

NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
November 07, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2013**

OR

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

For the transition period from _____ To _____

Commission file number: **000-31203**

NET 1 UEPS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction
of incorporation or organization)

98-0171860
(IRS Employer
Identification No.)

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

(Address of principal executive offices, including zip code)

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

Not Applicable

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

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

YES NO

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

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

YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a smaller reporting company)

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

YES NO

As of November 7, 2013 (the latest practicable date), 45,735,236 shares of the registrant's common stock, par value \$0.001 per share, net of treasury shares, were outstanding.

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NET 1 UEPS TECHNOLOGIES, INC.

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Part I. Financial Information

Item 1. Financial Statements

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

| | Unaudited September 30, 2013 | (A) June 30, 2013 |
|--|---|----------------------------------|
| (In thousands, except share data) | | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 47,670 | \$ 53,665 |
| Pre-funded social welfare grants receivable (Note 2) | 4,263 | 2,934 |
| Accounts receivable, net of allowances of September: \$935; June: \$4,701 | 118,025 | 102,614 |
| Finance loans receivable, net of allowances of September: \$701; June: \$- | 17,338 | 8,350 |
| Inventory (Note 3) | 11,063 | 12,222 |
| Deferred income taxes | 5,125 | 4,938 |
| Total current assets before settlement assets | 203,484 | 184,723 |
| Settlement assets (Note 4) | 685,305 | 752,476 |
| Total current assets | 888,789 | 937,199 |
| PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION OF September: \$92,099; June: \$84,808 | | |
| | 48,716 | 48,301 |
| EQUITY-ACCOUNTED INVESTMENTS | | |
| | 1,270 | 1,183 |
| GOODWILL (Note 6) | | |
| | 180,950 | 175,806 |
| INTANGIBLE ASSETS, net (Note 6) | | |
| | 76,915 | 77,257 |
| OTHER LONG-TERM ASSETS, including reinsurance assets (Note 7) | | |
| | 36,150 | 36,576 |
| TOTAL ASSETS | 1,232,790 | 1,276,322 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 14,036 | 26,567 |
| Other payables | 38,802 | 33,808 |
| Current portion of long-term borrowings (Note 9) | 15,007 | 14,209 |
| Income taxes payable | 9,261 | 2,275 |
| Total current liabilities before settlement obligations | 77,106 | 76,859 |
| Settlement obligations (Note 4) | 685,305 | 752,476 |
| Total current liabilities | 762,411 | 829,335 |
| DEFERRED INCOME TAXES | | |
| | 18,703 | 18,727 |
| LONG-TERM BORROWINGS (Note 9) | | |
| | 70,374 | 66,632 |
| OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 7) | | |
| | 21,499 | 21,659 |
| TOTAL LIABILITIES | 872,987 | 936,353 |
| COMMITMENTS AND CONTINGENCIES (Note 16) | | |
| EQUITY | | |
| COMMON STOCK (Note 10) | | |
| Authorized: 200,000,000 with \$0.001 par value; Issued and outstanding shares, | | |
| net of treasury - September: 45,780,513; June: 45,592,550 | 59 | 59 |
| PREFERRED STOCK | | |
| | - | - |

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| | | |
|---|------------------|---------------------|
| Authorized shares: 50,000,000 with \$0.001 par value; Issued and outstanding shares, net of treasury: September: -; June: - | | |
| ADDITIONAL PAID-IN-CAPITAL | 161,605 | 160,670 |
| TREASURY SHARES, AT COST: September: 13,455,090; June: 13,455,090 | (175,823) | (175,823) |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | (93,544) | (100,858) |
| RETAINED EARNINGS | 464,214 | 452,618 |
| TOTAL NET1 EQUITY | 356,511 | 336,666 |
| NON-CONTROLLING INTEREST | 3,292 | 3,303 |
| TOTAL EQUITY | 359,803 | 339,969 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | 1,232,790 | \$ 1,276,322 |

(A) Derived from audited financial statements

See Notes to Unaudited Condensed Consolidated Financial Statements

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

| | Three months ended | |
|---|---------------------------------------|-------------|
| | September 30, | |
| | 2013 | 2012 |
| | (In thousands, except per share data) | |
| REVENUE | \$ 123,494 | \$ 111,682 |
| EXPENSE | | |
| Cost of goods sold, IT processing, servicing and support | 56,559 | 45,101 |
| Selling, general and administration | 40,506 | 47,252 |
| Depreciation and amortization | 10,029 | 10,004 |
| OPERATING INCOME | 16,400 | 9,325 |
| INTEREST INCOME | 3,319 | 3,091 |
| INTEREST EXPENSE | 1,752 | 2,071 |
| INCOME BEFORE INCOME TAX EXPENSE | 17,967 | 10,345 |
| INCOME TAX EXPENSE (note 15) | 6,485 | 3,729 |
| NET INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS | 11,482 | 6,616 |
| EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS | 103 | 128 |
| NET INCOME | 11,585 | 6,744 |
| (ADD) NET (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTEREST | (11) | - |
| NET INCOME ATTRIBUTABLE TO NET1 | \$ 11,596 | \$ 6,744 |
| Net income per share, in United States dollars (note 12) | | |
| Basic earnings attributable to Net1 shareholders | \$ 0.25 | \$ 0.15 |
| Diluted earnings attributable to Net1 shareholders | \$ 0.25 | \$ 0.15 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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

| | Three months ended | |
|---|---------------------------|-------------|
| | September 30, | |
| | 2013 | 2012 |
| | (In thousands) | |
| Net income | \$ 11,585 | \$ 6,744 |
| Other comprehensive (loss) income | | |
| Net unrealized loss on asset available for sale, net of tax | (255) | - |
| Movement in foreign currency translation reserve | 7,569 | 4,255 |
| Total other comprehensive income, net of taxes | 7,314 | 4,255 |
| Comprehensive income | 18,899 | 10,999 |
| Add comprehensive loss attributable to non-controlling interest | 11 | - |
| Comprehensive income attributable to Net1 | \$ 18,910 | \$ 10,999 |

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
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 | Number of shares, net of treasury | Additional Paid-In Capital | Retained Earnings | Accumulated other comprehensive (loss) income | |
|--|---------------------|--------|---------------------------------|--------------------|---|----------------------------------|----------------------|--|-------------|
| Balance July 1, 2013 | 59,047,640 | \$ | 59 | (13,455,090) | \$ (175,823) | 45,592,550 | \$ 160,670 | \$ 452,618 | \$ (100,85) |
| Restricted stock granted | 187,963 | | | | 187,963 | | | | |
| Stock-based compensation charge | | | | | | 930 | | | |
| Income tax benefit from vested stock awards | | | | | | 5 | | | |
| Net income | | | | | | | 11,596 | | |
| Other comprehensive income | | | | | | | | | 7,31 |
| Balance September 30, 2013 | 59,235,603 | \$ | 59 | (13,455,090) | \$ (175,823) | 45,780,513 | \$ 161,605 | \$ 464,214 | \$ (93,54) |

See Notes to Unaudited Condensed Consolidated Financial Statements

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

| | Three months ended | |
|--|---------------------------|------------------|
| | September 30, | |
| | 2013 | 2012 |
| | (In thousands) | |
| Cash flows from operating activities | | |
| Net income | \$ 11,585 | \$ 6,744 |
| Depreciation and amortization | 10,029 | 10,004 |
| Earnings from equity-accounted investments | (103) | (128) |
| Fair value adjustments | (133) | (293) |
| Interest payable | 972 | 1,192 |
| Profit on disposal of plant and equipment | (1) | - |
| Stock-based compensation charge | 930 | 1,116 |
| Facility fee amortized | 69 | 88 |
| (Increase) Decrease in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable | (23,101) | 5,892 |
| Decrease (Increase) in inventory | 1,011 | (959) |
| Decrease in accounts payable and other payables | (8,668) | (1,349) |
| Increase in taxes payable | 6,921 | 5,438 |
| Decrease in deferred taxes | (1,187) | (2,016) |
| Net cash (used in) provided by operating activities | (1,676) | 25,729 |
| Cash flows from investing activities | | |
| Capital expenditures | (5,616) | (6,453) |
| Proceeds from disposal of property, plant and equipment | 48 | 105 |
| Acquisitions, net of cash acquired | - | (1,913) |
| Repayment of loan by equity-accounted investment | - | 3 |
| Other investing activities, net | (1) | - |
| Proceeds from maturity of investments related to insurance business | - | 545 |
| Net change in settlement assets | 51,773 | 60,779 |
| Net cash provided by investing activities | 46,204 | 53,066 |
| Cash flows from financing activities | | |
| Proceeds from issue of common stock | - | 240 |
| Net change in settlement obligations | (51,773) | (60,779) |
| Net cash used in financing activities | (51,773) | (60,539) |
| Effect of exchange rate changes on cash | 1,250 | 165 |
| Net (decrease) increase in cash and cash equivalents | (5,995) | 18,421 |
| Cash and cash equivalents beginning of period | 53,665 | 39,123 |
| Cash and cash equivalents end of period | \$ 47,670 | \$ 57,544 |

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the Unaudited Condensed Consolidated Financial Statements
for the three months ended September 30, 2013 and 2012**

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

1. Basis of Presentation and Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with US generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three months ended September 30, 2013 and 2012, 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, 2013. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

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

Recent accounting pronouncements adopted

In February 2013, the FASB issued guidance regarding *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This guidance requires entities to present (either on the face of the statement of operations or in the notes) the effects on the line items of the statement of operations for amounts reclassified out of accumulated other comprehensive income. The guidance is effective for the Company beginning July 1, 2013 and is applied prospectively. The adoption of this guidance did not have a material impact on the Company s financial statements.

Recent accounting pronouncements not yet adopted as of September 30, 2013

In March 2013, the FASB issued guidance regarding *Parent s Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets Within a Foreign Entity or of an Investment in a Foreign Entity*. This guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The guidance is effective for the Company beginning July 1, 2014. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on its financial statements on adoption.

2. Pre-funded social welfare grants receivable

Pre-funded social welfare grants receivable represents amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The October 2013 payment service commenced on October 1, 2013, but the Company pre-funded certain merchants participating in the merchant acquiring system during the last three days of September 2013.

3. Inventory

The Company's inventory comprised the following categories as of September 30, 2013 and June 30, 2013.

| | September 30, 2013 | | June 30, 2013 | |
|----------------|-------------------------------|--------|--------------------------|--------|
| Finished goods | \$ | 11,063 | \$ | 12,222 |
| | \$ | 11,063 | \$ | 12,222 |

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4. 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

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

Fair value of financial instruments

Risk management

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

Currency exchange risk

The Company is subject to currency exchange risk because it purchases inventories that it is required to settle in other currencies, primarily the euro and US dollar. The Company has used 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 September 30, 2013 None.

As of June 30, 2013

| | Notional amount | Strike price | Fair market value price | Maturity |
|-----|------------------------|---------------------|--------------------------------|--------------------|
| USD | 4,000,000 | ZAR 9.06 | ZAR 10.1397 | September 30, 2013 |

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.

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

Fair value of financial instruments (continued)

Risk management (continued)

Credit risk

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

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

UEPS-based microlending credit risk

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

Equity price and liquidity risk

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

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

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

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

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

The Company's Level 3 asset represents an investment of 156,788,712 shares of common stock of Finbond, which are exchange-traded equity securities. Finbond's shares are traded on the 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 relate primarily to the provision of microlending products. Finbond was recently issued a mutual banking licence and intends to offer financial products under this licence. 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 fair value of these securities as of September 30, 2013, represented approximately 1% of the Company's total assets, including these securities.

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

The following table presents the Company's assets measured at fair value on a recurring basis as of September 30, 2013, according to the fair value hierarchy:

| | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|--|---|---|--|----------|
| Assets | | | | |
| Related to insurance business (included in other long-term assets): | | | | |
| Cash and cash equivalents | \$ 1,816 | \$ - | \$ - | \$ 1,816 |
| Investment in Finbond (available for sale assets included in other long-term assets) | - | - | 8,019 | 8,019 |
| Other | - | 155 | - | 155 |
| Total assets at fair value | \$ 1,816 | \$ 155 | \$ 8,019 | \$ 9,990 |

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2013, according to the fair value hierarchy:

| | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|--|---|---|--|-----------|
| Assets | | | | |
| Related to insurance business (included in other long-term assets): | | | | |
| Cash and cash equivalents | \$ 1,833 | \$ - | \$ - | \$ 1,833 |
| Investment in Finbond (available for sale assets included in other long-term assets) | - | - | 8,303 | 8,303 |
| Other | - | 147 | - | 147 |
| Total assets at fair value | \$ 1,833 | \$ 147 | \$ 8,303 | \$ 10,283 |
| Liabilities | | | | |
| Foreign exchange contracts | \$ - | \$ 436 | \$ - | \$ 436 |
| Total liabilities at fair value | \$ - | \$ 436 | \$ - | \$ 436 |

Changes in the Company's investment in Finbond (Level 3 that are measured at fair value on a recurring basis) were insignificant during the three months ended September 30, 2013 and 2012, respectively. There have been no transfers in or out of Level 3 during the three months ended September 30, 2013 and 2012, respectively.

Assets and liabilities measured at fair value on a nonrecurring basis

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

6. Goodwill and intangible assets Goodwill

Summarized below is the movement in the carrying value of goodwill for the three months ended September 30, 2013:

| | Gross value | Accumulated impairment | Carrying value |
|--|-------------|------------------------|----------------|
| Balance as of June 30, 2013 | \$ 218,558 | \$ (42,752) | \$ 175,806 |
| Foreign currency adjustment ⁽¹⁾ | 5,067 | 77 | 5,144 |
| Balance as of September 30, 2013 | \$ 223,625 | \$ (42,675) | \$ 180,950 |

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

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

| | As of September 30, 2013 | As of June 30, 2013 |
|---|--------------------------------|---------------------------|
| SA transaction-based activities | \$ 29,861 | \$ 30,525 |
| International transaction-based activities | 120,334 | 113,972 |
| Smart card accounts | - | - |
| Financial services | - | - |
| Hardware, software and related technology sales | 30,755 | 31,309 |
| Total | \$ 180,950 | \$ 175,806 |

Intangible assets

Carrying value and amortization of intangible assets

Summarized below is the carrying value and accumulated amortization of the intangible assets as of September 30, 2013 and June 30, 2013:

| | As of September 30, 2013 | | | As of June 30, 2013 | | |
|------------------------------------|--------------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
| | Gross carrying value | Accumulated amortization | Net carrying value | Gross carrying value | Accumulated amortization | Net carrying value |
| Finite-lived intangible assets: | | | | | | |
| Customer relationships | \$ 94,206 | (\$32,986) | \$ 61,220 | \$ 90,469 | \$ (29,818) | \$ 60,651 |
| Software and unpatented technology | 36,052 | (24,129) | 11,923 | 34,951 | (22,151) | 12,800 |
| FTS patent | 3,789 | (3,789) | - | 3,873 | (3,873) | - |
| Exclusive licenses | 4,506 | (4,506) | - | 4,506 | (4,506) | - |
| Trademarks | 6,755 | (2,983) | 3,772 | 6,611 | (2,805) | 3,806 |
| Customer database | 601 | (601) | - | 614 | (614) | - |
| Total | \$ 145,909 | (\$68,994) | \$ 76,915 | \$ 141,024 | \$ (63,767) | \$ 77,257 |
| finite-lived | | | | | | |

intangible
assets

Aggregate amortization expense on the finite-lived intangible assets for the three months ended September 30, 2013, was approximately \$3.7 million (three months ended September 30, 2012, was approximately \$4.7 million).

Future estimated annual amortization expense for the next five fiscal years and thereafter, assuming exchange rates prevailing on September 30, 2013, 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.

| | | |
|------------|----|--------|
| 2014 | \$ | 15,637 |
| 2015 | | 15,583 |
| 2016 | | 11,228 |
| 2017 | | 8,896 |
| 2018 | | 8,896 |
| Thereafter | \$ | 20,575 |

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

Reinsurance assets and policy holder liabilities under insurance contracts

Summarized below is the movement in reinsurance assets and policy holder liabilities under insurance contracts during the three month ended September 30, 2013:

| | Reinsurance assets (1) | Insurance contracts (2) |
|--|-----------------------------------|------------------------------------|
| Balance as of June 30, 2013 | \$ 19,557 | \$ (19,711) |
| Foreign currency adjustment ⁽³⁾ | (425) | 428 |
| Balance as of September 30, 2013 | \$ 19,132 | \$ (19,283) |

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

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

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

Assets and policy holder liabilities under investment contracts

Summarized below is the movement in assets and policy holder liabilities under investment contracts during the three months ended September 30, 2013:

| | Assets (1) | Investment contracts (2) |
|--|-------------------|-------------------------------------|
| Balance as of June 30, 2013 | \$ 953 | \$ (953) |
| Foreign currency adjustment ⁽³⁾ | (21) | 21 |
| Balance as of September 30, 2013 | \$ 932 | \$ (932) |

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

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

8. Short-term credit facility

The Company has a ZAR 250 million (\$24.7 million, translated at exchange rates applicable as of September 30, 2013) short-term South African credit facility from Nedbank Limited (Nedbank). As of September 30, 2013, the overdraft rate on this facility was 7.35% . The Company has ceded its investment in Cash Paymaster Services

(Proprietary) Limited, a wholly owned South African subsidiary, as security for the facility. As of September 30, 2013, the Company had utilized approximately ZAR 130 million of this facility to enable the bank providing the short-term credit facility to issue guarantees, including stand-by letters of credit, in order for the Company to honor its obligations to third parties requiring such guarantees (Refer to Note 16). As of June 30, 2013, the Company had utilized none of this facility.

The Company believes that this facility is sufficient in order to meet its future obligations as they arise.

9. Long-term borrowings

2010 Senior Facilities Agreement

The Company's KRW 92.4 billion (\$85.4 million, translated at exchange rates applicable as of September 30, 2013) Korean senior secured loan facility is described in Note 13 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2013. The current carrying value as of September 30, 2013, is \$85.4 million. As of September 30, 2013, the carrying amount of the long-term borrowings approximated fair value. The interest rate in effect on September 30, 2013, was 6.76%. Interest expense during the three months ended September 30, 2013 and 2012, was \$1.4 million and \$1.9 million, respectively.

The fifth and sixth scheduled principal repayments are \$7.5 million each, translated at exchange rates applicable as of September 30, 2013, and have been classified as current in the Company's condensed consolidated balance sheet. The Company repaid the full amount outstanding of KRW 92.4 billion on October 29, 2013, using a combination of cash on hand and loan proceeds from the new facility described below. The Company has expensed the remaining prepaid facility fees of approximately \$0.4 million during the three months ended December 31, 2013. The third scheduled repayment of \$7.3 million was paid on October 29, 2012.

2013 Senior Facilities Agreement

On October 28, 2013, the Company signed a new five-year senior secured facilities agreement (the "New Facilities Agreement") provided by a consortium of Korean banks. The New Facilities Agreement provides for three separate facilities to the Company's wholly owned subsidiary, Net1 Applied Technologies Korea ("Net1 Korea"): a Facility A loan of up to KRW 60.0 billion (\$55.5 million), a Facility B loan of up to KRW 15 billion (\$13.9 million) and a Facility C revolving credit facility of up to KRW 10.0 billion (\$9.2 million) (all facilities denominated in KRW and translated at exchange rates applicable as of September 30, 2013).

The Facility A and B loans were fully drawn on October 29, 2013, and used to repay KRW 75.0 billion of the KRW 92.4 billion loan outstanding under the 2010 senior facilities agreement. The remaining outstanding balance under the 2010 facility of KRW 17.4 billion was paid from cash on hand on October 29, 2013. In addition, the Company drew KRW 1.1 billion of the revolving credit facility on October 29, 2013, to pay fees and expenses related to the New Facilities Agreement.

Interest on the loans and revolving credit facility is payable quarterly and is based on the Korean CD rate in effect from time to time plus a margin of 3.10% for the Facility A loan and Facility C revolving credit facility; and a margin of 2.90% for the Facility B loan. The CD rate was 2.66% on September 30, 2013. The Company paid facilities fees of approximately KRW 0.9 billion. A commitment fee of 0.3% is payable on any un-drawn and un-cancelled amount of the revolving credit facility.

The Facility A loan is repayable in three scheduled annual installments of KRW 10 billion each beginning 30 months after initial drawdown and one final installment of KRW 30 billion on the maturity date, namely October 29, 2018. The Facility B loan is repayable in full on October 29, 2014. The Facility C revolving credit facility is repayable in full on the maturity date. Prepayment of the revolving credit facility may be withdrawn at any time up to three months before the maturity date.

The loans under the New Facilities Agreement are secured by a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of the Company's subsidiaries) of its entire equity interest in Net1 Korea. The Facilities Agreement contains customary covenants that require Net1 Korea to maintain agreed leverage and debt service coverage ratios and restricts Net1 Korea's ability to make certain distributions with respect to its capital stock, prepay other debt, encumber its assets, incur additional indebtedness, or engage in certain business combinations. The loans under the Facilities Agreement are without recourse to, and the

covenants and other agreements contained therein do not apply to, the Company or any of the Company's subsidiaries (other than Net1 Korea).

10. Capital structure

Common stock repurchases

The Company did not repurchase any of its shares during the three months ended September 30, 2013 and 2012, respectively.

10. Capital structure (continued)

The following table presents reconciliation between the number of shares, net of treasury, presented in the consolidated statement of changes in equity during the three months ended September 30, 2013 and 2012, respectively, and the number of shares, net of treasury, excluding non-vested equity shares that have not vested during the three months ended September 30, 2013 and 2012, respectively:

| | 2013 | 2012 |
|---|-------------|-------------|
| Number of shares, net of treasury: | | |
| Statement of changes in equity | 45,780,513 | 45,600,471 |
| Less: Non-vested equity shares that have not vested | (576,282) | (644,750) |
| Number of shares, net of treasury excluding non-vested equity shares that have not vested | 45,204,231 | 44,955,721 |

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

The following table summarizes stock option activity for the three months ended September 30, 2013 and 2012:

| | Number of shares | Weighted average exercise price (\$) | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (\$ 000) | Weighted Average Grant Date Fair Value (\$) |
|---------------------------------|-------------------------|---|---|---|--|
| Outstanding June 30, 2013 | 2,648,583 | 15.15 | 5.98 | 313 | |
| Granted under Plan: August 2013 | 224,896 | 7.35 | 10.00 | 568 | 2.53 |
| Outstanding September 30, 2013 | 2,873,479 | 14.54 | 6.06 | 4,841 | |
| Outstanding June 30, 2012 | 2,247,583 | 16.28 | 6.43 | 602 | |
| Granted under Plan: August 2012 | 431,000 | 8.75 | 10.00 | 1,249 | 2.90 |
| Exercised | (30,000) | 7.98 | | 24 | |
| Outstanding September 30, 2012 | 2,648,583 | 15.15 | 6.74 | 978 | |

The fair value of each option is estimated on the date of grant using the Cox Ross Rubinstein binomial model that uses the assumptions noted in the following table. The estimated expected volatility is calculated based on the Company's 250 day volatility. The estimated expected life of the option was determined based historical behavior of employees who were granted options with similar terms. The Company has estimated no forfeitures for options awarded in August 2013 and 2012, respectively. The table below presents the range of assumptions used to value options granted during the three months ended September 30, 2013 and 2012:

| | 2013 | 2012 |
|--------------------------|-------------|-------------|
| Expected volatility | 50% | 49% |
| Expected dividends | 0% | 0% |
| Expected life (in years) | 3 | 3 |

Risk-free rate

0.9%

0.3%

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

The following table presents stock options vesting and expecting to vest as of September 30, 2013:

| | | Number of shares | Weighted average exercise price (\$) | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (\$ 000) |
|------------------------------|-----------------------|-----------------------------|---|---|---|
| Vested and expecting to vest | September 30, 2013 | 2,873,479 | 14.54 | 6.06 | 4,841 |

These options have an exercise price range of \$6.59 to \$24.46.

| | Number of shares | Weighted average exercise price (\$) | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (000) |
|-------------|-----------------------------|---|---|---|
| Exercisable | 1,985,250 | \$ 17.07 | 5.05 | \$ 1,963 |

During the three months ended September 30, 2013 and 2012, respectively, 198,667 and 85,000 stock options became exercisable. Included in the 85,000 stock options are 30,000 stock options with respect to which the Remuneration Committee of the Board agreed to accelerate vesting, in August 2012, prior to the resignation of a non-employee director. During the three months ended September 30, 2012, the Company received approximately \$0.2 million from the 30,000 stock options exercised by the non-employee director that resigned. No stock options were exercised during the three months ended September 30, 2013. The Company issues new shares to satisfy stock option exercises.

Restricted stock

The following table summarizes restricted stock activity for the three months ended September 30, 2013 and 2012:

| | | Number of Shares of Restricted Stock | Weighted Average Grant Date Fair Value (\$ 000) |
|------------|--------------------|---|--|
| Non-vested | June 30, 2013 | 405,226 | \$ 4,393 |
| Granted | August 2013 | 187,963 | 1,382 |
| Vested | August 2013 | (16,907) | 161 |
| Non-vested | September 30, 2013 | 576,282 | 5,630 |
| Non-vested | June 30, 2012 | 646,617 | 7,061 |
| Granted | August 2012 | 21,569 | 189 |
| Vested | August 2012 | (23,436) | 216 |

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| | | | | |
|------------|--------------------|---------|----|-------|
| Non-vested | September 30, 2012 | 644,750 | \$ | 7,021 |
|------------|--------------------|---------|----|-------|

The fair value of restricted stock vesting during the three months ended September 30, 2013 and 2012, respectively, was \$0.2 million and \$0.2 million. Included in the 23,436 shares of restricted stock that vested in August 2012 are 8,547 shares with respect to which the Remuneration Committee of the Board agreed to accelerate vesting prior to the resignation of a non-employee director.

The fair value of restricted stock is based on the closing price of the Company's stock quoted on The Nasdaq Global Select Market on the date of grant.

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

The Company has recorded a stock compensation charge of \$0.9 million and \$1.1 million for the three months ended September 30, 2013 and 2012, respectively, which comprised:

| | Total charge | Allocated to cost of goods sold, IT processing, servicing and support | Allocated to selling, general and administration |
|---|-------------------------|--|---|
| Three months ended September 30, 2013 | | | |
| Stock-based compensation charge | \$ 930 | \$ - | \$ 930 |
| Total three months ended September 30, 2013 . | \$ 930 | \$ - | \$ 930 |
| Three months ended September 30, 2012 | | | |
| Stock-based compensation charge | \$ 1,116 | \$ - | \$ 1,116 |
| Total three months ended September 30, 2012 . | \$ 1,116 | \$ - | \$ 1,116 |

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

As of September 30, 2013, the total unrecognized compensation cost related to stock options was approximately \$1.6 million, which the Company expects to recognize over approximately three years. As of September 30, 2013, the total unrecognized compensation cost related to restricted stock awards was approximately \$4.3 million, which the Company expects to recognize over approximately three years.

As of each of September 30, 2013 and June 30, 2013, respectively, the Company has recorded a deferred tax asset of approximately \$1.4 million related to the stock-based compensation charge recognized related to employees and directors of Net1 as it is able to deduct the grant date fair value for taxation purposes in the United States.

12. Earnings per share

Basic earnings per share include shares of restricted stock that meet the definition of a participating security because these shares are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the three months ended September 30, 2013 and 2012, reflects only undistributed earnings. The computation below of basic earnings per share excludes the net income attributable to shares of unvested restricted stock (participating non-vested restricted stock) from the numerator and excludes the dilutive impact of these unvested shares of restricted stock from the denominator.

Diluted earnings per share has been calculated to give effect to the number of shares of additional common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. Stock options are included in the calculation of diluted earnings per share utilizing the treasury stock method and are not considered to be participating securities as the stock options do not contain non-forfeitable dividend rights. The calculation of diluted earnings per share includes the dilutive effect of a portion of the restricted stock granted to employees in February 2012 and August 2013 as these shares of restricted stock are considered contingently returnable shares for the purposes of the diluted earnings per share calculation and the vesting conditions in respect of a portion of the restricted stock had been satisfied. The vesting conditions are discussed in Note 17 to the Company s

audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2013.

12. Earnings per share (continued)

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

| | Three months ended | |
|--|--|-------------|
| | September 30, | |
| | 2013 | 2012 |
| | (in thousands except percent and per share data) | |
| Numerator: | | |
| Net income attributable to Net1 | \$ 11,596 | \$ 6,744 |
| Undistributed earnings | 11,596 | 6,744 |
| Percent allocated to common shareholders (Calculation 1) | 99% | 99% |
| Numerator for earnings per share: basic and diluted | \$ 11,495 | \$ 6,659 |
| Denominator: | | |
| Denominator for basic earnings per share: weighted-average common | | |
| shares outstanding | 45,216 | 44,968 |
| Effect of dilutive securities: | | |
| Performance shares related to acquisition | - | - |
| Stock options | 71 | 48 |
| Denominator for diluted earnings per share: adjusted weighted average common | | |
| shares outstanding and assumed conversion | 45,287 | 45,016 |
| Earnings per share: | | |
| Basic | \$ 0.25 | \$ 0.15 |
| Diluted | \$ 0.25 | \$ 0.15 |

(Calculation 1)

| | | |
|--|--------|--------|
| Basic weighted-average common shares outstanding (A) | 45,216 | 44,968 |
| Basic weighted-average common shares outstanding and unvested restricted shares expected to vest (B) | 45,613 | 45,544 |
| Percent allocated to common shareholders (A) / (B) | 99% | 99% |

Options to purchase 2,493,759 shares of the Company's common stock at prices ranging from \$7.35 to \$24.46 per share were outstanding during the three months ended September 30, 2013, but were not included in the computation of diluted earnings per share because the options' exercise price were greater than the average market price of the Company's common shares. The options, which expire at various dates through August 21, 2023, were still outstanding as of September 30, 2013.

13. Supplemental cash flow information

The following table presents the supplemental cash flow disclosures for the three months ended September 30, 2013 and 2012:

| | Three months ended | |
|--|---------------------------|-------------|
| | September 30, | |
| | 2013 | 2012 |

| | | | | |
|-----------------------------|----|-------|----|-------|
| Cash received from interest | \$ | 3,241 | \$ | 3,125 |
| Cash paid for interest | \$ | 1,639 | \$ | 2,000 |
| Cash paid for income taxes | \$ | 498 | \$ | 342 |

14. Operating segments

The Company discloses segment information as reflected in the management information systems reports that its chief operating decision maker uses in making decisions and to report certain entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets or reports material revenues. A description of the Company's operating segments is contained in Note 22 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2013.

14. Operating segments (continued)

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

| | Three months ended | |
|---|---------------------------|-------------|
| | September 30, | |
| | 2013 | 2012 |
| Revenues from external customers | | |
| SA transaction-based activities | \$ 63,032 | \$ 61,364 |
| International transaction-based activities | 36,817 | 31,649 |
| Smart card accounts | 11,329 | 8,364 |
| Financial services | 2,427 | 1,384 |
| Hardware, software and related technology sales | 9,889 | 8,921 |
| Total | 123,494 | 111,682 |
| Inter-company revenues | | |
| SA transaction-based activities | 2,275 | 3,983 |
| International transaction-based activities | - | - |
| Smart card accounts | - | 386 |
| Financial services | 252 | - |
| Hardware, software and related technology sales | 170 | 208 |
| Total | 2,697 | 4,577 |
| Operating (loss) income | | |
| SA transaction-based activities | 13,282 | 6,400 |
| International transaction-based activities | 2,051 | (171) |
| Smart card accounts | 3,228 | 2,385 |
| Financial services | 56 | 1,097 |
| Hardware, software and related technology sales | 2,948 | 1,984 |
| Corporate/Eliminations | (5,165) | (2,370) |
| Total | 16,400 | 9,325 |
| Interest income | | |
| SA transaction-based activities | - | - |
| International transaction-based activities | - | - |
| Smart card accounts | - | - |
| Financial services | - | - |
| Hardware, software and related technology sales | - | - |
| Corporate/Eliminations | 3,319 | 3,091 |
| Total | 3,319 | 3,091 |
| Interest expense | | |
| SA transaction-based activities | 23 | 143 |
| International transaction-based activities | 44 | - |
| Smart card accounts | - | - |
| Financial services | 51 | - |
| Hardware, software and related technology sales | 161 | 70 |
| Corporate/Eliminations | 1,473 | 1,858 |
| Total | 1,752 | 2,071 |
| Depreciation and amortization | | |

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| | | |
|---|----------|----------|
| SA transaction-based activities | 2,447 | 3,141 |
| International transaction-based activities | 7,406 | 6,679 |
| Smart card accounts | - | - |
| Financial services | 117 | 87 |
| Hardware, software and related technology sales | 59 | 97 |
| Corporate/Eliminations | - | - |
| Total | 10,029 | 10,004 |
| Income taxation (benefit) expense | | |
| SA transaction-based activities | 3,712 | 1,753 |
| International transaction-based activities | 157 | (433) |
| Smart card accounts | 903 | 668 |
| Financial services | 10 | 312 |
| Hardware, software and related technology sales | 693 | 438 |
| Corporate/Eliminations | 1,010 | 991 |
| Total | \$ 6,485 | \$ 3,729 |

14. Operating segments (continued)

| | <u>Three months ended</u> | |
|---|----------------------------------|-------------|
| | <u>September 30,</u> | |
| | 2013 | 2012 |
| Net (loss) income | | |
| SA transaction-based activities | \$ 9,547 | \$ 4,504 |
| International transaction-based activities | 1,937 | 343 |
| Smart card accounts | 2,324 | 1,716 |
| Financial services | 27 | 801 |
| Hardware, software and related technology sales | 2,095 | 1,477 |
| Corporate/Eliminations | (4,334) | (2,097) |
| Total | 11,596 | 6,744 |
| Expenditures for long-lived assets | | |
| SA transaction-based activities | 556 | 3,594 |
| International transaction-based activities | 4,831 | 2,703 |
| Smart card accounts | - | - |
| Financial services | 200 | 145 |
| Hardware, software and related technology sales | 29 | 11 |
| Corporate/Eliminations | - | - |
| Total | \$ 5,616 | \$ 6,453 |

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.

15. Income tax**Income tax in interim periods**

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

For the three months ended September 30, 2013, the tax charge was calculated using the expected effective tax rate for the year. The Company's effective tax rate for each of the three months ended September 30, 2013 and 2012, respectively, was 36% and was higher than the South African statutory rate as a result of non-deductible expenses (including interest expense related to the Company's long-term Korean borrowings and stock-based compensation charges).

Uncertain tax positions

There were no changes during the three months ended September 30, 2013. As of September 30, 2013, the Company had accrued interest related to uncertain tax positions of approximately \$0.2 million on its balance sheet.

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

The Company files income tax returns mainly in South Africa, Korea, Austria, Botswana, the Russian Federation and in the US federal jurisdiction. As of September 30, 2013, the Company is no longer subject to any new income tax examination by the South African Revenue Service for years before June 30, 2009. In 2011, the Korea National Tax Service had 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, cash flows, or results of operations.

16. Commitments and contingencies

Guarantees

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

Nedbank has issued guarantees to these third parties amounting to ZAR 131.2 million (\$13.0 million, translated at exchange rates applicable as of September 30, 2013) and thereby utilizing part of the Company's short-term facility. The Company in turn has provided nonrecourse, unsecured counter-guarantees to Nedbank for the same amount. The Company pays commission of between 0.2% per annum to 2.0% per annum of the face value of these guarantees and does not recover any of the commission from third parties.

The Company has not recognized any obligation related to these counter-guarantees in its unaudited condensed consolidated balance sheet as of September 30, 2013. The maximum potential amount that the Company could pay under these guarantees is ZAR 131.2 million (\$13.0 million, translated at exchange rates applicable as of September 30, 2013). The guarantees have reduced the amount available for borrowings under the Company's short-term credit facility described in note 8.

Contingencies

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

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

17. Subsequent events

2013 Senior Facilities Agreement

As described in Note 9, the Company signed a new five-year senior secured facilities agreement provided by a consortium of banks on October 28, 2013.

November 2013 Broad Based Black Economic Empowerment deal

On November 6, 2013, the Company signed a letter of intent to issue 4,400,000 shares of its common stock at a price of ZAR 88.50 per share (calculated as 75% of the closing price of the Company's common stock on the JSE Limited on November 5, 2013) to Business Venture Investments 1567 (Proprietary) Limited (RF), a special purpose entity, pursuant to a new Broad Based Black Economic Empowerment transaction. Issue of the shares is subject to the conclusion of an agreement which will include certain conditions, including obtaining the relevant regulatory approvals.

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, 2013, 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, 2013 and 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, predicts, potential or continue or other 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

Letter of Intent for New Broad-Based Black Economic Empowerment, or BEE, Transaction

On November 6, 2013, we signed a letter of intent to issue 4,400,000 shares, or BVI Shares, which will be contractually restricted as to resale as described below, of our common stock at a price of ZAR 88.50 per share (calculated as 75% of the closing price of our common stock on the JSE Limited on November 5, 2013) to Business Venture Investments 1567 (Proprietary) Limited (RF), or BVI, a special purpose entity owned by a BEE consortium, pursuant to a new BEE transaction. Issuance of the BVI Shares is subject to the conclusion of a Relationship Agreement before December 1, 2013, which will include certain conditions, including obtaining the relevant regulatory approvals. Under certain circumstances we may call the BVI Shares then owned, in exchange for a minority interest in our wholly-owned subsidiary Cash Paymaster Service Proprietary Limited.

Similar to our January 2012 proposed BEE transaction, the lead partner in the BEE consortium is Mosomo Investment Holdings (Pty) Ltd, a well-known black empowerment investment company headed by former Net1 non-executive director Brian Mosehla, with a proven track record in transformation, and with experience in mining, financial services and mass banking concepts. Other partners in the BEE consortium will include community-focused organizations led by black women and community development enterprises.

This BEE transaction is part of our efforts to strengthen the development of our business plan, and is in compliance with South African regulation and business practice. Our actions in support of achieving a stronger BEE standing build on our prior efforts, and the proposed structure is similar to transactions pursued by other leading South

African companies across multiple industries.

The letter of intent provides that BVI will pay the purchase price of ZAR 88.50 per share in ZAR. The BVI Shares will be locked-up for a period of five years from date of issue, with the exception of periodic sales in order to fund the repayment of the loan and related interest as described below.

Our wholly owned subsidiary, Net1 Applied Technologies South Africa Proprietary Limited, will lend BVI the funds to effect the purchase of the BVI Shares and these shares will act as the collateral on the loan. The key terms of the loan are:

- The loan will bear interest at rate equal to Johannesburg Interbank rate, or JIBAR (currently 550 basis points) plus 300 basis points;
- The loan principal is to be repaid as follows, 10% each after the first and second years, 15% each after the third and fourth years, and 50% after the fifth year. Interest payments on the loan are due semi-annually;
- After five years, Net1 will have the right, but not the obligation, to repurchase all or any portion of any remaining shares; and
- The loan will be repaid in full using the proceeds from the sale of a sufficient amount of BVI Shares if our share price is or exceeds ZAR 177.00 per share (200% of ZAR 88.50 per share) on the JSE at any time during term of the loan. As of November 5, 2013, our closing price on the JSE was ZAR 118.00 per share.

South African Constitutional Court

On September 10, 2013, the South African Constitutional Court heard oral arguments on the appeal by AllPay Consolidated Investment Holdings (Pty) Ltd, or AllPay, against the ruling by the South African Supreme Court of Appeal upholding the award of the SASSA tender to us. The Constitutional Court has reserved judgment. We cannot predict when or how it will rule on the matter.

See Part II, Item 1 Legal Proceedings for an update on legal proceedings associated with our SASSA contract.

South Africa

SASSA

We completed bulk enrollment during fiscal 2013, in accordance with the implementation plan agreed with SASSA. During the first quarter of fiscal 2014, we continued to enroll eligible and new grant recipient cardholders and grant beneficiaries.

During March 2013, the Minister of Social Development and SASSA announced that the deadline for the enrollment of grant recipient cardholders would be extended to April 30, 2013. SASSA sent termination notices to all grant recipient cardholders and grant beneficiaries who had not presented themselves for enrollment during May, June and July 2013 in terms of the Promotion of Administrative Justice Act. As of September 30, 2013, there were an estimated 292,000 former grant recipient cardholders who had not presented themselves for enrollment and whose grants had therefore been suspended by SASSA in September 2013. These grant recipient cardholders would have to apply for restoration of their grant and present themselves for enrollment should they wish to have their grants reinstated.

Due to the suspension of these grants and therefore lower volumes, we experienced a modest negative impact on our results of operations during the first quarter of fiscal 2014. We expect a similar adverse impact on our volumes and revenue for the remainder of fiscal 2014, but we expect this decrease in volume and revenue to be partially offset by new grant recipient cardholders approved by SASSA during the year.

New prepaid airtime product (Umoya Manje)

During the first quarter of fiscal 2014, our Net1 Mobile Solutions business unit introduced our new prepaid airtime product called Umoya Manje. This product allows our customers in South Africa to electronically purchase prepaid airtime without having to visit a physical prepaid airtime vendor.

Traditional prepaid airtime procurement is usually time consuming for the customer and results in them having to pay additional costs. Our product allows our customers, many of whom do not have their own means of transport or ready access to transport, to purchase prepaid airtime without having to travel. We also believe that our product is substantially cheaper than traditional prepaid airtime channels, which often require customers to pay a substantial premium to obtain airtime. We exceeded one million registered users during our second month of operation, effecting more than 250,000 transactions per day during peak periods.

Rollout of financial service offering

During the first quarter of fiscal 2014, our Financial Services business unit commenced the national roll out of our financial services offering and began introducing UEPS-based loans in the six provinces in which we did not offer our product during fiscal 2013. The rollout has required us to employ and train additional staff and incur set up costs, and rent additional premises in order to establish a physical presence in these six provinces.

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, 2013:

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

Recent accounting pronouncements adopted

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

Recent accounting pronouncements not yet adopted as of September 30, 2013

Refer to note 1 to our unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of September 30, 2013, including the expected dates of adoption and effects on our financial condition, results of operations and cash flows.

Currency Exchange Rate Information

Actual exchange rates

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

| Table 1 | Three months ended September 30, | | Year ended June 30, |
|-------------------------------------|---|-------------|------------------------------------|
| | 2013 | 2012 | 2013 |
| ZAR : \$ average exchange rate | 10.0015 | 8.2644 | 8.8462 |
| Highest ZAR : \$ rate during period | 10.4936 | 8.5470 | 10.3587 |
| Lowest ZAR : \$ rate during period | 9.5436 | 8.0444 | 8.0444 |
| Rate at end of period | 10.1123 | 8.3172 | 9.8925 |
| KRW : \$ average exchange rate | 1,113 | 1,137 | 1,112 |
| Highest KRW : \$ rate during period | 1,152 | 1,156 | 1,162 |
| Lowest KRW : \$ rate during period | 1,045 | 1,080 | 1,019 |
| Rate at end of period | 1,083 | 1,125 | 1,144 |

Translation exchange rates for financial reporting purposes

For financial reporting purposes we are required to translate our results of operations from ZAR and KRW to US dollars on a monthly basis. Thus, the average rates used to translate this data for the three months ended September 30, 2013 and 2012, vary from the averages shown in the table above. The translation rates we use in presenting our results of operations are the rates shown in the following table:

| Table 2 | Three months ended | | Year ended |
|--|-------------------------------|-------------|--------------------------|
| | September 30, 2013 | 2012 | June 30, 2013 |
| Income and expense items: \$1 = ZAR | 10.0001 | 8.2606 | 8.7105 |
| Income and expense items: \$1 = KRW | 1,141 | 1,140 | 1,072 |
| Balance sheet items: \$1 = ZAR | 10.1123 | 8.3172 | 9.8925 |
| Balance sheet items: \$1 = KRW | 1,083 | 1,125 | 1,144 |

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 months ended September 30, 2013, includes SmartSwitch Botswana and Pbel for the entire period. Three months ended September 30, 2012, does not include SmartSwitch Botswana, and includes Pbel from September 1, 2012.

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.

First quarter of fiscal 2014 compared to first quarter of fiscal 2013

The following factors had an influence on our results of operations during the first quarter of fiscal 2014 as compared with the same period in the prior year:

Unfavorable impact from the strengthening of the US dollar against the ZAR: The US dollar appreciated by 21% against the ZAR during the first quarter of fiscal 2014 which negatively impacted our reported results;

SASSA implementation complete: Our SASSA contract implementation is complete and the first quarter of fiscal 2014 was the first full quarter without any implementation-related expenditure since the tender was awarded to us in January 2012. We incurred implementation-related expenditure, including smart card costs, of approximately \$15.8 million during the first quarter of fiscal 2013;

Higher revenue resulting from an increase in low-margin prepaid airtime sales: Our revenue has increased as a result of the deployment of our Umoya Manje prepaid airtime offering during the quarter, which has lower margins compared with our other South African businesses;

National rollout of our financial services offering: We commenced the national roll out of our financial services offering during the first quarter of fiscal 2014, which resulted in higher revenue from UEPS-based loans. Profitability in the financial services segment however was lower due to rollout costs, including hiring and training of additional staff and infrastructure deployment;

Ad hoc hardware sales in fiscal 2014: We sold more terminals and cards during the first quarter of fiscal 2014 as a result of ad hoc orders received from our customers; and

DOJ and SEC investigation-related expenses: We incurred DOJ and SEC investigation-related expenses of \$2.1 million during the first quarter of fiscal 2014.

Consolidated overall results of operations

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

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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 September 30,

| | 2013 | 2012 | \$ % |
|--|---------------|---------------|---------------|
| | \$ 000 | \$ 000 | change |
| Revenue | 123,494 | 111,682 | 11% |
| Cost of goods sold, IT processing, servicing and support | 56,559 | 45,101 | 25% |
| Selling, general and administration | 40,506 | 47,252 | (14%) |
| Depreciation and amortization | 10,029 | 10,004 | 0% |
| Operating income | 16,400 | 9,325 | 76% |
| Interest income | 3,319 | 3,091 | 7% |
| Interest expense | 1,752 | 2,071 | (15%) |
| Income before income tax expense | 17,967 | 10,345 | 74% |
| Income tax expense | 6,485 | 3,729 | 74% |
| Net income before earnings from equity-accounted investments | 11,482 | 6,616 | 74% |
| Earnings from equity-accounted investments | 103 | 128 | (20%) |
| Net income | 11,585 | 6,744 | 72% |
| Add net loss attributable to non-controlling interest | (11) | - | nm |
| Net income attributable to us | 11,596 | 6,744 | 72% |

Table 4

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

Three months ended September 30,

| | 2013 | 2012 | ZAR % |
|--|-------------|-------------|---------------|
| | ZAR | ZAR | change |
| | 000 | 000 | |
| Revenue | 1,234,965 | 922,561 | 34% |
| Cost of goods sold, IT processing, servicing and support | 565,601 | 372,561 | 52% |
| Selling, general and administration | 405,069 | 390,330 | 4% |
| Depreciation and amortization | 100,292 | 82,640 | 21% |
| Operating income | 164,003 | 77,030 | 113% |
| Interest income | 33,191 | 25,534 | 30% |
| Interest expense | 17,520 | 17,108 | 2% |
| Income before income tax expense | 179,674 | 85,456 | 110% |
| Income tax expense | 64,851 | 30,804 | 111% |
| Net income before earnings from equity-accounted investments | 114,823 | 54,652 | 110% |
| Earnings from equity-accounted investments | 1,030 | 1,057 | (3%) |
| Net income | 115,853 | 55,709 | 108% |
| Add net loss attributable to non-controlling interest | (110) | - | nm |
| Net income attributable to us | 115,963 | 55,709 | 108% |

The increase in revenue was primarily due to more low-margin transaction fees generated from beneficiaries using the South African National Payment System, higher prepaid airtime sales driven by the rollout of our Umoya Manje product, more ad hoc terminal and card sales and a higher contribution from KSNET.

The increase in cost of goods sold, IT processing, servicing and support was primarily due to higher expenses incurred from increased usage of the South African National Payment System by beneficiaries and higher prepaid airtime, terminal and card sales. These increases were offset by the substantial elimination of expenses related to our SASSA contract implementation, which we completed in the fourth quarter of fiscal 2013.

In ZAR, our selling, general and administration expense increased due to increases in goods and services purchased from third parties and legal fees of approximately \$2.1 million (ZAR 21.4 million) in connection with the government investigations, which were offset by the substantial elimination of SASSA contract implementation costs.

Our operating income margin for the first quarter of fiscal 2014 and 2013, was 13% and 8%, respectively. We discuss the components of operating income margin under Results of operations by operating segment. The increase is primarily attributable to the elimination of implementation costs in fiscal 2014.

In ZAR, depreciation and amortization were higher primarily as a result of an increase in depreciation related to assets used to service our obligations under our SASSA contract, which was partially offset by no MediKredit and FIHRST intangible asset amortization as the these intangible assets were fully amortized at the end of June 2013. The tables below present the acquisition-related intangible asset amortization that has been allocated to our operating segments:

Table 5

| | Three months ended September 30, | |
|---|---|------------------------|
| | 2013 \$ 000 | 2012 \$ 000 |
| Amortization included in depreciation and amortization expense: | | |
| South African transaction-based activities | 3,748 | 4,689 |
| International transaction-based activities | 526 | 1,449 |
| Hardware, software and related technology sales | 3,149 | 3,152 |
| | 73 | 88 |

Table 6

| | Three months ended September 30, | |
|---|---|-------------------------|
| | 2013 ZAR 000 | 2012 ZAR 000 |
| Amortization included in depreciation and amortization expense: | | |
| South African transaction-based activities | 37,474 | 38,732 |
| International transaction-based activities | 5,267 | 11,978 |
| Hardware, software and related technology sales | 31,490 | 26,037 |
| | 717 | 717 |

Interest on surplus cash increased to \$3.3 million (ZAR 33.2 million) from \$3.1 million (ZAR 25.5 million), due primarily to higher average daily ZAR cash balances.

In US dollars, interest expense decreased to \$1.8 million (ZAR 17.5 million) from \$2.1 million (ZAR 17.1 million) due to a lower average long-term debt balance.

First quarter fiscal 2014 tax expense was \$6.5 million (ZAR 64.9 million) compared to \$3.7 million (ZAR 30.8 million) in fiscal 2013. Our effective tax rate for each of fiscal 2014 and 2013, was 36% and was higher than the South African statutory rate as a result of non-deductible expenses (including interest expense related to our long-term Korean borrowings and stock-based compensation charges).

Results of operations by operating segment

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

Table 7

| Operating Segment | <i>In United States Dollars (US GAAP)</i> | | | | |
|--|--|-----------------------|---------------|-----------------------|---------------------|
| | 2013 | | 2012 | | % change |
| | \$ 000 | % of total | \$ 000 | % of total | |
| Consolidated revenue: | | | | | |
| SA transaction-based activities | 63,032 | 51% | 61,364 | 55% | 3% |
| International transaction-based activities | 36,817 | 30% | 31,649 | 28% | 16% |
| Smart card accounts | 11,329 | 9% | 8,364 | 7% | 35% |
| Financial services | 2,427 | 2% | 1,384 | 1% | 75% |
| | 9,889 | 8% | 8,921 | 9% | 11% |

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Hardware, software and related
technology sales

| | | | | | |
|--|---------------|-------------|--------------|-------------|------------|
| Total consolidated revenue | 123,494 | 100% | 111,682 | 100% | 11% |
| Consolidated operating (loss) income: | | | | | |
| SA transaction-based activities | 13,282 | 81% | 6,400 | 69% | 108% |
| Operating income before amortization | 13,808 | | 7,850 | | |
| Amortization of intangible assets | (526) | | (1,450) | | |
| International transaction-based activities | 2,051 | 13% | (171) | (2%) | nm |
| Operating income before amortization | 5,200 | | 2,981 | | |
| Amortization of intangible assets | (3,149) | | (3,152) | | |
| Smart card accounts | 3,228 | 20% | 2,385 | 26% | 35% |
| Financial services | 56 | - | 1,097 | 12% | (95%) |
| Hardware, software and related technology sales | 2,948 | 18% | 1,984 | 21% | 49% |
| Operating income before amortization | 3,021 | | 2,071 | | |
| Amortization of intangible assets | (73) | | (87) | | |
| Corporate/eliminations | (5,165) | (32%) | (2,370) | (26%) | 118% |
| Total consolidated operating income | 16,400 | 100% | 9,325 | 100% | 76% |

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Table 8*In South African Rand (US GAAP)*
Three months ended September 30,

| Operating Segment | 2013 | % of total | 2012 | % of total | % change |
|---|------------------|-------------|----------------|-------------|-------------|
| | ZAR 000 | | ZAR 000 | | |
| Consolidated revenue: | | | | | |
| SA transaction-based activities | 630,326 | 51% | 506,903 | 55% | 24% |
| International transaction-based activities | 368,174 | 30% | 261,440 | 28% | 41% |
| Smart card accounts | 113,291 | 9% | 69,092 | 7% | 64% |
| Financial services | 24,270 | 2% | 11,433 | 1% | 112% |
| Hardware, software and related technology sales | 98,891 | 8% | 73,692 | 9% | 34% |
| Total consolidated revenue | 1,234,952 | 100% | 922,560 | 100% | 34% |
| Consolidated operating (loss) income: | | | | | |
| SA transaction-based activities | 132,821 | 81% | 52,868 | 69% | 151% |
| Operating income before amortization | 138,088 | | 64,846 | | |
| Amortization of intangible assets | (5,267) | | (11,978) | | |
| International transaction-based activities | 20,510 | 13% | (1,413) | (2%) | nm |
| Operating income before amortization | 52,000 | | 24,624 | | |
| Amortization of intangible assets | (31,490) | | (26,037) | | |
| Smart card accounts | 32,280 | 20% | 19,702 | 26% | 64% |
| Financial services | 560 | - | 9,062 | 12% | (94%) |
| Hardware, software and related technology sales | 29,480 | 18% | 16,389 | 21% | 80% |
| Operating income before amortization | 30,197 | | 17,106 | | |
| Amortization of intangible assets | (717) | | (717) | | |
| Corporate/eliminations | (51,651) | (32%) | (19,578) | (26%) | 164% |
| Total consolidated operating income | 164,000 | 100% | 77,030 | 100% | 113% |

South African transaction-based activities

In ZAR, the increases in segment revenue were primarily due to more low-margin transaction fees generated from beneficiaries using the South African National Payment System, incremental prepaid airtime sales driven by the rollout of our Umoya Manje product, and reflect the elimination of inter-company transactions.

Our operating income margin for fiscal 2014 and 2013 was 21% and 10%, respectively, and has increased primarily due to the elimination of SASSA implementation costs in fiscal 2014.

South African transaction processors:

The table below presents the total volume and value processed during the first quarter of fiscal 2014 and 2013:

Table 9

| Transaction processor | Total volume (000s) | | Total value \$ (000) | | Total value ZAR (000) | |
|-----------------------|----------------------|---------|-----------------------|-----------|------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| CPS | 28,325 | 28,373 | 2,698,278 | 3,143,773 | 26,983,054 | 25,969,448 |
| EasyPay | 99,145 | 102,420 | 2,657,667 | 2,710,615 | 26,576,938 | 22,391,310 |
| MediKredit | 2,593 | 2,624 | 201,595 | 171,478 | 2,015,966 | 1,416,508 |
| FIHRST | 5,628 | 5,987 | 2,058,717 | 2,373,540 | 20,587,371 | 19,606,861 |

CPS volumes were flat year over year due to SASSA's suspension of former grant recipient cardholders who had not presented themselves for enrollment during the first quarter of fiscal 2014. These grant recipient cardholders will

have to apply for restoration of their grant and present themselves for enrollment should they want to reinstate their grants. Our pension and welfare operations continue to generate the majority of our revenues and operating income, before implementation costs, in this operating segment and overall.

International transaction-based activities

KSNET continues to contribute the majority of our revenues and operating income in this operating segment. Revenue increased primarily due to KSNET's revenue growth during the first quarter of fiscal 2014 and was partially offset by the expiration and non-renewal of NUETS' contract with its Iraqi customer in the third quarter of fiscal 2013. Operating income during the first quarter of fiscal 2014 was negatively impacted by the loss of this contract as well as ongoing losses related to our XeoHealth launch in the United States and at Net1 Virtual Card, as well as ongoing competition in the Korean marketplace, but was partially offset by increased revenue contributions from KSNET.

Operating margin for the segment is lower than most of our South African transaction-based businesses. Operating income margin for the first quarter of fiscal 2014 and 2013 was 6% and (1%), respectively. Excluding amortization of intangibles, our operating margin for the first quarter of fiscal 2014 and 2013 was 14% and 9%, respectively.

Smart card accounts

In ZAR, our revenue from this operating segment was higher because the number of smart card-based accounts has increased as a result of the new SASSA contract. Operating income margin from providing smart card accounts for the first quarter of fiscal 2014 and 2013 was 28% and 29%, respectively.

In ZAR, revenue from the provision of smart card-based accounts increased in proportion to the increased number of recipients serviced through our SASSA contract. Approximately 9.4 million smart card-based accounts were active at September 30, 2013 compared to approximately 5.8 million active accounts as at September 30, 2012.

Financial services

UEPS-based lending contributes the majority of the revenue and operating income in this operating segment. Our current UEPS-based lending portfolio comprises loans made to qualifying old age grant recipients in all of the provinces where we distribute social welfare grants. Revenue increased primarily due to the substantial increase in the number of loans granted as we rolled out our product nationally. Operating income decreased primarily as a result of related start-up expenses and the re-allocation of UEPS-based lending corporate and administration overhead expenses. Smart Life did not contribute to operating income in the first quarter of fiscal 2014 as it is currently unable to issue new insurance policies as a result of the suspension of its license by the Financial Services Board in fiscal 2013.

First quarter of fiscal 2014 includes the re-allocation of UEPS-based lending corporate administration and overhead expenses to this segment from the South African transaction-based activities segment. We were not able to accurately quantify these expenses for last year and therefore did not allocate such costs to this segment during the first quarter of fiscal 2013.

Operating income margin for the financial services segment decreased to 2% from 79%, primarily as a result of the roll-out expenditures and corporate overhead expense re-allocation described above.

Hardware, software and related technology sales

In ZAR, the increase in revenue and operating income resulted from more ad hoc terminal and smart card sales. We continue to expect significant quarter over quarter fluctuations in revenue, operating income and operating margin due to the ad hoc nature of orders in this operating segment.

Corporate/eliminations

The increase in our corporate expenses resulted primarily from legal fees we incurred in connection with the DOJ and SEC investigations and other corporate head office-related expenses.

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.

Liquidity and Capital Resources

At September 30, 2013, our cash balances were \$47.7 million, which comprised mainly ZAR-denominated balances of ZAR 75.6 million (\$7.5 million), KRW-denominated balances of KRW 33.5 billion (\$30.9 million) and US dollar-denominated balances of \$6.8 million and other currency deposits, primarily euro, of \$2.5 million. The decrease in our cash balances from June 30, 2013, was primarily due to the expansion of our UEPS-based lending business, offset by cash generated from operations.

We currently believe that our cash and credit facilities are sufficient to fund our future operations for at least the next four quarters.

We generally invest the surplus cash held by our South African operations in overnight call accounts that we maintain at South African banking institutions, and surplus cash held by our non-South African companies in the US and European money markets. We have invested surplus cash in Korea in short-term investment accounts at Korean banking institutions.

Historically, we have financed most of our operations, research and development, working capital, capital expenditures and acquisitions through our internally generated cash. When considering whether to borrow under our financing facilities, we consider the cost of capital, cost of financing, opportunity cost of utilizing surplus cash and availability of tax efficient structures to moderate financing costs.

As of September 30, 2013, we have a South African short-term credit facility of approximately ZAR 250 million (\$24.7 million) of which approximately ZAR 130 million (\$ 13.0 million) has been utilized to support cross-guarantees issued to Nedbank Limited for guarantees issued by Nedbank to various third parties on our behalf.

As of September 30, 2013, we had outstanding long-term debt of KRW 92.4 billion (approximately \$85.4 million translated at exchange rates applicable as of September 30, 2013) under credit facilities with a group of Korean banks. We refinanced this debt on October 28, 2013 with a new KRW 85.0 billion five-year senior secured term loan and revolving credit facility. The loans bear interest at the Korean CD rate in effect from time to time (2.66% as of September 30, 2013) plus a margin of 3.10% for one of the term loan facilities and the revolver and a margin of 2.90% for the other term loan facility. Scheduled repayments of the term loans and loan under the revolving credit facility are as follows: October 2014 (KRW 15 billion), April 2016, 2017 and 2018 (KRW 10 billion each) and October 2018 (KRW 30 billion plus all outstanding loans under our revolving credit facility). Refer to note 9 to the unaudited condensed consolidated financial statements for more information about the terms of our new facility.

Cash flows from operating activities

Net cash utilized in operating activities for the first quarter of fiscal 2014 was \$1.7 million (ZAR 16.8 million) compared to cash generated from operating activities of \$25.7 million (ZAR 212.5 million) for the first quarter of fiscal 2013. Excluding the impact of interest received, interest paid under our Korean debt and taxes presented in the table below, the decrease in cash from operating activities resulted from the expansion of our UEPS-based lending book and the timing of prefunding related to the October 2013 payment cycle, offset by improved cash generated from operating activities and the elimination of implementation costs related to our SASSA contract in fiscal 2014.

There were no significant tax payments during the first quarter of fiscal 2014 and 2013, respectively.

Taxes paid during the first quarter of fiscal 2014 and 2013 were as follows:

| | Three months ended September 30, | | | |
|-------------------------------------|----------------------------------|-------------------|--------------------|--------------------|
| | 2013 \$ 000 | 2012 \$ 000 | 2013 ZAR 000 | 2012 ZAR 000 |
| Taxation refunds received | - | (55) | - | (464) |
| Total South African taxes refunded | - | (55) | - | (464) |
| Foreign taxes paid: primarily Korea | 498 | 397 | 4,984 | 3,279 |
| Total tax paid | 498 | 342 | 4,984 | 2,815 |

We expect to pay our second provisional payments in South Africa related to our 2014 tax year in the second quarter of fiscal 2014.

Cash flows from investing activities

Cash used in investing activities for the first quarter of fiscal 2014 includes capital expenditure of \$5.6 million (ZAR 56.2 million), primarily for the acquisition of payment processing terminals in Korea.

Cash used in investing activities for the first quarter of fiscal 2013 includes capital expenditure of \$6.5 million (ZAR 53.7 million), primarily for payment vehicles and related equipment for our new SASSA contract and acquisition of payment processing terminals in Korea. During that quarter, we also paid \$1.9 million (ZAR 16.2

million) for Pbel.

Cash flows from financing activities

There were no cash flows from financing activities during the first quarter of fiscal 2014. During the first quarter of fiscal 2013, we received \$0.2 million from the exercise of stock options.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Capital Expenditures

We expect capital spending for the second quarter of fiscal 2014 to primarily include the acquisition of payment terminals for the expansion of our operations in Korea.

Our historical capital expenditures for the first quarter of fiscal 2014 and 2013 are discussed under **Liquidity and Capital Resources** Cash flows from investing activities. All of our capital expenditures for the past three fiscal years were funded through internally-generated funds. We had outstanding capital commitments as of September 30, 2013, of \$0.4 million related mainly to computer equipment. We expect to fund these expenditures through internally-generated funds.

Contingent Liabilities, Commitments and Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2013:

| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|------------------------------------|----------------|-------------------------|------------------|------------------|--------------------------|
| Long-term debt obligations (A) | 92,997 | 20,102 | 72,895 | - | - |
| Operating lease obligations | 8,932 | 3,854 | 4,216 | 862 | - |
| Purchase obligations | 2,869 | 2,869 | - | - | - |
| Capital commitments | 398 | 398 | - | - | - |
| Other long-term obligations (B)(C) | 21,499 | - | - | - | 21,499 |
| Total | 126,695 | 27,223 | 77,111 | 862 | 21,499 |

- (A) Includes \$85.4 million of long-term debt and interest payable at the rate applicable on September 30, 2013, under our Korean debt facility, which we refinanced in October 2013. See **Liquidity and capital resources**.
- (B) Includes policy holder liabilities of \$20.2 million related to our insurance business.
- (C) We have excluded cross-guarantees in the aggregate amount of \$13.0 million issued as of September 30, 2013, to Nedbank to secure guarantees it has issued to third parties on our behalf as the amounts that will be settled in cash are not known and the timing of any payments is uncertain.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In addition to the tables below, see note 5 to the unaudited condensed consolidated financial statements for a discussion of market risk.

The following table illustrates the effect on our annual expected interest charge, translated at exchange rates applicable as of September 30, 2013, as a result of a change in the Korean CD rate. The effects of a hypothetical 1% increase and a 1% decrease in the Korean CD rate as of September 30, 2013, is shown. The selected 1% hypothetical change does not reflect what could be considered the best or worst case scenarios.

As of September 30, 2013

Table 12

| | Annual expected interest charge (\$ 000) | Hypothetical change in Korean CD rate | Estimated annual expected interest charge after hypothetical change in Korean CD rate (\$ 000) |
|-----------------------------------|---|--|---|
| Interest on Korean long-term debt | 5,772 | 1% | 6,626 |
| | | (1%) | 4,918 |

The following table summarizes our exchange-traded equity securities with equity price risk as of September 30, 2013. The effects of a hypothetical 10% increase and a 10% decrease in market prices as of September 30, 2013, is also shown. The selected 10% hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned liquidity risk.

As of September 30, 2013

Table 13

| | Fair value (\$ 000) | Hypothetical price change | Estimated fair value after hypothetical change in price (\$ 000) | Hypothetical Percentage Increase (Decrease) in Shareholders Equity |
|-----------------------------------|------------------------------------|--------------------------------------|---|---|
| Exchange-traded equity securities | 8,019 | 10% | 8,821 | 0.22% |
| | | (10%) | 7,217 | (0.22%) |

Item 4. Controls and Procedures**Evaluation of disclosure controls and procedures**

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of September 30, 2013. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2013.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information**Item 1. Legal Proceedings****AllPay Challenge to Tender Award**

On September 10, 2013, the South African Constitutional Court heard oral arguments on the appeal by AllPay against the ruling by the South African Supreme Court of Appeal upholding the award of the SASSA tender to us. The Constitutional Court has reserved judgment. We cannot predict when or how it will rule on the matter.

Item 1A. Risk Factors

See “Item 1A RISK FACTORS” in Part I of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, for a discussion of risk factors relating to (i) our business, (ii) operating in South Africa and other foreign markets, (iii) government regulation, and (iv) our common stock. Except as set forth below, there have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

We have signed a non-binding letter of intent for a proposed BEE Transaction. If we do not complete the transaction, our business and stock price may suffer.

On November 6, 2013, we signed a non-binding letter of intent to issue 4,400,000 shares of our common stock at a price of ZAR 88.50 per share to a consortium of investors pursuant to a new BEE transaction. The letter of intent provides, among other things, that one of our South African subsidiaries would extend a five-year loan to the BEE consortium to provide it with the funds to pay the purchase price of the shares, with the shares serving as collateral security for repayment of the loan. Completion of the transaction, is subject to the conclusion of definitive agreements which will include certain conditions to the issuance of the shares, including obtaining the relevant regulatory approvals. We cannot assure you that we will be able to complete the proposed transaction on the proposed terms, if at all.

The proposed BEE transaction is part of our ongoing efforts to strengthen the development of our business plan, and is in compliance with South African regulation and business practice. We expect that completion of the proposed transaction will help us achieve applicable BEE objectives. However, if we are unable to complete the transaction as proposed, we would not achieve these expected benefits and our business could be adversely impacted. In addition, we are lending the BEE consortium the purchase price for the shares and are relying in part on the future appreciation of our stock price to enable the BEE consortium to repay the loan. We also cannot predict how the announcement of the letter of intent, or the completion or non-completion of the transaction on the contemplated terms, will affect the trading price of our common stock.

Item 6. Exhibits

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

| Exhibit No. | Description of Exhibit | Included Herewith | Incorporated by Reference Herein | | |
|-------------|---|-------------------|----------------------------------|---------|------------------|
| | | | Form | Exhibit | Filing Date |
| 10.24 | KRW 85,000,000,000 Senior Facilities Agreement dated October 28, 2013, between Net 1 Applied Technologies Korea, as borrower, Hana Bank, as agent | | 8-K | 10.24 | October 31, 2013 |

| | | | | |
|-------------|--|--|--|----------|
| | and security agent, financial institutions listed therein as original lenders and Hana Daetoo Securities Co., Ltd., as mandated lead arranger. | | | |
| <u>31.1</u> | <u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act</u> | | | <u>X</u> |
| <u>31.2</u> | <u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act</u> | | | <u>X</u> |
| <u>32</u> | <u>Certification pursuant to 18 USC Section 1350</u> | | | <u>X</u> |
| 101.INS | XBRL Instance Document | | | X |
| 101.SCH | XBRL Taxonomy Extension Schema | | | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | | | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | | | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | | | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | | | X |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 7, 2013.

NET 1 UEPS TECHNOLOGIES, INC.

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

Dr. Serge C.P. Belamant

Chief Executive Officer, Chairman of the Board and Director

By: /s/ Herman Gideon Kotzé

Herman Gideon Kotzé

Chief Financial Officer, Treasurer and Secretary, Director