	
REVENUE	$ 90,664	$ 92,758	$ 282,648	$ 246,052
EXPENSE				
Cost of goods sold, IT processing, servicing and support	32,493	29,302	99,605	76,551
Selling, general and administration	36,368	32,618	92,297	91,707
Depreciation and amortization	9,325	11,192	27,194	25,188
Impairment of intangibles	-	41,771	-	41,771
OPERATING INCOME (LOSS)	12,478	(22,125)	63,552	10,835
INTEREST INCOME	2,164	1,516	5,981	5,950
INTEREST EXPENSE	2,244	2,471	7,215	6,149
INCOME (LOSS) BEFORE INCOME TAXES	12,398	(23,080)	62,318	10,636
INCOME TAX EXPENSE (BENEFIT) (note 16)	4,611	(1,603)	9,785	14,440
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE (LOSS) EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	7,787	(21,477)	52,533	(3,804)
(LOSS) EARNINGS FROM EQUITY- ACCOUNTED INVESTMENTS (note 6)	(4)	(127)	100	(509)
NET INCOME (LOSS)	7,783	(21,604)	52,633	(4,313)
LESS (ADD) NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTEREST	17	(42)	5	(128)
NET INCOME (LOSS) ATTRIBUTABLE TO NET1	$ 7,766	$ (21,562)	$ 52,628	$ (4,185)
Net income (loss) per share, in United States dollars (note 14)				
Basic earnings attributable to Net1 shareholders	$ 0.17	($0.47)	$ 1.17	($0.09)
Diluted earnings attributable to Net1 shareholders	$ 0.17	($0.47)	$ 1.17	($0.09)

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statement of Changes in Equity (dollar amounts 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 Net1 Equity
Balance July 1, 2011	58,427,239	$ 59	(13,274,434)	$ (174,694)	$ 136,430	$ 394,990	$ (33,779)	$ 323,006
Restricted stock granted	580,155							
Stock-based compensation charge					1,882			1,882
Treasury shares acquired (note 11)			(180,656)	(1,129)				(1,129)
Utilization of APIC pool related to vested restricted stock					(23)			(23)
Liquidation of SmartSwitch Nigeria (note 13)								
Sale of 10% of SmartLife (note 2)								
KSNET purchase accounting adjustment								
Comprehensive income (loss), net of taxes:								
Net income						52,628		52,628
Other comprehensive loss:								
Movement in foreign currency translation reserve							(26,053)	(26,053)
	59,007,394	$ 59	(13,455,090)	$ (175,823)	$ 138,289	$ 447,618	$ (59,832)	$ 350,311

Balance March
31, 2012

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,	
	2012	**2011**	**2012**	**2011**
	(In thousands)		(In thousands)	
Net income (loss)	$ 7,783	$ (21,604)	$ 52,633	$ (4,313)
Movement in foreign currency translation reserve	14,002	1,499	(26,180)	30,201
Total other comprehensive income (loss), net of taxes	14,002	1,499	(26,180)	30,201
Comprehensive income (loss)	21,785	(20,105)	26,453	25,888
Less: (Less) Add comprehensive (gain) loss attributable to non-controlling interest	(17)	24	122	(287)
Comprehensive income (loss) attributable to Net1	$ 21,768	$ (20,129)	$ 26,575	$ 25,601

Certain amounts for the three and nine months ended March 31, 2011, have been reclassified to reflect the appropriate attribution of net income (loss) and other movements between Net1 and its non-controlling interest.

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, 2012 (In thousands)	Three months ended March 31, 2011	Nine months ended March 31, 2012 (In thousands)	Nine months ended March 31, 2011
Cash flows from operating activities				
Net income (loss)	$ 7,783	$ (21,604)	$ 52,633	$ (4,313)
Depreciation and amortization	9,325	11,192	27,194	25,188
Impairment loss	-	41,771	-	41,771
Loss (Earnings) from equity-accounted investments	4	127	(100)	509
Fair value adjustments	(1,211)	417	(1,983)	655
Interest payable	694	1,406	4,469	1,546
Profit on disposal of property, plant and equipment	(23)	(2)	(57)	(10)
Net loss on sale of 10% of SmartLife (note 2)	-	-	81	-
Profit on liquidation of subsidiary (note 13)	-	-	(3,994)	-
Realized loss on sale of SmartLife investments	-	-	25	-
Stock-based compensation charge	843	1,597	1,882	4,593
Facility fee amortized	316	113	515	1,841
Decrease (Increase) in accounts and finance loans				
receivable, and pre-funded grants receivable	474	3,896	(15,321)	2,648
Increase in deferred expenditure on smart cards	(56)	-	(70)	-
Increase in inventory	(862)	(229)	(261)	(163)
Increase (Decrease) in accounts and other payables	583	(6,060)	(1,765)	(2,283)
Increase (Decrease) in taxes payable	5,626	7,140	(5,336)	5,910
Decrease in deferred taxes	(1,532)	(11,500)	(14,928)	(24,438)
Net cash provided by operating activities	21,964	28,264	42,984	53,454
Cash flows from investing activities				
Capital expenditures	(13,879)	(4,679)	(23,465)	(9,458)
Proceeds from disposal of property, plant and equipment	117	10	385	28
Acquisition of SmartLife, net of cash acquired	-	-	(1,673)	-
Acquisition of prepaid business	-	-	(4,481)	-
Settlement from former shareholders of KSNET				
(Acquisition of KSNET, net of cash acquired)	-	-	4,945	(230,225)
Advance of loans to equity-accounted investment	-	-	-	(375)
Repayment of loan by equity-accounted investment	30	33	93	440
Acquisition of available for sale securities	(948)	-	(948)	-

Purchase of investments related to SmartLife	-	-	(2,320)	-
Proceeds from maturity of investments related to SmartLife	-	-	2,321	-
Net change in settlement assets	95,165	7,397	128,961	(39,788)
Net cash generated from (used in) investing activities	80,485	2,761	103,818	(279,378)
Cash flows from financing activities				
Loan portion related to options	-	-	-	20
Long-term borrowings obtained	-	-	-	116,353
Repayment of long-term borrowings	(4,842)	-	(12,027)	-
Payment of facility fee	-	-	-	(3,088)
Proceeds on sale of 10% of SmartLife	-	-	107	-
Acquisition of remaining 19.9% of Net1 UTA	-	-	-	(594)
Acquisition of treasury stock	-	-	(1,129)	-
Repayment of short-term borrowings	-	(7,124)	-	(6,705)
Net change in settlement obligations	(95,165)	(7,397)	(128,961)	39,788
Net cash (used in) generated from financing activities	(100,007)	(14,521)	(142,010)	145,774
Effect of exchange rate changes on cash	4,944	1,003	(11,805)	15,298
Net increase (decrease) in cash and cash equivalents	7,386	17,507	(7,013)	(64,852)
Cash and cash equivalents beginning of period	80,864	71,383	95,263	153,742
Cash and cash equivalents end of period	$ 88,250	$ 88,890	$ 88,250	$ 88,890

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, 2012 and 2011
(All amounts in tables stated in thousands or thousands of United States Dollars, unless otherwise stated)

1. Basis of Presentation and Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with US generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three and nine months ended March 31, 2012 and 2011, 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, 2011. In addition, please refer to note 1 to the unaudited condensed consolidated financial statements included in the Company s Form 10-Q for the quarter ended September 30, 2011, for a summary of accounting policies relating to the Company s life insurance business acquired during that quarter. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

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

Recent accounting pronouncements adopted

No new accounting pronouncements were adopted by the Company during the three months ended March 31, 2012.

Recent accounting pronouncements not yet adopted as of March 31, 2012

In June 2011, the FASB issued guidance regarding the presentation of comprehensive income. The guidance improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. The amendments to the guidance requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Entities are no longer permitted to present components of other comprehensive income as part of the statement of changes in equity. Any adjustments for items that are reclassified from other comprehensive income to net income are to be presented on the face of the entities' financial statement regardless of the method of presentation for comprehensive income. The amendments do not change items to be reported in comprehensive income or when an item of other comprehensive income must be reclassified to net income, nor do the amendments change the option to present the components of other comprehensive income either net of related tax effects or before related tax effects. This guidance is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011. The Company currently presents its comprehensive income in a single continuous statement of comprehensive income and therefore the adoption of this guidance will not impact its presentation of comprehensive income.

In September 2011, the FASB issued guidance regarding *Testing Goodwill for Impairment*. The guidance allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this guidance, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The guidance includes a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its goodwill impairment testing process.

2. Acquisitions

KSNET

During the three months ended December 31, 2011, the Company received $4.9 million, in cash, in final settlement of any and all claims and contractual adjustments between the Company and the former shareholders of KSNET. This amount has been applied against the goodwill recognized on the acquisition of KSNET and has reduced the goodwill balance. As required by the Company s Korean debt agreement, the Company has used the settlement proceeds to prepay a portion of its outstanding debt thereunder. The prepayment was made on January 30, 2012. The KSNET purchase price allocation is described in note 3 to the Company s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2011.

Acquisition of prepaid airtime and electricity business in October 2011

On October 3, 2011, the Company acquired the South African prepaid airtime and electricity businesses of Eason & Son, Ltd (Eason), an Irish private limited company, for approximately $4.5 million in cash. The principal assets acquired comprise prepaid airtime and electricity businesses customer list, accounts receivable books, inventory and a perpetual license to utilize Eason s internally developed transaction-based system software (EBOS).

The business has been integrated with EasyPay and allocated to the Company s South African transaction-based activities operating segment. The Company believes that the acquisition will enable it to expand its prepaid customer base and over time integrate all of its prepaid offerings onto the EBOS system.

The preliminary purchase price allocation, translated at the foreign exchange rates applicable on the date of acquisition, is provided in the table below:

Accounts receivable, net	$	1,226
Inventory		297
Customer relationships (amortized over 0.75 years)		870
Software and unpatented technology (amortized over three years)		2,332
Deferred tax liability		(244)
Total purchase price	$	4,481

The preliminary purchase price allocation is based on management estimates as of March 31, 2012, 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, 2012.

Pro forma results of operations have not been presented because the effect of the acquisition, individually and in the aggregate with other acquisitions during fiscal 2012, was not material. During the three and nine months ended March 31, 2012, the Company did not incur any acquisition-related expenditure. Since the closing of the acquisition, the acquisition has contributed revenue of $10.1 million and a net loss of $0.4 million. During the three months ended March 31, 2012 the acquisition contributed revenue of $4.8 million and a net profit of $0.1 million.

SmartLife

On July 1, 2011, the Company acquired SmartLife (formerly known as Saambou Life Assurers Limited), a South African long-term insurance company, for ZAR 13 million (approximately $1.8 million) in cash. Prior to its acquisition by the Company, SmartLife had been administered as a ring-fenced life-insurance license by a large South African insurance company, had not written any new insurance business for a number of years and had reinsured all of its risk exposure under its life insurance products. SmartLife has been allocated to the Company s financial services operating segment.

The acquisition of SmartLife provides the Company with an opportunity to offer relevant insurance products directly to its existing customer and employee base in South Africa. The Company intends to offer this customer base a full spectrum of products applicable to this market segment, including credit life, group life, funeral and education insurance policies.

2. Acquisitions (continued)

SmartLife (continued)

The preliminary purchase price allocation, translated at the foreign exchange rates applicable on the date of acquisition, is provided in the table below:

Cash and cash equivalents	$	168
Accounts receivable, net		150
Financial investments (allocated to other long-term assets)		3,059
Reinsurance assets (allocated to other long-term assets)		28,492
Other payables		(189)
Policy holder liabilities (allocated to other long-term liabilities)		(29,838)
Total purchase price	$	1,842

The preliminary purchase price allocation is based on management estimates as of March 31, 2012, 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, 2012.

Pro forma results of operations have not been presented because the effect of the SmartLife acquisition, individually and in the aggregate with other acquisitions during fiscal 2012, was not material. During the three and nine months ended March 31, 2012, the Company did not incur any acquisition-related expenditure. Since the closing of the acquisition, SmartLife has contributed revenue of $0.5 million and net loss of $0.3 million. During the three months ended March 31, 2012 Smartlife contributed revenue of $0.3 million and a net loss of $0.1 million.

In November 2011, the Company sold 10% of SmartLife to a strategic partner for $0.1 million and recognized a loss on sale of $0.07 million.

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 2012 payment service commenced during the last six days of March 2012 and was offered at merchant locations only.

4. Inventory

The Company s inventory comprised the following categories as of March 31, 2012 and June 30, 2011.

		March 31, 2012		June 30, 2011
Raw materials	$	32	$	24
Finished goods		6,125		6,701
	$	6,157	$	6,725

5. Settlement assets and settlement obligations

Settlement assets comprise (1) cash received from the South African government that the Company holds pending disbursement to beneficiaries of social welfare grants, (2) cash received from health care plans which the Company disburses to health care service providers once it adjudicates claims and (3) cash received from customers on whose behalf the Company processes payroll payments that the Company will disburse to customer employees, payroll-related payees and other payees designated by the customer.

Settlement obligations comprise (1) amounts that the Company is obligated to disburse to beneficiaries of social welfare grants, (2) amounts which are due to health care service providers after claims have been adjudicated and reconciled, provided that the Company shall have previously received such funds from health care plan customers and (3) amounts that the Company is obligated to pay to customer employees, payroll-related payees and other payees designated by the customer.

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

6. 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.

The Company s outstanding foreign exchange contracts are as follows:

As of March 31, 2012

Notional amount		Strike price		Fair market value price		Maturity
USD	821,620	ZAR	8.4450	ZAR	7.6943	April 13, 2012

As of June 30, 2011

None.

Translation risk

Translation risk relates to the risk that the Company s results of operations will vary significantly as the US dollar is its reporting currency, but it earns most of its revenues and incurs most of its expenses in ZAR. The US dollar to ZAR exchange rate has fluctuated significantly over the past 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. The Company, through its recently acquired insurance business, maintains investments in fixed maturity investments which are exposed to fluctuations in interest rates.

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.

6. 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 and liabilities at fair value.

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

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

The Company's Level 3 asset represents an investment of 156,778,712 shares of common stock of Finbond. In March 2012, Finbond completed a rights issue and the Company acquired an additional 72,156,187 shares for approximately $1 million. The Company s ownership interest in Finbond as of March 31, 2012, is approximately 27%. 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, 2012 according to the fair value hierarchy:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	$ 2,793	$ -	$ -	$ 2,793

Mutual funds: interest-bearing instruments		1		-		-		1
Investment in Finbond (available for sale assets included in other long-term assets)		-		-		8,199		8,199
Other		-		449		-		449
Total assets at fair value	$	2,794	$	449	$	8,199	$	11,442

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

Financial instruments (continued)

The following table presents the Company s assets and liabilities measured at fair value on a recurring basis as of June 30, 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 Finbond (available for sale assets included in other long-term assets)	-		-	$	8,161	$	8,161
Other	-	$	275		-		275
Total assets at fair value	-	$	275	$	8,161	$	8,436

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.

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, 2012, SmartSwitch Namibia repaid outstanding loans, including outstanding interest. The repayments received have been allocated to the equity-accounted investments presented in the Company s condensed consolidated balance sheet as of March 31, 2012, and reduced 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 the Company s condensed consolidated statement of cash flows for the three and nine months ended March 31, 2012.

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 the purchaser 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 and the functional currency of SmartSwitch Botswana is the Botswana pula.

6. 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, 2011 and March 31, 2012:

	Equity	Loans	Earnings (Loss)	Elimination	Total
Balance as of June 30, 2011	$ 4,051	$ 1,630	$ (3,828)	$ 7	$ 1,860
Loan repaid	-	(100)	-	-	(100)
Interest repaid	-	-	-	(105)	(105)
Earnings (loss) from equity- accounted investments	-	-	55	45	100
SmartSwitch Namibia[1]	-	-	128	24	152
SmartSwitch Botswana[1]	-	-	(73)	21	(52)
Foreign currency adjustment[2]	(358)	(80)	175	60	(203)
Balance as of March 31, 2012	$ 3,693	$ 1,450	$ (3,598)	$ 7	$ 1,552

(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, 2012:

	Loss	Elimination	Total
Earnings (Loss) from equity- accounted investments	$ (10)	$ 6	$ (4)
SmartSwitch Namibia	15	6	21
SmartSwitch Botswana	$ (25)	$ -	$ (25)

There were no significant sales to these investees that require elimination during the three and nine months ended March 31, 2012 and 2011.

7. Goodwill and intangible assets

Goodwill

Summarized below is the movement in the carrying value of goodwill for the nine months ended March 31, 2012:

	Carrying value
Balance as of June 30, 2011	$ 209,570
Reduction in goodwill related to net settlement (note 2)	(4,945)
Foreign currency adjustment [1]	(14,476)
Balance as of March 31, 2012	$ 190,149

(1) 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 has been allocated to the Company s reportable segments as follows:

	As of March 31, 2012	As of June 30, 2011
SA transaction-based activities	$ 37,376	$ 42,005
International transaction-based activities	114,170	124,895
Smart card accounts	-	-
Financial services	-	-
Hardware, software and related technology sales	38,603	42,670
Total	$ 190,149	$ 209,570

7. Goodwill and intangible assets (continued)

Intangible assets

Carrying value and amortization of intangible assets

Summarized below is the carrying value and accumulated amortization of the intangible assets as of March 31, 2012 and June 30, 2011:

	As of March 31, 2012			As of June 30, 2011		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:						
Customer relationships(1)	$ 94,730	$ (21,171)	$ 73,559	$ 100,155	$ (15,283)	$ 84,872
Software and unpatented technology(1)	37,414	(14,963)	22,451	37,697	(8,999)	28,698
FTS patent	4,981	(4, 981)	-	5,598	(5,598)	-
Exclusive licenses	4,506	(4,506)	-	4,506	(4,506)	-
Trademarks	7,472	(2,508)	4,964	8,130	(2,288)	5,842
Customer database	791	(593)	198	888	(444)	444
Total finite-lived intangible assets	$ 149,894	$ (48,722)	$ 101,172	$ 156,974	$ (37,118)	$ 119,856

(1) Includes the customer relationships and software and unpatented technology acquired as part of the Eason acquisition in October 2011.

Aggregate amortization expense on the finite-lived intangible assets for the three and nine months ended March 31, 2012, was approximately $5.0 million and $14.1 million, respectively (three and nine months ended March 31, 2011, was approximately $7.3 million and $17.3 million, respectively).

Future estimated annual amortization expense for the next five fiscal years, assuming exchange rates prevailing on March 31, 2012, 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.

2012	$ 17,529
2013	15,071
2014	14,488
2015	11,081
2016	$ 8,732

8. Reinsurance assets and policy holder liabilities under insurance and investment contracts

Reinsurance assets and policy holder liabilities under insurance contracts

Summarized below is the movement in reinsurance assets and policy holder liabilities under insurance contracts during the nine months ended March 31, 2012:

	March 31, 2012	
	Reinsurance	Insurance

	assets (1)	contracts (2)
Balances acquired on July 1, 2011	$ 28,492	$ (28,492)
Insurance premiums	-	-
Claims and policyholders benefits under insurance contracts	-	-
Foreign currency adjustment [3]	(3,346)	3,346
Balance as of March 31, 2012	$ 25,146	$ (25,146)

(1) Included in other long-term assets;

(2) Included in other long-term liabilities;

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

8. Reinsurance assets and policy holder liabilities under insurance and investment contracts (continued)

Reinsurance assets and policy holder liabilities under insurance contracts (continued)

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

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

Assets and policy holder liabilities under investment contracts

Summarized below is the movement in assets and policy holder liabilities under investment contracts during the nine months ended March 31, 2012:

	March 31, 2012	
	Assets (1)	Investment contracts (2)
Balances acquired on July 1, 2011	$ 1,346	$ (1,346)
Insurance premiums	-	-
Claims and policyholders benefits under insurance contracts	-	-
Foreign currency adjustment (3)	(158)	158
Balance as of March 31, 2012	$ 1,188	$ (1,188)

(1) Included in other long-term assets;
(2) Included in other long-term liabilities;
(3) The foreign currency adjustment represents the effects of the fluctuations between the ZAR against the US dollar.

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

9. Short-term credit facilities

The Company has a ZAR 250 million ($32.5 million, translated at exchange rates applicable as of March 31, 2012) short-term South African credit facility. As of March 31, 2012, the overdraft rate on this facility was 7.85% . Certain South African subsidiaries have ceded trade receivables with an aggregate value of approximately $16.5 million, translated at exchange rates applicable as of March 31, 2012, 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, 2012 and June 30, 2011, the Company had utilized none of its South African short-term facility.

Management believes that this facility is sufficient in order to meet the Company s future obligations as they arise.

10. Long-term borrowings

The Company s KRW 130.5 billion ($114.5 million, translated at exchange rates applicable as of March 31, 2012) Korean senior secured loan facility is described in note 12 to the Company s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2011. The current carrying value as of March 31, 2012, is $102.9 million. The interest rate in effect on March 31, 2012 was 7.64% . Interest expense during the three and nine months ended March 31, 2012, was $2.1 million and $6.7 million, respectively. Total interest expense for the three and nine months ended March 31, 2011, was $2.0 million and $3.4 million, respectively.

The second and third scheduled principal repayment are each $7.2 million, respectively, translated at exchange rates applicable as of March 31, 2012, and have been classified as current in the Company s condensed consolidated balance sheet. The second repayment is due on April 29, 2012 and the third repayment is due on October 29, 2012. During the three months ended March 31, 2012, the Company made an unscheduled $4.8 million principal payment with the proceeds of the net settlement received from the former shareholders of KSNET.

11. Capital structure

Common stock repurchases

The Company repurchased 180,656 shares during the nine months ended March 31, 2012, for approximately $1.1 million. The Company did not repurchase any of its shares during the three months ended March 31, 2012 or the three and nine months ended March 31, 2011.

12. 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, 2012 and 2011:

	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, 2011	2,120,656	$ 18.44	6.82	$ 243	
Granted under Plan in August 2011	165,000	6.59	10.00		$ 297
Granted under Plan in October 2011	202,000	7.98	10.00		$ 442
Outstanding March 31, 2012	2,487,656	$ 16.81	6.55	$ 876	
Outstanding July 1, 2010	1,813,656	$ 19.76	7.41	$ 585	
Granted under Plan in November 2010	307,000	10.59	10.00		$ 801
Outstanding March 31, 2011	2,120,656	$ 18.44	7.08	$ 239	

During the nine months ended March 31, 2012, 102,333 stock options became exercisable. No stock options became exercisable during the three months ended March 31, 2012 or the three and nine months ended March 31, 2011. As of March 31, 2012, 1,355,989 stock options were exercisable.

No stock options were exercised during the three and nine months ended March 31, 2012 or during the three months ended March 31, 2011. During the nine months ended March 31, 2011, the Company received approximately $0.02 million from repayment of stock option-related loans. The Company issues new shares to satisfy stock option exercises.

Restricted stock

The following table summarizes restricted stock activity for the nine months ended March 31, 2012 and 2011:

	Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value

Non-vested	July 1, 2011	103,672		-
Granted	August 2011	30,155	$	199
Granted	February 2012	550,000	$	6,111
Vested	August 2011	(6,157)		-
Vested	November 2011	(27,667)		-
Non-vested	March 31, 2012	650,003		-
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)		-
Vested	February 2011	(1,094)		-
Non-vested	March 31, 2011	361,986		-

12. Stock-based compensation (continued)

Stock option and restricted stock activity (continued)

Restricted stock (continued)

The fair value of restricted stock vesting during the three and nine months ended March 31, 2012, was $0.0 million and $0.3 million, respectively. The fair value of restricted stock vested during the nine months ended March 31, 2011, was $0.01 million and $2.3 million, respectively.

Stock-based compensation charge and unrecognized compensation cost

The Company has recorded a stock compensation charge of $0.8 million and $1.6 million for the three months ended March 31, 2012 and 2011, 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, 2012			
Stock-based compensation charge	$ 844	$ -	$ 844
Total three months ended March 31, 2012	$ 844	$ -	$ 844
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

The Company has recorded a stock compensation charge of $1.9 million and $4.6 million for the nine months ended March 31, 2012 and 2011, 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, 2012			
Stock-based compensation charge	$ 1,882	$ -	$ 1,882
Total Nine months ended March 31, 2012	$ 1,882	$ -	$ 1,882
Nine months ended March 31, 2011			
Stock-based compensation charge	$ 4,592	$ 152	$ 4,440
Total Nine months ended March 31, 2011	$ 4,592	$ 152	$ 4,440

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, 2012, the total unrecognized compensation cost related to stock options was approximately $1.0 million, which the Company expects to recognize over approximately three years. As of March 31, 2012, the total unrecognized compensation cost related to restricted stock awards was approximately $6.6 million, which the

Company expects to recognize over approximately three years.

As of March 31, 2012, the Company has recorded a deferred tax asset of approximately $0.3 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.

13. Profit on liquidation of SmartSwitch Nigeria

The Company has ceased operations in the Federation of Nigeria due to an inability to implement its technology on a profitable basis. During the three months ended September 30, 2011, the Company, together with the other shareholders, agreed to liquidate SmartSwitch Nigeria, the company through which operating activities in Nigeria were performed. SmartSwitch Nigeria was capitalized primarily with shareholder loans. The Company eliminated its portion of the loan funding on consolidation, and included the loans due to the non-controlling interest in long-term borrowings on its June 30, 2011, consolidated balance sheet. The shareholders of SmartSwitch Nigeria have agreed to waive all outstanding capital and interest repayments related to the loan funding initially provided as part of the liquidation processes. The non-cash profit on liquidation of SmartSwitch Nigeria of $4.0 million includes the write back of all assets and liabilities, including non-controlling interest loans, of SmartSwitch Nigeria, except for expected liabilities related to the liquidation of SmartSwitch Nigeria. The profit has been allocated to corporate/eliminations.

14. Earnings per share

Basic earnings per share include 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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, the vesting conditions in respect of a portion of the awards had not been satisfied.

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, 2012 and 2011.

	Three months ended March 31,		**Nine months ended March 31,**	
	2012	**2011**	**2012**	**2011**
	000	**000**	**000**	**000**
Weighted average number of outstanding shares of common stock basic	45,268	45,452	45,084	45,423
Weighted average effect of dilutive securities: employee share-based awards	107	107	56	66
Weighted average number of outstanding shares of common stock diluted	45,375	45,559	45,140	45,489

15. Operating segments

A description of the Company s operating segments is contained in note 19 to the Company s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2011.

The Company has reallocated its EP Kiosk business unit to the South African transaction-based activities segment from the hardware, software and related technology segment, as the unit is no longer in pilot phase and now forms part of EasyPay. Following XeoHealth s first contract signing, the Company has allocated its revenue and costs to the international transaction-based activities segment, which were previously included in the South African transaction-based activities segment. Revenue and administration costs related to the Company s comprehensive financial services offerings are all included in the financial services segment. The effect of these reallocations has not significantly impacted the Company s reported results. Restated amounts for the three months ended March 31, 2011, also include the effects of reallocating the Company s initiatives in Iraq, Nigeria and Net1 VCC. The impact of these reallocations on the Company s revenue, operating income (loss) and net income (loss) for the three months ended March 31, 2011, is presented in the table below:

	Three months ended March 31, 2011		
	Restated	**As previously reported**	**Difference**
Revenues from external customers			
SA transaction-based activities	$ 47,313	$ 47,313	$ -
International transaction-based activities	24,627	24,627	-
Smart card accounts	8,288	8,288	-
Financial services	2,171	2,168	3
Hardware, software and related technology sales	10,359	10,362	(3)
Total	92,758	92,758	-
Operating income (loss)			
SA transaction-based activities	18,566	18,309	257
International transaction-based activities	274	780	(506)
Smart card accounts	3,767	3,767	-
Financial services	1,540	1,701	(161)
Hardware, software and related technology sales	(44,086)	(44,584)	498
Corporate/Eliminations	(2,186)	(2,098)	(88)
Total	(22,125)	(22,125)	-
Net income (loss)			
SA transaction-based activities	13,380	13,054	326
International transaction-based activities	394	899	(505)
Smart card accounts	2,712	2,712	-
Financial services	1,099	1,214	(115)
Hardware, software and related technology sales	(33,080)	(36,561)	3,481
Corporate/Eliminations	(6,067)	(2,880)	(3,187)
Total	$ (21,562)	$ (21,562)	$ -

The impact of these reallocations on the Company s revenue, operating income (loss) and net income (loss) for the nine months ended March 31, 2011, is presented in the table below:

Nine months ended March 31, 2011

	Restated	As previously reported	Difference
Revenues from external customers			
SA transaction-based activities	$ 138,939	$ 138,793	$ 146
International transaction-based activities	42,482	41,577	905
Smart card accounts	24,692	24,692	-
Financial services	5,072	5,039	33
Hardware, software and related technology sales	34,867	35,951	(1,084)
Total	$ 246,052	$ 246,052	$ -

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15. Operating segments (continued)

	Nine months ended March 31, 2011		
	Restated	As previously reported	Difference
Operating income (loss)			
SA transaction-based activities	$ 54,892	$ 54,632	$ 260
International transaction-based activities	(295)	1,107	(1,402)
Smart card accounts	11,221	11,221	-
Financial services	3,365	3,861	(496)
Hardware, software and related technology sales	(46,474)	(47,563)	1,089
Corporate/Eliminations	(11,874)	(12,423)	549
Total	10,835	10,835	-
Net income (loss)			
SA transaction-based activities	39,597	38,892	705
International transaction-based activities	(779)	902	(1,681)
Smart card accounts	8,081	8,081	-
Financial services	2,411	2,768	(357)
Hardware, software and related technology sales	(35,085)	(39,057)	3,972
Corporate/Eliminations	(18,410)	(15,771)	(2,639)
Total	$ (4,185)	$ (4,185)	$ -

The following tables summarize segment information which is prepared in accordance with GAAP:

	Three months ended March 31,		Nine months ended March 31,	
	2012	2011	2012	2011
Revenues from external customers				
SA transaction-based activities	$ 46,423	$ 47,313	$ 142,773	$ 138,939
International transaction-based activities	28,188	24,627	87,278	42,482
Smart card accounts	7,558	8,288	23,074	24,692
Financial services	2,289	2,171	6,344	5,072
Hardware, software and related technology sales	6,206	10,359	23,179	34,867
Total	90,664	92,758	282,648	246,052
Inter-company revenues				
SA transaction-based activities	993	985	2,970	2,923
International transaction-based activities	-	-	-	-
Smart card accounts	390	-	671	-
Financial services	-	-	-	-
Hardware, software and related technology sales	362	517	1,145	1,509
Total	1,745	1,502	4,786	4,432
Operating income (loss)				
SA transaction-based activities	8,694	18,566	44,643	54,892
International transaction-based activities	195	274	1,120	(295)
Smart card accounts	3,435	3,767	10,487	11,221

Financial services	1,248	1,540	3,685	3,365
Hardware, software and related technology sales	(1,301)	(44,086)	1,545	(46,474)
Corporate/Eliminations	207	(2,186)	2,072	(11,874)
Total	12,478	(22,125)	63,552	10,835
Interest earned				
SA transaction-based activities	-	-	-	-
International transaction-based activities	-	-	-	-
Smart card accounts	-	-	-	-
Financial services	-	-	-	-
Hardware, software and related technology sales	-	-	-	-
Corporate/Eliminations	2,164	1,516	5,981	5,950
Total	$ 2,164	$ 1,516	$ 5,981	$ 5,950

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15. Operating segments (continued)

	Three months ended March 31, 2012	Three months ended March 31, 2011	Nine months ended March 31, 2012	Nine months ended March 31, 2011
Interest expense				
SA transaction-based activities	$ 125	$ 178	$ 313	$ 526
International transaction-based activities	-	156	44	335
Smart card accounts	-	-	-	-
Financial services	-	15	2	15
Hardware, software and related technology sales	3	15	26	43
Corporate/Eliminations	2,116	2,107	6,830	5,230
Total	2,244	2,471	7,215	6,149
Depreciation and amortization				
SA transaction-based activities	2,172	2,237	6,423	6,711
International transaction-based activities	6,746	6,047	19,665	9,946
Smart card accounts	-	-	-	-
Financial services	78	131	269	402
Hardware, software and related technology sales	153	2,568	474	7,550
Corporate/Eliminations	176	209	363	579
Total	9,325	11,192	27,194	25,188
Income taxation expense (benefit)				
SA transaction-based activities	2,526	5,007	12,540	14,766
International transaction-based activities	(88)	(55)	538	369
Smart card accounts	962	1,055	2,937	3,142
Financial services	349	427	1,025	937
Hardware, software and related technology sales	(339)	(10,925)	317	(11,311)
Corporate/Eliminations	1,201	2,888	(7,572)	6,537
Total	4,611	(1,603)	9,785	14,440
Net income (loss)				
SA transaction-based activities	6,044	13,380	31,791	39,597
International transaction-based activities	405	394	958	(779)
Smart card accounts	2,473	2,712	7,550	8,081
Financial services	898	1,099	2,638	2,411
Hardware, software and related technology sales	(963)	(33,080)	1,201	(35,085)
Corporate/Eliminations	(1,091)	(6,067)	8,490	(18,410)
Total	7,766	(21,562)	52,628	(4,185)
Expenditures for long-lived assets				
SA transaction-based activities	10,185	649	11,969	1,933
International transaction-based activities	3,587	3,848	11,042	7,086
Smart card accounts	-	-	-	-
Financial services	97	124	314	340

Hardware, software and related technology sales		10		58		140		99
Corporate/Eliminations		-		-		-		-
Total	$	13,879	$	4,679	$	23,465	$	9,458

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

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

16. Income tax

Change in South African tax law

On December 20, 2011, there was a change in South African tax law to impose a 15% dividends withholding tax (a tax levied and withheld by a company on distributions to its shareholders) to replace the 10% Secondary Taxation on Companies (a tax levied directly on a company on dividend distributions) (STC). The change becomes effective on April 1, 2012. The withholding tax rate applicable to the Company is reduced to 5% under the U.S. / South Africa double taxation treaty. As a result, the Company has recorded a net deferred taxation benefit of approximately $18.3 million in income taxation expense in its condensed consolidated statements of operations during the nine months ended March 31, 2012. There were no changes to the enacted tax rate during the three and nine months ended March 31, 2011.

Currently, the Company intends to permanently reinvest its undistributed South African earnings in South Africa. Accordingly, the Company has not recognized a deferred tax liability related to any future distributions of these undistributed earnings. The Company will be required to record a taxation charge related to any change in its distribution of undistributed earnings if it decides not to permanently reinvest its undistributed earnings. This may result in an increase in the Company s effective tax rate in future periods.

Foreign tax credits and change in valuation allowance

As a result of the change in South African tax law and the Company s intention to permanently reinvest its undistributed earnings in South Africa, the Company does not believe it will be able to recover foreign tax credits previously recognized of $8.2 million. The Company has recorded this charge of $8.2 million in its income taxation expense in its condensed consolidated statements of operations for the nine months ended March 31, 2012.

Income tax in interim periods

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

For the three and nine months ended March 31, 2012, 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, 2012, was 37.19% and 15.7%, respectively, as a result of a change in tax law in South Africa, non-taxable profit on liquidation of SmartSwitch Nigeria, fewer non-deductible expenses, offset by increased interest expense related to the Company s long-term Korean borrowings and the creation of a valuation allowance The Company s effective tax rate for the three and nine months ended March 31, 2011, was 7% and 135.8%, respectively, as a result of non-deductible expenses, including transaction-related expenses and interest expense related to the acquisition of KSNET.

Uncertain tax positions

The Company increased its unrecognized tax benefits by $0.04 million and $0.1 million, respectively, during the three and nine months ended March 31, 2012. As of March 31, 2012, the Company had accrued interest related to uncertain tax positions of approximately $0.3 million on its balance sheet.

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

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, 2012, the Company is no longer subject to income tax examination by the South African Revenue Service for years before March 31, 2009. In 2011, the Korea National Tax Service had effectively completed the examination of the Company s returns in Korea related to years 2006 through 2010. 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.

17. Subsequent events

On April 19, 2012, the Company issued an option to purchase 8,955,000 shares of its common stock to a BEE consortium pursuant to the previously-announced BEE transaction that it entered into on January 25, 2012. The grant date fair value of the option was $11.7 million and the Company expects to expense this amount in full during the three months ended June 30, 2012.

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

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended June 30, 2011 and the unaudited condensed consolidated financial statements and the accompanying notes included in this Form 10-Q.

Forward-looking statements

Some of the statements in this Form 10-Q constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. Such factors include, among other things, those listed under Item 1A. Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2011 and Item IA Risk Factors and elsewhere in this Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, would, expects, plans, intends, anticipates, believes, estimates, pre or the negative of such terms and other comparable terminology.

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

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

Recent Developments

South Africa

New SASSA contract

On January 17, 2012, SASSA awarded us a tender to provide payment services for social grants in all of South Africa s nine provinces for a period of five years. On February 3, 2012, we entered into a new contract, together with a related service level agreement, with SASSA pursuant to which we pay, on behalf of SASSA, social grants to all persons nationally who are entitled to receive such grants, for a firm price of ZAR16.44 per beneficiary paid, or ZAR 14.42 net of VAT. On March 31, 2012, our then-existing contract with SASSA to provide social grant distribution in five provinces expired. We are now operating under the new contract.

We commenced the implementation of our new contract during the third quarter of fiscal 2012. The implementation will be conducted in two phases. The first phase involved issuing approximately 2.5 million MasterCard-branded debit cards to beneficiaries that we did not serve under our previous contract in order to establish the payment process to pay all social grants in the country. We successfully commenced the national grant payment process for approximately 9.2 million beneficiaries on April 2, 2012.

The second phase will require us to re-enroll all social grant beneficiaries in South Africa. This enrollment process will require us to capture the personal and biometric information of each beneficiary and issue each grant recipient with our latest MasterCard-branded EMV/UEPS combination smart cards. These smart cards can be used across all elements of the South African National Payment System, including at ATMs and POS s, in addition to our current UEPS merchant acquiring system and mobile pay points. We expect to commence the second phase of the enrollment process in June 2012 and plan to be substantially complete by March 2013.

Following the conclusion of the new service level agreement, we paid certain of our executives and key employees special bonuses of $5.4 million (ZAR 41.8 million) in recognition of their contributions to the compilation of the successful SASSA tender, the development of the new technologies and the support provided for the implementation of the tender award. In order to complete the first phase of the implementation on time, we hired approximately 2,200 of the estimated 2,600 temporary employees required to assist with the first phase of the beneficiary enrollment process. Once we have completed the second phase, we expect our permanent employee base to increase from pre-new contract levels by approximately 900 people.

During the third quarter of fiscal 2012 we incurred direct implementation expenses of approximately $1.3 million (ZAR10 million) including staff, travel (excluding the bonuses discussed above), premises hire for enrollment, stationery, delivery and advertising costs. We are unable to quantify the value of time spent by our executives and pension and welfare operations managers and staff that service the five provinces in which we operated under the previous contract and that have assisted in the implementation of the national award. During the third quarter, we also incurred approximately $7.0 million in capital expenditures, primarily to acquire payment vehicles required for the national implementation. We anticipate cumulative capital expenditures related to the ramp of our national contract to remain in the $45 to $50 million range, of which roughly two-thirds should be incurred by the end of the first quarter of fiscal 2013.

See Item 1A Risk Factors in this Form 10-Q for more information about and the risks associated with our SASSA contract.

Issue of option pursuant to Broad Based Black Economic Empowerment transaction

On April 19, 2012, we issued an option to purchase 8,955,000 shares of our common stock to a BEE consortium pursuant to the previously-announced BEE transaction that we entered into on January 25, 2012. While we believe that this transaction will improve our BEE rating, and therefore provide us with additional business opportunities in South Africa, additional steps may become necessary to achieve these goals.

For a discussion of additional risks associated with compliance with the South African Broad Based Black Economic Empowerment Act, please see the risk factor entitled If we do not achieve applicable black economic empowerment objectives in our South African businesses, we risk losing our government and private contracts. In addition, it is possible that we may be required to achieve black shareholding of our company in a manner that could dilute your ownership. in Item 1A of our Form 10-K for the year ended June 30, 2011.

South African transaction processors

The revenue of our social grant payment activities for the third quarter is recorded in terms of our previous contract which terminated on March 31, 2012. FIHRST continues to expand its market share in the third-party payroll payment processing space through its existing customers embracing additional services and an increase in new customers. MediKredit signed agreements with new providers, including public hospitals, private hospitals and specialist doctors, and has commenced adjudication and processing activities for these providers.

Outside South Africa

KSNET

The KSNET management team has commenced a number of strategic initiatives in the Republic of Korea to maintain and expand our current market share and to grow into adjacent markets. 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. These initiatives are beginning to yield positive results as we expanded our product offering and customer base, however, the competitive value added network environment in Korea has resulted in a nominal anticipated loss of operation margin. We expect this competitive environment to continue for the foreseeable future, and expect further nominal margin loss in the short to medium-term. However, management expects that its efforts to penetrate the small and medium sized merchant base as well as the introduction of additional services that leverage the existing infrastructure may be able improve the unit s margin profile over time.

XeoHealth

During the second quarter of fiscal 2012, we commenced processing 4010 and 5010 data, including capitation information and creating state reporting claims files for Community Behavioral Health, or CBH, a not-for-profit corporation contracted by the City of Philadelphia to provide behavioral health services for Philadelphia Medicaid recipients. XeoHealth licenses its XeoRules™ SaaS offering to CBH including implementation services. XeoHealth has recognized implementation revenue during the implementation phase and recurring transaction-based revenue from December 2011 from this contract.

Additionally, XeoHealth has been subcontracted by Cognosante LLC, a U.S. provider of health IT services to state and federal agencies and regional health organizations, to assist with the provision of recovery audit contractor, or RAC, services to the North Dakota Department of Human Services, Medical Services Division. XeoHealth will earn a fee based on a percentage of the final recoveries identified by our XeoRules claims auditing service for the past five years, as well as the desk review recovery referrals identified through our XeoRules engine until June 30, 2013. In addition to the North Dakota RAC, XeoHealth has also been subcontracted by Cognosante to provide both the automated audit as well the analysis services as required by the RAC for the State of Missouri Medicaid.

XeoHealth will be compensated based on a percentage of the final recoveries identified by our XeoRules claims re-adjudicating service for the audit period of three years, as well as the desk review recovery referrals identified through our XeoRules engine. We expect XeoHealth to commence providing RAC services by September 2012.

XeoRules is XeoHealth s internally developed 5010 and ICD-10 enabled real-time claims adjudication engine. XeoRules significantly reduces the time and radically improves the efficiency and accuracy of healthcare claims adjudication and data processing. We continue to enjoy significant interest from various participants in the U.S. healthcare industry in our solution for the current and newly updated Health Insurance Portability and Accountability Act-mandated electronic data interchange transactions.

Mobile Virtual Card

We launched our VCPay™ offering in the United States during fiscal 2011. Our mobile phone-based virtual payment card application is designed to eliminate fraud in card not present transactions. During the first quarter of fiscal 2012, we engaged the services of a specialist advisory firm to assist us with the general management of our VCPay initiatives in the USA, the identification of the various strategic channels for VCPay deployment and the commercialization of VCPay in our targeted industry verticals.

The Banamex VCPay initiative in Mexico is currently in the system integration testing phase, with hardware having been deployed and prepared for launch in the second quarter of fiscal 2013. We believe that this first implementation of our VCPay technology in Latin America, spearheaded by one of the largest financial institutions in the region, as a catalyst to increase the footprint of VCPay services in the region.

The African Continent and Iraq

During fiscal 2012, NUETS recorded revenue from transaction fees under its contract with the government of Iraq. 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 countries on the African continent during the year. In addition, NUETS has developed a limited investment / software as a service business model and we expect to deploy the UEPS technology in selected African markets using this approach during the second half of fiscal 2012.

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, 2011:

- 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

No new accounting pronouncements were adopted by us during the three months ended March 31, 2012.

Recent accounting pronouncements not yet adopted as of March 31, 2012

Refer to note 1 to the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of March 31, 2012, 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 March 31, 2012	Three months ended March 31, 2011	Nine months ended March 31, 2012	Nine months ended March 31, 2011(1)	Year ended June 30, 2011(2)
ZAR : $ average exchange rate	7.7822	7.0160	7.6771	7.1017	7.0286
Highest ZAR : $ rate during period	8.2333	7.3457	8.6005	7.7809	7.7809
Lowest ZAR : $ rate during period	7.4001	6.4925	6.6096	6.4925	6.4925
Rate at end of period	7.6930	6.8456	7.6930	6.8456	6.8449
KRW : $ average exchange rate	1,133	1,122	1,121	1,129	1,113
Highest KRW : $ rate during period	1,165	1,140	1,202	1,169	1,169
Lowest KRW : $ rate during period	1,090	1,089	1,029	1,089	1,059
Rate at end of period	1,135	1,106	1,135	1,106	1,079

(1) KRW : $ average, highest and lowest exchange rates are from November 1, 2010 to March 31, 2011;
(2) KRW : $ average, highest and lowest exchange rates are from November 1, 2010 to June 30, 2011.

Translation exchange rates

We are required to translate our results of operations from ZAR and KRW to US dollars on a monthly basis. Thus, the average rates used to translate this data for the three and nine months ended March 31, 2012 and 2011, 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 March 31,**		**Nine months ended March 31,**		**Year ended June 30,**
	2012	**2011**	**2012**	**2011**	**2011**
Income and expense items: $1 = ZAR .	7.8521	6.9853	7.8245	7.0891	6.9962
Income and expense items: $1 = KRW	1,126	1,122	1,119	1,118	1,121
Balance sheet items: $1 = ZAR	7.6930	6.8456	7.6930	6.8456	6.8449
Balance sheet items: $1 = KRW	1,135	1,106	1,135	1,106	1,079

Results of operations

The discussion of our consolidated overall results of operations is based on amounts as reflected in our unaudited condensed consolidated financial statements which are prepared in accordance with US GAAP. We analyze our results of operations both in US dollars, as presented in the consolidated financial statements, and supplementally in 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.

Three and nine months ended March 31, 2011, results do not include Eason and SmartLife but do include KSNET from November 1, 2010. In addition, the following discussion gives effect to the reallocation of certain activities among our business segments as described in note 15 to the unaudited condensed consolidated financial statements.

We analyze our business and operations in terms of five inter-related but independent operating segments: (1) South African 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 of fiscal 2012 compared to third quarter of fiscal 2011

The following factors had an influence on our results of operations during the third quarter of fiscal 2012 as compared with the same period in the prior year:

- ***Unfavorable impact from the strengthening of the US dollar:*** The US dollar appreciated by 12% against the ZAR during the third quarter of fiscal 2012 which negatively impacted our reported results;
- ***SASSA implementation costs and cash bonuses paid as a result of our recent SASSA tender award:*** We commenced implementing our new SASSA contract during the third quarter of fiscal 2012 and incurred additional implementation and staff costs, including cash bonuses of $5.4 million which were paid as a result of the award;
- ***Lower effective tax rate due to the replacement of STC with a dividends withholding tax in South Africa:*** As a result of a recent change in South African tax law that replaced STC with a dividends withholding tax, our fully distributed tax rate decreased to 28% from 34.55% which positively impacted our results; and
- ***Fiscal 2011 intangible asset impairment and transaction-related expenses:*** During the third quarter of fiscal 2011, we impaired intangible assets related to the Net1 UTA acquisition of $41.8 million and 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.

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,**		
	2012 000	**2011 000**	**$ % change**
Revenue	90,664	92,758	(2%)
Cost of goods sold, IT processing, servicing and support	32,493	29,302	11%
Selling, general and administration	36,368	32,618	12%
Depreciation and amortization	9,325	11,192	(17%)
Impairment of intangible assets	-	41,771	nm
Operating income (loss)	12,478	(22,125)	nm
Interest income	2,164	1,516	43%
Interest expense	2,244	2,471	(9%)
Income (Loss) before income taxes	12,398	(23,080)	nm
Income tax expense (benefit)	4,611	(1,603)	nm
Net income (loss) before loss from equity-accounted investments	7,787	(21,477)	nm
Loss from equity-accounted investments	(4)	(127)	(97%)
Net income (loss)	7,783	(21,604)	nm
Less (Add) net income (loss) attributable to non-controlling interest	17	(42)	nm

Net income (loss) attributable to us	7,766	(21,562)	nm

Table 4

	In South African Rand (US GAAP) Three months ended March 31,		
	2012 ZAR 000	**2011 ZAR 000**	**ZAR % change**
Revenue	711,902	647,942	10%
Cost of goods sold, IT processing, servicing and support	255,139	204,683	25%
Selling, general and administration	285,566	227,846	25%
Depreciation and amortization	73,220	78,179	(6%)
Impairment of intangible assets	0	291,783	nm
Operating income (loss)	97,977	(154,549)	nm
Interest income	16,992	10,590	60%
Interest expense	17,620	17,261	2%
Income (Loss) before income taxes	97,349	(161,220)	nm
Income tax expense (benefit)	36,206	(11,197)	nm
Net income (loss) before loss from equity-accounted investments	61,143	(150,023)	nm
Loss from equity-accounted investments	(31)	(887)	(97%)
Net income (loss)	61,112	(150,910)	nm
Less (Add) net income (loss) attributable to non-controlling interest	133	(293)	nm
Net income (loss) attributable to us	60,979	(150,617)	nm

Analyzed in ZAR, the increase in revenue was primarily due to higher prepaid airtime sales resulting from the Eason acquisition, higher KSNET revenues, an increase in the number of UEPS-based loans made, and higher utilization of our UEPS system in Iraq. The revenue contribution from our pension and welfare operation was relatively flat as we commenced the April 2012 payment cycle in late March 2012 and generated revenue at the new lower contract rate.

Analyzed in ZAR, the increase in cost of goods sold, IT processing, servicing and support was primarily due to higher prepaid airtime sales resulting from the Eason acquisition, increased expenditure by KSNET and expenses related to the implementation of our new SASSA contract.

Our selling, general and administration expense increased as a result of contract implementation costs of $1.3 million and cash bonuses of $5.4 million paid related to our recent SASSA tender award as well as increases in goods and services purchased from third parties. During the third quarter of fiscal 2011, selling, general and administration expense included transaction-related costs of $0.5 million (ZAR 3.7 million), primarily for the KSNET acquisition.

Our operating income margin for the third quarter of fiscal 2012 and 2011, before the impairment loss discussed below, was 14% and 21%, respectively. We discuss the components of the operating income margin under Results of operations by operating segment. The decrease is primarily attributable to implementation costs and cash bonuses paid related to our recent SASSA tender award and a lower operating margin from our South African transaction-based activities (primarily as a result of the inclusion of Eason).

In ZAR, depreciation and amortization decreased primarily as a result of the full impairment of Net1 UTA intangibles in 2011, offset by higher KSNET depreciation and acquisition-related intangible asset amortization. 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,**

	2012 $ 000	2011 $ 000
Amortization included in depreciation and amortization expense:	5,042	7,007
South African transaction-based activities	1,758	1,428
International transaction-based activities	3,192	3,124
Hardware, software and related technology sales (1)	92	2,455

(1) Three months ended March 31, 2011, includes Net1 UTA customer relationship amortization of $2.3 million.

Table 6	Three months ended March 31,	
	2012	2011
	ZAR 000	ZAR 000
Amortization included in depreciation and amortization expense:	39,594	48,946
South African transaction-based activities	13,813	9,973
International transaction-based activities	25,064	21,822
Hardware, software and related technology sales (1)	717	17,151

(1) Three months ended March 31, 2011, includes Net1 UTA customer relationship amortization of ZAR 16.0 million.

During 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.

Interest on surplus cash increased to $2.2 million (ZAR 17.0 million) from $1.5 million (ZAR 10.6 million). The increase resulted primarily from higher average daily ZAR cash balances.

In US dollars, interest expense decreased to $2.2 million (ZAR 17.6 million) from $2.5 million (ZAR 17.3 million) due to a lower average long-term debt balance.

As a result of the change in South African tax law in the second quarter of fiscal 2012, we no longer accrue for STC on undistributed earnings because STC has been replaced with a dividends withholding tax. Our fully distributed tax rate for the third quarter of fiscal 2012 was 28%. Our effective tax rate is higher than our fully distributed rate due to non-deductible expenses, including stock-based compensation charges and interest expense related to our Korean loan term debt and in fiscal 2011, acquisition-related expenses.

Total 2012 tax expense was $4.6 million (ZAR 36.2 million) compared to total tax benefit of $1.6 million (ZAR 11.2 million) in 2011 and our effective tax rate increased to 37% from 7% (47% excluding the impact of the deferred tax liability adjustment). Our 2011 tax benefit resulted from the reversal of deferred tax liabilities associated with the Net1 UTA intangible assets impaired. The reduction in our effective tax rate in fiscal 2012 was primarily due to the tax law change and fewer non-deductible expenses, including stock-based compensation charges and acquisition-related expenses.

Results of operations by operating segment

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

Table 7

	In United States Dollars (US GAAP) Three months ended March 31,				
Operating Segment	**2012 \$ 000**	**% of total**	**2011 \$ 000**	**% of total**	**% change**
Consolidated revenue:					
SA transaction-based activities	46,423	51%	47,313	51%	(2%)
International transaction-based activities	28,188	31%	24,627	27%	14%
Smart card accounts	7,558	8%	8,288	9%	(9%)
Financial services	2,289	3%	2,171	2%	5%
Hardware, software and related technology sales	6,206	7%	10,359	11%	(40%)
Total consolidated revenue	90,664	100%	92,758	100%	(2%)
Consolidated operating income (loss):					
SA transaction-based activities	8,694	70%	18,566	(84%)	(53%)
Operating income before amortization	10,452		19,994		(48%)
Amortization of intangible assets	(1,758)		(1,428)		23%
International transaction-based activities	195	2%	274	(1%)	(29%)
Operating income before amortization	3,387		3,398		-
Amortization of intangible assets	(3,192)		(3,124)		2%
Smart card accounts	3,435	28%	3,767	(17%)	(9%)
Financial services	1,248	10%	1,540	(7%)	(19%)
Hardware, software and related technology sales	(1,301)	(10%)	(44,086)	199%	(97%)
Operating (loss) income before amortization .	(1,209)		140		nm
Impairment loss	-		(41,771)		nm
Amortization of intangible assets	(92)		(2,455)		(96%)
Corporate/eliminations	207	-	(2,186)	10%	nm
Total consolidated operating income (loss)	12,478	100%	(22,125)	100%	nm

Table 8

	In South African Rand (US GAAP) Three months ended March 31,				
Operating Segment	**2012 ZAR 000**	**% of total**	**2011 ZAR 000**	**% of total**	**% change**
Consolidated revenue:					
SA transaction-based activities	364,518	51%	330,495	51%	10%
International transaction-based activities	221,335	31%	172,027	27%	29%
Smart card accounts	59,346	8%	57,894	9%	3%
Financial services	17,973	3%	15,165	2%	19%

Hardware, software and related technology sales	48,730	7%	72,361	11%	(33%)
Total consolidated revenue	711,902	100%	647,942	100%	10%
Consolidated operating income (loss):					
SA transaction-based activities	68,266	70%	129,689	(84%)	(47%)
Operating income before amortization	82,079		139,662		(41%)
Amortization of intangible assets	(13,813)		(9,973)		39%
International transaction-based activities	1,531	2%	1,913	(1%)	(20%)
Operating income before amortization	26,595		23,735		12%
Amortization of intangible assets	(25,064)		(21,822)		15%
Smart card accounts	26,972	28%	26,314	(17%)	3%
Financial services	9,799	10%	10,758	(7%)	(9%)
Hardware, software and related technology sales	(10,216)	(10%)	(307,953)	199%	(97%)
Operating (loss) income before amortization .	(9,499)		981		nm
Impairment loss	-		(291,783)		nm
Amortization of intangible assets	(717)		(17,151)		(96%)
Corporate/eliminations	1,625	-	(15,270)	10%	nm
Total consolidated operating income (loss)	97,977	100%	(154,549)	100%	nm

South African transaction-based activities

In ZAR, increases in segment revenue were primarily due to higher prepaid airtime sales resulting mainly from the Eason acquisition and increased transaction volumes in merchant acquiring and FIHRST. Revenue from our pension and welfare operations was relatively stable on a year-over-year basis. Segment revenues include the transaction fees we earn through our merchant acquiring system and reflect the elimination of inter-company transactions.

Our operating income margin for the third quarter of fiscal 2012 and 2011 was 19% and 39%, respectively, and declined primarily due to SASSA implementation costs and cash bonuses paid and the inclusion of increased low-margin prepaid airtime sales as well as Eason intangible asset amortization.

We operate as a reseller of non-refundable virtual prepaid airtime vouchers that we purchase from mobile-phone operators and sell to retailers; and earn a commission from the sale of prepaid electricity. The cost of the prepaid airtime vouchers is recorded in cost of goods sold, IT processing, servicing and support. Margins on the sale of prepaid airtime vouchers are significantly lower than those generated by our other business in this segment and therefore, as we expand into the prepaid airtime market in South Africa, we expect higher revenue and cost of goods sold, IT processing, servicing and support in this operating segment.

Pension and welfare operations:

Our pension and welfare operations continue to generate the majority of our revenues and operating income in this operating segment. See also discussion under Recent Developments South Africa New SASSA contract for a description of our new SASSA contract, the status of our implementation and the costs we have incurred to date and expect to incur during the next four quarters as we continue the implementation process.

South African transaction processors:

The table below presents the total volume and value processed during the third quarter of fiscal 2012 and 2011:

Table 9

Transaction processor	**Total volume (000s) Three months ended March 31, 2012**	**2011**	**Total value $(000) Three months ended March 31, 2012**	**2011**	**Total value ZAR (000) Three months ended March 31, 2012**	**2011**
EasyPay(1)	96,139	172,821	2,519,319	5,804,242	19,781,946	40,544,369
Remaining core	96,139	119,166	2,519,319	3,762,555	19,781,946	26,282,575
Discontinued	-	53,655	-	2,041,687	-	14,261,794
MediKredit	2,733	2,507	147,120	132,370	1,155,201	924,647
FIHRST	5,951	5,281	2,411,275	2,387,363	18,933,574	16,676,447

(1) includes Eason prepaid airtime and electricity volume and value from October 1, 2011 and reclassified to reflect the consolidation of value-added services through EasyPay and to reflect the remaining core processing activities.

During the second quarter of fiscal 2012, one of EasyPay s large customers decided to perform its EFT/switching activities in-house, which had an adverse impact on our volumes this quarter. EasyPay has retained its value-added services relationship with this customer and therefore the overall impact to revenue and profitability is modest. EasyPay volumes and values were impacted by its focus on higher-margin value-added services and termination of certain inefficient activities such as the hosting of processing servers for financial institutions. MediKredit volumes and values were higher due to increased adjudication and processing activities for new providers, including public hospitals, private hospitals and specialist doctors. FIHRST volumes and values increased due to an increased number of customers.

Key statistics of our merchant acquiring system:

The key statistics and indicators of our merchant acquiring system during the third quarter of fiscal 2012 and 2011, in each of the five South African provinces where we distributed social welfare grants during the quarter are summarized in the table below:

Table 10	**Three months ended March 31,**	
	2012	**2011**
Total POS devices installed as of period end	4,976	4,835
Number of participating UEPS retail locations as of period end	2,416	2,541
Value of transactions processed through POS devices during the quarter (1) (in $ 000)	484,862	411,233
Value of transactions processed through POS devices during the completed pay cycles for the quarter (2) (in $ 000)	459,495	401,723
Value of transactions processed through POS devices during the quarter (1) (in ZAR 000)	3,773,295	2,920,454
Value of transactions processed through POS devices during the completed pay cycles for the quarter (2) (in ZAR 000)	3,575,890	2,852,913
Number of grants paid through POS devices during the quarter (1)	5,320,585	4,804,540
Number of grants paid through POS devices during the completed pay cycles for the quarter (2)	5,088,020	4,739,062
Average number of grants processed per terminal during the quarter (1)	1,063	995
Average number of grants processed per terminal during the completed pay cycles for the quarter (2)	1,017	981

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

International transaction-based activities

KSNET continues to contribute the majority of our revenues in this operating segment. Operating margin for the segment is lower than most of our South African transaction-based businesses and was negatively impacted by start-up expenditures related to our XeoHealth launch in the United States, MVC activities at Net1 UTA and on-going losses at Net1 Virtual Card, but these expenses were partially offset by revenue contributions from KSNET, and to a lesser extent from XeoHealth and NUETS initiative in Iraq.

Smart card accounts

Operating income margin from providing smart card accounts was constant at 45%.

In ZAR, revenue from the provision of smart card accounts was relatively constant on a year-over-year basis. A total number of 3,549,030 smart card accounts were active at March 31, 2012, compared to 3,537,126 active accounts as at March 31, 2011.

Financial services

UEPS-based lending contributes the majority of the revenue and operating income in this operating segment. Revenue increased primarily due to an increase in the number of loans granted. Our current UEPS-based lending portfolio comprises loans made to qualifying old age grant recipients in some of the provinces where we distribute social welfare grants. We continue to incur start-up expenditures related to our SmartLife business and other financial services offerings. SmartLife did not contribute significantly to our operating income in the third quarter of fiscal

2012 as it had not commenced operating activities under its new business model.

Operating income margin for the financial services segment decreased to 55% from 71%, primarily as a result of startup expenditures related to SmartLife and other financial services offerings, which was offset by increased UEPS-based lending activities.

Hardware, software and related technology sales

The decrease in revenue and operating income was due to a lower contribution from all contributors to hardware and software sales. Significant quarter over quarter fluctuations in revenue, operating income and operating margin are expected due to ad hoc orders in this operating segment.

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 lower stock-based compensation charges, primarily because the performance-based restricted stock granted in August 2007 was fully expensed in prior periods. These expense reductions were offset by higher corporate head office-related expenses. In addition, our third quarter of fiscal 2011 results include 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; stock-based compensation; legal and audit fees; directors and officers insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

Year to date fiscal 2012 compared to year to date 2011

The following factors had an influence on our results of operations during the year to date fiscal 2012 as compared with the same period in the prior year:

- ***Unfavorable impact from the strengthening of the US dollar:*** The US dollar appreciated by 10% against the ZAR during the year to date fiscal 2012 which negatively impacted our reported results;
- ***Net taxation benefit related to the replacement of STC with a dividends withholding tax in South Africa:*** As a result of a recent change in South African tax law that will replace STC with a dividends withholding tax, our tax expense decreased by $10.1 million, as we recorded a $18.3 million deferred tax benefit which was offset by an $8.2 million foreign tax credit valuation allowance;
- ***Inclusion of revenue contribution from KSNET at lower operating margin (before acquired intangible asset amortization) than our legacy business:*** The inclusion of KSNET contributed to an increase in revenues for fiscal 2012; however, because KSNET has an operating margin (before acquired intangible asset amortization) that is lower than our legacy businesses, it reduced our overall operating margin. KSNET also contributed to the increase in selling, general and administration and depreciation and amortization expenses;
- ***Lower revenues from hardware, software and related technology sales segment:*** Hardware, software and related technology sales were adversely impacted by lower revenues from all major segment contributors;
- ***Intangible asset amortization related to acquisition:*** Additional intangible asset amortization related to the acquisition of KSNET and Eason was offset by the full impairment of Net1 UTA s intangibles in 2011;
- ***Profit on liquidation of SmartSwitch Nigeria:*** We recorded a non-cash profit of $4.0 million on the liquidation of SmartSwitch Nigeria in fiscal 2012; and
- ***Fiscal 2011 intangible asset impairment and transaction-related expenses:*** During 2011, we impaired intangible assets related to the Net1 UTA acquisition of $41.8 million and incurred 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.

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

Table 11

	In United States Dollars (US GAAP) Nine months ended March 31,		
	2012	**2011**	**%**
	$ 000	**$ 000**	**change**
Revenue	282,648	246,052	15%
Cost of goods sold, IT processing, servicing and support	99,605	76,551	30%
Selling, general and administration	92,297	91,707	1%
Depreciation and amortization	27,194	25,188	8%
Impairment of intangible assets	-	41,771	nm
Operating income	63,552	10,835	487%
Interest income	5,981	5,950	1%
Interest expense	7,215	6,149	17%
Income before income taxes	62,318	10,636	486%
Income tax expense	9,785	14,440	(32%)
Net income (loss) before loss from equity-accounted investments	52,533	(3,804)	nm
Income (Loss) from equity-accounted investments	100	(509)	nm
Net income (loss)	52,633	(4,313)	nm
Less (Add) net income (loss) attributable to non-controlling interest	5	(128)	nm
Net income (loss) attributable to us	52,628	(4,185)	nm

Table 12

	In South African Rand (US GAAP) Nine months ended March 31,		
	2012	**2011**	**ZAR**
	ZAR	**ZAR**	**%**
	000	**000**	**change**
Revenue	2,211,580	1,744,287	27%
Cost of goods sold, IT processing, servicing and support	779,360	542,677	44%
Selling, general and administration	722,178	650,120	11%
Depreciation and amortization	212,780	178,560	19%
Impairment of intangible assets	0	296,119	nm
Operating income	497,262	76,811	547%
Interest income	46,799	42,180	11%
Interest expense	56,454	43,591	30%
Income before income taxes	487,607	75,400	547%
Income tax expense	76,563	102,367	