

NET 1 UEPS TECHNOLOGIES INC  
Form 10-Q  
May 06, 2010

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2010

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, 4<sup>th</sup> Floor, Cnr. Jan Smuts Avenue and Bolton Road  
Rosebank, Johannesburg 2196, South Africa**

(Address of principal executive offices, including zip code)

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

**Not Applicable**

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

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

YES  NO

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

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

YES [ ] NO [ ]

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a smaller reporting company)

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

YES  NO

As of April 30, 2010 (the latest practicable date), 45,378,397 shares of the registrant's common stock, par value \$0.001 per share, net of treasury shares, were outstanding.

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## Form 10-Q

## NET 1 UEPS TECHNOLOGIES, INC.

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## Part I. Financial Information

## Item 1. Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.  
Condensed Consolidated Balance Sheets

|  | Unaudited<br>March 31,<br>2010       | (A)<br>June 30,<br>2009 |
|--|--------------------------------------|-------------------------|
|  | (In thousands, except share<br>data) |                         |
| <b>ASSETS</b>  |                                      |                         |
| <b>CURRENT ASSETS</b>  |                                      |                         |
| Cash and cash equivalents  | \$ 184,341                           | \$ 220,786              |
| Pre-funded social welfare grants receivable (Note 3)                     | 4,752                                | 4,930                   |
| Accounts receivable, net of allowances of March: \$475; June: \$395      | 46,822                               | 42,475                  |
| Finance loans receivable, net of allowances of March: \$245; June: \$226 | 4,575                                | 2,563                   |
| Deferred expenditure on smart cards                                      | 13                                   | 8                       |
| Inventory (Note 4)   | 5,195                                | 7,250                   |
| Deferred income taxes  | 12,491                               | 12,282                  |
| Total current assets before funds held for clients                       | 258,189                              | 290,294                 |
| Funds held for clients   | 3,304                                | -                       |
| Total current assets   | 261,493                              | 290,294                 |
| OTHER LONG-TERM ASSETS, including available for sale securities (Note 5) | 6,896                                | 7,147                   |
| <b>PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION OF</b> |                                      |                         |
| DEPRECIATION OF March: \$37,666; June: \$28,169                          | 8,269                                | 7,376                   |
| EQUITY-ACCOUNTED INVESTMENTS (Note 5)                                    | 2,158                                | 2,583                   |
| GOODWILL (Note 6)  | 119,418                              | 116,197                 |
| <b>INTANGIBLE ASSETS, NET OF ACCUMULATED AMORTIZATION OF</b>             |                                      |                         |
| March: \$32,281; June: \$31,150 (Note 6)                                 | 78,278                               | 75,890                  |
| <b>TOTAL ASSETS</b>  | <b>476,512</b>                       | <b>499,487</b>          |
| <b>LIABILITIES</b>   |                                      |                         |
| <b>CURRENT LIABILITIES</b>   |                                      |                         |
| Accounts payable   | 6,594                                | 5,481                   |
| Other payables   | 77,422                               | 61,454                  |
| Income taxes payable   | 15,136                               | 10,874                  |
| Total current liabilities before client fund obligations                 | 99,152                               | 77,809                  |
| Client fund obligations  | 3,304                                | -                       |
| Total current liabilities  | 102,456                              | 77,809                  |
| DEFERRED INCOME TAXES  | 50,220                               | 41,737                  |
| OTHER LONG-TERM LIABILITIES, including non-controlling interest loans    | 5,274                                | 4,185                   |
| COMMITMENTS AND CONTINGENCIES  | -                                    | -                       |
| <b>TOTAL LIABILITIES</b>   | <b>157,950</b>                       | <b>123,731</b>          |
| <b>EQUITY</b>  |                                      |                         |
| <b>NET1 EQUITY:</b>  |                                      |                         |
| <b>COMMON STOCK (Note 8)</b>   |                                      |                         |
| Authorized: 200,000,000 with \$0.001 par value;                          |                                      |                         |
| Issued and outstanding shares, net of treasury - March:                  |                                      |                         |
| 45,378,397; June: 54,506,487   | 59                                   | 59                      |
| ADDITIONAL PAID-IN-CAPITAL   | 132,133                              | 126,914                 |

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|   |            |            |
|---|------------|------------|
| TREASURY SHARES, AT COST: March: 13,149,042; June:<br>3,927,516 | (173,671)  | (48,637)   |
| ACCUMULATED OTHER COMPREHENSIVE LOSS                            | (51,496)   | (58,472)   |
| RETAINED EARNINGS   | 409,350    | 353,353    |
| TOTAL NET1 EQUITY   | 316,375    | 373,217    |
| NON-CONTROLLING INTEREST  | 2,187      | 2,539      |
| <b>TOTAL EQUITY</b>   | 318,562    | 375,756    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>                | \$ 476,512 | \$ 499,487 |

(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<br>March 31,          |           | Nine months ended<br>March 31,           |            |
|---|--|-----------|--|------------|
|   | 2010                                     | 2009      | 2010                                     | 2009       |
|   | (In thousands, except per share<br>data) |           | (In thousands, except per share<br>data) |            |
| REVENUE   | \$ 72,291                                | \$ 55,878 | \$ 211,669                               | \$ 185,201 |
| EXPENSE   |  |           |  |            |
| Cost of goods sold, IT processing,<br>servicing and support                                     | 17,910                                   | 15,225    | 55,652                                   | 51,636     |
| Selling, general and administration   | 22,381                                   | 14,772    | 58,987                                   | 48,081     |
| Depreciation and amortization   | 5,141                                    | 4,266     | 14,384                                   | 11,950     |
| LOSS ON SALE OF MICROLENDING<br>BUSINESS  | -  | 742       | -  | 742        |
| IMPAIRMENT OF GOODWILL  | -  | -         | -  | 1,836      |
| OPERATING INCOME  | 26,859                                   | 20,873    | 82,646                                   | 70,956     |
| FOREIGN EXCHANGE GAIN RELATED<br>TO<br>SHORT-TERM INVESTMENT                                    | -  | -         | -  | 26,657     |
| INTEREST INCOME, net  | 2,206                                    | 2,125     | 6,470                                    | 7,590      |
| INCOME BEFORE INCOME TAXES  | 29,065                                   | 22,998    | 89,116                                   | 105,203    |
| INCOME TAX EXPENSE (Note 12)  | 10,441                                   | 8,543     | 32,964                                   | 35,444     |
| NET INCOME FROM CONTINUING<br>OPERATIONS<br>BEFORE LOSS FROM<br>EQUITY-ACCOUNTED<br>INVESTMENTS | 18,624                                   | 14,455    | 56,152                                   | 69,759     |
| LOSS FROM EQUITY-ACCOUNTED<br>INVESTMENTS<br>(Note 5)   | (44)                                     | (261)     | (425)                                    | (797)      |
| NET INCOME  | 18,580                                   | 14,194    | 55,727                                   | 68,962     |
| (ADD) LESS: NET (LOSS) INCOME   |  |           |  |            |

|   |       |       |       |     |
|---|-------|-------|-------|-----|
| ATTRIBUTABLE TO<br>NON-CONTROLLING INTEREST | (192) | (185) | (270) | 577 |
|---|-------|-------|-------|-----|

|                                    |           |           |           |        |
|------------------------------------|-----------|-----------|-----------|--------|
| NET INCOME ATTRIBUTABLE TO NET1 \$ | 18,772 \$ | 14,379 \$ | 55,997 \$ | 68,385 |
|------------------------------------|-----------|-----------|-----------|--------|

**Net income per share, in cents** (Note 9)

|   |      |      |       |       |
|---|------|------|-------|-------|
| Basic earnings attributable to Net1<br>shareholders | 41.4 | 25.8 | 120.3 | 120.1 |
|---|------|------|-------|-------|

|   |      |      |       |       |
|---|------|------|-------|-------|
| Diluted earnings attributable to Net1<br>shareholders | 41.1 | 25.8 | 119.8 | 119.7 |
|---|------|------|-------|-------|

See Notes to Unaudited Condensed Consolidated Financial Statements



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

|  | Number<br>of Shares | Amount | Number of<br>Treasury<br>Shares | Treasury<br>Shares | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss) Income | Non-<br>controlling<br>Interests |
|--|---------------------|--------|---------------------------------|--------------------|----------------------------------|----------------------|--|----------------------------------|
| Balance July 1,<br>2009  | 58,434,003          | \$ 59  | (3,927,516)                     | \$ (48,637)        | \$ 126,914                       | \$ 353,353           | \$ (58,472)  |                                  |
| Adjustment<br>resulting from<br>adoption of<br>new accounting<br>standards   |                     |        |                                 |                    |                                  |                      |  | \$2,539                          |
| Exercise of<br>options by<br>holders   | 83,338              | -      |                                 |                    | 303                              |                      |  |                                  |
| Restricted<br>stock granted  | 10,098              |        |                                 |                    |                                  |                      |  |                                  |
| Settlement of<br>loan note<br>consideration<br>for stock issued<br>in accordance<br>with 2004<br>Stock<br>Incentive Plan |                     |        |                                 |                    | 417                              |                      |  |                                  |
| Stock-based<br>compensation<br>charge  |                     |        |                                 |                    | 4,254                            |                      |  |                                  |
| Acquisition of<br>treasury shares  |                     |        | (9,221,526)                     | (125,034)          |                                  |                      |  |                                  |
| Income tax<br>benefits from<br>stock awards<br>sold by<br>employees  |                     |        |                                 |                    | 245                              |                      |  |                                  |
| Comprehensive<br>income (loss),<br>net of taxes:   |                     |        |                                 |                    |                                  | 55,997               |  | (270)                            |

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|  |            |    |    |              |    |           |       |          |
|--|------------|----|----|--------------|----|-----------|-------|----------|
| Net income (loss)  |            |    |    |              |    |           |       |          |
| Other comprehensive income (loss):                               |            |    |    |              |    |           |       |          |
| Net unrealized loss on available for sale investment, net of tax |            |    |    |              |    |           | (684) |          |
| Movement in foreign currency translation reserve                 |            |    |    |              |    |           | 7,660 | (82)     |
| Balance March 31, 2010   | 58,527,439 | \$ | 59 | (13,149,042) | \$ | (173,671) | \$    | 132,133  |
|  |            |    |    |              |    |           |       | 409,350  |
|  |            |    |    |              |    |           |       | (51,496) |
|  |            |    |    |              |    |           |       | 2,187    |

**NET 1 UEPS TECHNOLOGIES, INC.**  
**Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)**

|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>March 31,</b>          |             | <b>March 31,</b>         |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
|  | (In thousands)            |             | (In thousands)           |             |
| Net income   | \$ 18,772                 | \$ 14,379   | \$ 55,997                | \$ 68,385   |
| Other comprehensive (loss) income, net of taxes:                               |                           |             |                          |             |
| Net unrealized loss on asset available for sale, net of tax                    | -                         | -           | (684)                    | -           |
| Movement in foreign currency translation reserve                               | (4,830)                   | (10,733)    | 7,660                    | (72,051)    |
| Total other comprehensive (loss) income, net of taxes                          | (4,830)                   | (10,733)    | 6,976                    | (72,051)    |
| Comprehensive income (loss)  | 13,942                    | 3,646       | 62,973                   | (3,666)     |
| Less(Add) comprehensive income (loss) attributable to non-controlling interest | 333                       | 415         | 352                      | (347)       |
| Comprehensive income (loss) attributable to Net1                               | \$ 13,609                 | \$ 4,061    | \$ 62,621                | \$ (4,013)  |

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

|  | Three months ended<br>March 31, |                | Nine months ended<br>March 31, |                  |
|--|---------------------------------|----------------|--------------------------------|------------------|
|  | 2010<br>(In<br>thousands)       | 2009           | 2010<br>(In<br>thousands)      | 2009             |
| <b>Cash flows from operating activities</b>  |                                 |                |                                |                  |
| Net income   | \$ 18,580                       | 14,194         | \$ 55,727                      | \$ 68,962        |
| Depreciation and amortization  | 5,141                           | 4,266          | 14,384                         | 11,950           |
| Impairment of goodwill   | -                               | -              | -                              | 1,836            |
| Loss from equity-accounted investments   | 44                              | 261            | 425                            | 797              |
| Fair value adjustments   | 183                             | 487            | 12                             | (1,957)          |
| Unrealized foreign exchange gain related to short-term investment  | -                               | -              | -                              | (1,015)          |
| Interest payable   | 74                              | 105            | 229                            | 336              |
| Loss on disposal of property, plant and equipment  | 29                              | 9              | 31                             | 9                |
| Loss on sale of microlending business  | -                               | 742            | -                              | 742              |
| Stock-based compensation charge  | 1,400                           | 1,317          | 4,254                          | 3,868            |
| Facility fee amortized   | -                               | -              | -                              | 1,100            |
| (Increase) Decrease in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable | (3,314)                         | (17,329)       | 2,736                          | (55,120)         |
| Decrease (Increase) in deferred expenditure on smart cards   | 55                              | 84             | (5)                            | 57               |
| (Increase) Decrease in inventory   | (221)                           | (1,538)        | 2,465                          | (1,244)          |
| Increase (Decrease) in accounts payable and other payables   | 1,325                           | 2,215          | (8,017)                        | (15,374)         |
| Increase in taxes payable  | 7,343                           | 475            | 7,027                          | 4,659            |
| Increase (Decrease) in deferred taxes  | 1,070                           | (182)          | 3,181                          | (1,601)          |
| <b>Net cash provided by operating activities</b>   | <b>31,709</b>                   | <b>5,106</b>   | <b>82,449</b>                  | <b>18,005</b>    |
| <b>Cash flows from investing activities</b>  |                                 |                |                                |                  |
| Capital expenditures   | (984)                           | (413)          | (2,310)                        | (3,696)          |
| Proceeds from disposal of property, plant and equipment  | 62                              | 1              | 124                            | 3                |
| Acquisition of MediKredit, net of cash acquired (Note 2)   | (981)                           | -              | (981)                          | -                |
| Acquisition of available for sale security   | -                               | (3,422)        | -                              | (3,422)          |
| Acquisition of Net1 UAT, net of cash acquired  | -                               | (1,906)        | -                              | (97,992)         |
| Acquisition of shares in equity-accounted investments  | -                               | (150)          | -                              | (450)            |
| Net change in funds held for clients   | 280                             | -              | 280                            | -                |
| <b>Net cash used in investing activities</b>   | <b>(1,623)</b>                  | <b>(5,890)</b> | <b>(2,887)</b>                 | <b>(105,557)</b> |
| <b>Cash flows from financing activities</b>  |                                 |                |                                |                  |
| Proceeds from issue of share capital, net of share issue expenses  | -                               | -              | 720                            | 155              |

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|   |            |         |            |            |
|---|------------|---------|------------|------------|
| Treasury stock acquired                                     | -          | -       | (126,304)  | (24,752)   |
| Proceeds from short-term loan facility                      | -          | -       | -          | 110,000    |
| Repayment of short-term loan facility                       | -          | -       | -          | (110,000)  |
| Payment of facility fee                                     | -          | -       | -          | (1,100)    |
| Repayment of non-controlling interest loan                  | -          | -       | (137)      | -          |
| Net change in client funds obligations                      | (280)      | -       | (280)      | -          |
| Proceeds from bank overdrafts                               | -          | 2,401   | -          | 2,496      |
| Repayment of loans  | -          | (2,252) | -          | (2,252)    |
| <b>Net cash (used in) provided by financing activities</b>  | (280)      | 149     | (126,001)  | (25,453)   |
| Effect of exchange rate changes on cash                     | 1,664      | (2,996) | 9,994      | (38,445)   |
| <b>Net increase (decrease) in cash and cash equivalents</b> | 31,470     | (3,631) | (36,445)   | (151,450)  |
| <b>Cash and cash equivalents beginning of period</b>        | 152,871    | 124,656 | 220,786    | 272,475    |
| <b>Cash and cash equivalents end of period</b>              | \$ 184,341 | 121,025 | \$ 184,341 | \$ 121,025 |

See Notes to Unaudited Condensed Consolidated Financial Statements

**NET 1 UEPS TECHNOLOGIES, INC.**

**Notes to the Unaudited Condensed Consolidated Financial Statements  
for the Three and Nine Months Ended March 31, 2010 and 2009**

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

**1. Basis of Presentation and Summary of Significant Accounting Policies**

**Unaudited Interim Financial Information**

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with US generally accepted accounting principles ( GAAP ) and the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three and nine months ended March 31, 2010 and 2009 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, 2009. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

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

**Translation of foreign currencies**

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

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

**Revenue recognition**

*Fees and commissions*

The Company provides medical-related claims adjudication, reconciliation and settlement services ( medical-related claim service ) to customers, for which it charges fees. These fees are recognized in the statement of operations as the underlying services are performed.

*Funds held for clients and client fund obligations*

Funds held for clients represents cash held at banks for providers of services to our medical scheme customers that the Company has adjudicated claims for.

Client fund obligations represent claims that have been adjudicated and reconciled and which amounts are due to the providers of services to our medical scheme customers. The Company is obligated to pay amounts to service providers once the funds have been received from medical schemes. The Company has no obligation to pay for provider claims that have not been deposited into the Company's bank accounts by the medical schemes.

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

**Recent accounting pronouncements adopted**

The following summary of recent accounting pronouncements reflects only the new authoritative accounting guidance issued that is relevant and applicable to the Company.

In January 2010, the Financial Accounting Standards Board ( FASB ) issued guidance on fair value measurement and disclosures, which amends existing guidance to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuance, and settlements relating to Level 3 measurements. The guidance also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. However, the final guidance does not require entities to provide sensitivity disclosures. The FASB will consider whether to require sensitivity disclosures jointly with the International Accounting Standards Board as part of the new convergence project on fair value measurements and disclosures. The guidance is effective from the first reporting period beginning on or after 15 December 2009. The adoption of the guidance did not impact the Company's consolidated financial position, results of operations or cash flows.

**Recent accounting pronouncements not yet adopted as of March 31, 2010**

In September 2009, the FASB issued guidance on revenue recognition in multiple deliverable revenue arrangements. This amends the existing guidance on allocating consideration received between the elements in a multiple-deliverable arrangement and establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor specific objective evidence ( VSOE ) if available, third party evidence if VSOE is not available, or estimated selling price if neither VSOE or third party evidence is available. It replaces the term fair value in the revenue allocation with selling price to clarify that the allocation of revenue is based on entity specific assumptions rather than the assumptions of a market place participant. The guidance will eliminate the residual method of allocation and requires that arrangement consideration be allocated using the relative selling price method. It will also significantly expand the disclosures related to a vendor's multiple-deliverable revenue arrangements. It will be effective prospectively for revenue arrangements entered into or materially modified for fiscal years beginning on or after June 15, 2010 and will therefore be adopted by the Company, effective July 1, 2010. The Company is currently evaluating the impact of adopting this guidance.

In December 2009, the FASB issued new guidance on the consolidation of variable interest entities. This guidance changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. The guidance also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to such involvement. This guidance is effective from the first annual reporting period beginning on or after 15 November 2009 and will therefore be adopted by the Company, effective 1 July 2010. The Company is currently evaluating the impact of adopting this guidance.

In December 2009, the FASB issued new guidance issued on the accounting for transfers of financial assets. This guidance requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. This guidance is effective from the first annual reporting period beginning on or after 15 November 2009 and will therefore be adopted by the Company, effective July 1, 2010. The Company is currently evaluating the impact of adopting this guidance.



In April 2010, the FASB issued guidance on the effect of denominating the exercise price of a share-based payment award in the currency of the market in which the underlying equity security trades. This guidance clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The guidance will be effective for fiscal years beginning on or after December 15, 2010 and will therefore be adopted by the Company, effective July 1, 2011. The Company is currently evaluating the impact of adopting this guidance.

## 2. Acquisitions

### MediKredit Healthcare Solutions (Proprietary) Limited ( MediKredit )

On January 1, 2010, the Company acquired 100% of MediKredit, a South African private company, for ZAR 74 million (approximately \$10 million) in cash. MediKredit offers transaction processing, financial and clinical risk management solutions to both funders and providers of healthcare, primarily in South Africa. The Company believes that the acquisition of MediKredit has increased the depth and diversity of the Company's management team with the addition of experienced executives, and provides the potential to strengthen its position as the leading independent transaction processor in South Africa and expand its offering in some of its existing markets like Ghana and Nigeria, where national health insurance schemes have been introduced and where the UEPS platform and installed card base could offer a complete national solution when combined with the MediKredit system. In addition, MediKredit provides the Company with a small, strategic entry point for the US healthcare administration market. The rapidly changing US healthcare and administration industry provides a significant opportunity for the introduction of MediKredit's technology. Finally, the Company and MediKredit both operate similar back-end systems, which require skilled developers and technicians and the addition of MediKredit would significantly broaden the Company's base of qualified development employees.

### FIHRST Management Services (Proprietary) Limited business and related software (collectively FIHRST )

On March 31, 2010, the Company acquired FIHRST, a South African business, for ZAR 70 million (approximately \$9 million). The purchase consideration was settled in cash in the first week of April 2010. FIHRST offers a third party payroll payments solution to companies in South Africa.

The FIHRST acquisition provides the Company with access to employees of FIHRST's customers which the Company believes will provide it with the opportunity to market its range of transaction processing products and financial services, including bill payments, insurance products, prepaid utilities and third party payments to these employees. The Company will have the potential to promote its wage payment initiative by offering the employees of FIHRST customers its banking solutions through the Company's relationship with Grindrod Bank Limited. Finally, the Company and FIHRST operate on different IT platforms, which will result in additional resources with complementary IT skills. The Company may also realize IT-related cost synergies in areas such as disaster recovery and computer maintenance and support.

The preliminary purchase price allocation of the MediKredit and FIHRST acquisitions, translated at the foreign exchange rates applicable on the date of acquisition, are provided in the table below:

|                                       | MediKredit | FIHRST   | Total     |
|---------------------------------------|------------|----------|-----------|
| Cash and cash equivalents             | \$ 9,005   | \$ 77    | \$ 9,082  |
| Accounts receivable, net              | 2,940      | 639      | 3,579     |
| Property, plant and equipment         | 1,290      | 106      | 1,396     |
| Intangible assets (see Note 6)        | 6,070      | 7,971    | 14,041    |
| Trade and other payables              | (9,931)    | (414)    | (10,345)  |
| Deferred tax assets                   | 2,718      | 435      | 3,153     |
| Deferred tax liabilities (see Note 6) | (2,097)    | (622)    | (2,719)   |
| Goodwill (see Note 6)                 | -          | 1,263    | 1,263     |
| Total purchase price                  | \$ 9,995   | \$ 9,455 | \$ 19,450 |

The preliminary purchase price allocations were based on management estimates as of March 31, 2010, and may be adjusted up to one year following the closing of the transaction. The purchase price allocations have not been finalized as management is still in the process of performing its detailed analysis of assets and liabilities and contingencies acquired.

Pro forma results of operations have not been presented because the effect of the MediKredit and FIHRST acquisitions, individually and in the aggregate, were not material to the Company's consolidated results of operations. During the three and nine months ended March 31, 2010, the Company incurred transaction-related expenditures of \$0.3 million and \$0.4 million, respectively.

**3. Pre-funded social welfare grants receivable**

Pre-funded social welfare grants receivable represents amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The April 2010 payment service commenced during the last two days of March 2010 and was offered at merchant locations only.

#### 4. Inventory

The Company's inventory comprised the following categories as of March 31, 2010 and June 30, 2009.

|                | <b>March 31,<br/>2010</b> | <b>June 30,<br/>2009</b> |
|----------------|---------------------------|--------------------------|
| Raw materials  | \$ 38                     | \$ 153                   |
| Finished goods | 5,157                     | 7,097                    |
|                | <b>\$ 5,195</b>           | <b>\$ 7,250</b>          |

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

###### *Currency exchange risk*

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

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

As of March 31, 2010

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

As of March 31, 2009

|     | <b>Notional amount</b> |     | <b>Strike price</b> |     | <b>Fair market value price</b> | <b>Maturity</b> |
|-----|------------------------|-----|---------------------|-----|--------------------------------|-----------------|
| EUR | 47,651                 | ZAR | 12.8441             | ZAR | 12.7818                        | April 30, 2009  |
| EUR | 241,500                | ZAR | 13.1515             | ZAR | 13.0233                        | August 14, 2009 |

###### *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. On March 1, 2009, the Company acquired approximately 22% of the issued share capital of Finbond Group Limited (Finbond), which are exchange-traded equity securities. The fair value of these securities as of March 31, 2010, represented approximately 1% of the Company's total assets, including these securities. The Company expects to hold these securities for an extended period of time and it is not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the

company remain sound. 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.

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

### Financial instruments

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

#### *Investments in common stock*

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

The Company's Level 3 asset represents an investment of 84,632,525 shares of common stock of Finbond. The Company's ownership interest in Finbond as of March 31, 2010, is approximately 22%. The Company has no rights to participate in the financial, operating, or governance decisions made by Finbond. The Company also has no participation on Finbond's board of directors whether through contractual agreement or otherwise. Consequently, the Company has concluded that it does not have significant influence over Finbond and therefore equity accounting is not appropriate.

Finbond's shares are traded on the JSE Limited ( JSE ) and the Company has designated such shares as available for sale investments. The Company has concluded that the market for Finbond shares is not active and consequently has employed alternative valuation techniques in order to determine the fair value of such stock. Currently, the operations of Finbond include primarily mortgage brokering services, property investment and microlending. In determining the fair value of Finbond, the Company has considered amongst other things Finbond's historical financial information (including its most recent public accounts), press releases issued by Finbond and its published net asset value. The Company believes that the best indicator of fair value of Finbond is its published net asset value and has used this value to determine the fair value.

#### *Derivative transactions - Foreign exchange contracts*

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

The following table presents the Company's assets measured at fair value on a recurring basis as of March 31, 2010 according to the fair value hierarchy:

| <b>Quoted<br/>Price in<br/>Active<br/>Markets for</b> | <b>Significant<br/>Other</b> | <b>Significant</b> |
|---|------------------------------|--------------------|
|---|------------------------------|--------------------|

|   | <b>Identical<br/>Assets<br/>(Level 1)</b> | <b>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total</b> |
|---|---|--|--|--------------|
| <b>Assets</b>   |   |  |  |              |
| Investment in common stock<br>(available for sale assets included in<br>OTHER LONG-TERM ASSETS) | -   | -  | \$ 6,754                                     | \$ 6,754     |
| Total assets at fair value  | -   | -  | \$ 6,754                                     | \$ 6,754     |
| <b>Liabilities</b>  |   |  |  |              |
| Foreign exchange contracts  | -   | \$ 4                                       | -  | \$ 4         |
| Total liabilities at fair value   | -   | \$ 4                                       | -  | \$ 4         |

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

### Financial instruments (continued)

#### *Assets and liabilities measured at fair value on a nonrecurring basis*

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

The Company reviews the carrying values of its investments when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary. The fair values of the Company's investments are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the investment exceeds its fair value and the excess is determined to be other-than-temporary. The Company determined that there was not a decline in the fair value below cost of the equity-accounted investments during the reporting periods presented herein, and therefore has not recorded an impairment charge during the three and nine months ended March 31, 2010.

During the three and nine months ended March 31, 2010, the Company's share in VTU Colombia's accumulated losses exceeded its investment. VTU Colombia other shareholders are providing short-term funding for continued operations and the Company has no obligation to provide any additional funding at this stage. In addition, in February 2010, the Company's investment in VTU Colombia was diluted from 50% to 37.50% due to the admission of a new independent shareholder. The funds received from this shareholder by VTU Colombia were used to fund its continuing operations.

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

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

Summarized below is the Company's interest in equity-accounted investments as of June 30, 2009 and March 31, 2010:

|   | Equity   | Loans    | Earnings<br>(Loss) | Elimination | Total    |
|---|----------|----------|--------------------|-------------|----------|
| Balance as of June 30, 2009                       | \$ 3,467 | \$ 2,468 | \$ (3,451)         | \$ 99       | \$ 2,583 |
| (Loss) Earnings from equity-accounted investments | -        | -        | (698)              | 273         | (425)    |
| SmartSwitch Namibia <sup>(1)</sup>                | -        | -        | 5                  | 90          | 95       |
| SmartSwitch Botswana <sup>(1)</sup>               | -        | -        | (155)              | 183         | 28       |
| VTU Colombia <sup>(1)</sup>                       | -        | -        | (407)              | -           | (407)    |
| VinaPay <sup>(1)</sup>                            | -        | -        | (141)              | -           | (141)    |
| Foreign currency adjustment <sup>(2)</sup>        | 131      | 95       | (187)              | (39)        | -        |
| Balance as of March 31, 2010                      | \$ 3,598 | \$ 2,563 | \$ (4,336)         | \$ 333      | \$ 2,158 |



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

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

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

Summarized below is the Company's equity-accounted (loss) earnings for the three months ended March 31, 2010:

|   | (Loss)<br>Earnings | Elimination | Total |
|---|--------------------|-------------|-------|
| (Loss) Earnings from equity-accounted investments | (136)              | 92          | (44)  |
| SmartSwitch Namibia                               | 1                  | 30          | 31    |
| SmartSwitch Botswana                              | (79)               | 62          | (17)  |
| VTU Colombia                                      | -                  | -           | -     |
| VinaPay   | (58)               | -           | (58)  |

There were no significant sales to these investees that require elimination during the three and nine months ended March 31, 2010 and 2009.

**6. Goodwill and intangible assets****Goodwill**

Summarized below is the movement in the carrying value of goodwill for the nine months ended March 31, 2010.

|  | Carrying<br>value |
|--|-------------------|
| Balance as of June 30, 2009                | \$ 116,197        |
| Acquisitions <sup>(1)</sup>                | 1,263             |
| Foreign currency adjustment <sup>(2)</sup> | 1,958             |
| Balance as of March 31, 2010               | \$ 119,418        |

(1) represents goodwill arising from the acquisition of FIHRST and has been translated at the foreign exchange rates applicable on the date the transactions became effective.

(2) the foreign currency adjustment represents the effects of the fluctuations between the ZAR and the euro against the US dollar on the carrying value of goodwill.

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

|   | As of<br>March 31,<br>2010 | As of<br>June 30,<br>2009 |
|---|----------------------------|---------------------------|
| Transaction-based activities <sup>(1)</sup> | \$ 38,969                  | \$ 35,362                 |

|   |                   |                   |
|---|-------------------|-------------------|
| Smart card accounts                             | -                 | -                 |
| Financial services                              | -                 | -                 |
| Hardware, software and related technology sales | 80,449            | 80,835            |
| <b>Total</b>                                    | <b>\$ 119,418</b> | <b>\$ 116,197</b> |

(1) Goodwill arising from the acquisition of FIHRST has been allocated to the Transaction-based activities operating segment.

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

Summarized below is the carrying value and accumulated amortization of the intangible assets as of March 31, 2010 and June 30, 2009:

|                                       | As of March 31, 2010 |                          |                    | As of June 30, 2009  |                          |                    |
|---------------------------------------|----------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
|                                       | Gross carrying value | Accumulated amortization | Net carrying value | Gross carrying value | Accumulated amortization | Net carrying value |
| Finite-lived intangible assets:       |                      |                          |                    |                      |                          |                    |
| Customer relationships(1)             | \$ 84,712            | \$ (21,681)              | \$ 63,031          | \$ 83,824            | \$ (12,306)              | \$ 71,518          |
| Software and unpatented technology(1) | 11,436               | (438)                    | 10,998             | 10,079               | (10,079)                 | -                  |
| FTS patent                            | 5,184                | (4,945)                  | 239                | 4,861                | (4,333)                  | 528                |
| Exclusive licenses                    | 4,506                | (3,779)                  | 727                | 4,506                | (3,293)                  | 1,213              |
| Trademarks                            | 3,898                | (1,369)                  | 2,529              | 3,656                | (1,025)                  | 2,631              |
| Customer database(1)                  | 823                  | (69)                     | 754                | -                    | -                        | -                  |
| Total finite-lived intangible assets  | \$ 110,559           | \$ (32,281)              | \$ 78,278          | \$ 106,926           | \$ (31,036)              | \$ 75,890          |

(1) Includes the customer relationships and software and unpatented technology acquired as part of the MediKredit acquisition in January 2010 and the FIHRST acquisition in March 2010.

The useful life of the MediKredit and FIHRST software and MediKredit customer database is three years and the useful life of the FIHRST customer relationships is 10 years. On acquisition, the Company recognized a deferred tax asset of approximately \$0.4 million related to the acquisition of the FIHRST software and a deferred tax liability of approximately \$2.7 million related to the MediKredit and remaining FIHRST intangible assets.

Aggregate amortization expense on the finite-lived intangible assets for the three and nine months ended March 31, 2010, was approximately \$4.0 million and \$11.3 million, respectively (three and nine months ended March 31, 2009, was approximately \$3.4 million and \$9.3 million, respectively). Future annual amortization expense is estimated at approximately \$16.1 million, however, this amount could differ from the actual amortization as a result of changes in useful lives, exchange rate fluctuations and other relevant factors.

**7. Short-term facilities**

As of March 31, 2010, the Company had short-term facilities in ZAR of approximately \$67.6 million, translated at exchange rates applicable as of March 31, 2010. As of March 31, 2010, the overdraft rate on these facility was 8.85%, and the facility was fully undrawn. In addition, Net 1 Universal Technologies (Austria) AG ( Net1 UAT), formerly BGS Smartcard Systems AG ( BGS ) has short-term facilities of approximately \$1.3 million, translated at exchange rates applicable as of March 31, 2010, with each of two of Austria's largest banks. These facilities are available to the Company. The interest rate applicable to these short-term facilities is negotiated when the facilities are utilized. As of March 31, 2010, the Company had utilized none of its South African short-term facilities. The Company's management believes its current short-term facilities are sufficient in order to meet its future obligations as they arise.

## **8. Capital structure**

The Company's capital structure is described in Note 12 to the Company's audited consolidated financial statements included within the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009.

### **Common stock repurchases**

On July 28, 2009, the Company repurchased an aggregate of 9,221,526 shares of its common stock from two shareholders, who originally acquired their shares in connection with the Aplitec transaction. The purchase price was \$13.50 (ZAR 105.98) per share and was paid from the Company's cash reserves in ZAR for an aggregate purchase price of \$124.5 million (ZAR 977.3 million).

In February 2010, the Company's Board of Directors authorized the repurchase of up to \$50 million of the Company's common stock and in May 2010 the Board of Directors increased this authorization a further \$50 million to \$100 million in total. The authorization does not have an expiration date.

**8. Capital structure (continued)****Common stock repurchases (continued)**

The share repurchase authorization will be used at management's discretion, subject to limitations imposed by SEC Rule 10b-18 and other legal requirements and subject to price and other internal limitations established by the Board. Repurchases will be funded from the Company's available cash. Share repurchases may be made through open market purchases, privately negotiated transactions, or both. There can be no assurance that the Company will purchase any shares or any particular number of shares.

The authorization may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, liquidity and other factors that management deems appropriate. During the three months ended March 31, 2010, the Company did not repurchase any shares.

**9. Earnings per share**

Basic earnings per share includes restricted stock awards that meet the definition of a participating security. Restricted stock awards are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the three and nine months ended March 31, 2010 and 2009, reflects only undistributed earnings. Basic earnings per shares for the three and nine months ended March 31, 2009, have been retrospectively adjusted to include participating securities in the weighted average number of outstanding shares of common stock.

Diluted earnings per share have been calculated to give effect to the number of additional shares of common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. The calculation of diluted earnings per share for the three months and nine ended March 31, 2010 and 2009, includes the dilutive effect of a portion of the restricted stock awards granted to employees in August 2007 as these restricted stock awards are considered contingently issuable shares for the purposes of the diluted earnings per share calculation and as of March 31, 2010 and 2009, the vesting conditions in respect of a portion of the awards had been satisfied.

The following table details the weighted average number of outstanding shares used for the calculation of earnings per share for the three and nine months ended March 31, 2010 and 2009.

|   | Three months ended |                     | Nine months ended |                     |
|---|--------------------|---------------------|-------------------|---------------------|
|   | March 31,          |                     | March 31,         |                     |
|   | 2010               | 2009 <sup>(1)</sup> | 2010              | 2009 <sup>(1)</sup> |
|   | 000                | 000                 | 000               | 000                 |
| Weighted average number of outstanding shares of common stock - basic   | 45,378             | 55,674              | 46,532            | 56,933              |
| Weighted average effect of dilutive securities:                         |                    |                     |                   |                     |
| employee stock options  | 265                | 125                 | 193               | 193                 |
| Weighted average number of outstanding shares of common stock - diluted | 45,643             | 55,799              | 46,725            | 57,126              |

(1) the weighted average number of outstanding shares have been retrospectively adjusted to conform with the requirements.

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

The following table summarizes stock option activity for the nine months ended March 31, 2010, and 2009:

|                    |                   | Number<br>of shares | Weighted<br>average<br>exercise<br>price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|--------------------|-------------------|---------------------|--|---|---------------------------------|--|
| Outstanding        | July 1, 2009      | 1,896,994           | \$ 19.03                                 | 8.30  | \$ 1,576                        |  |
| Exercised          |                   | (83,338)            | -  | -   | 1,667                           |  |
| Outstanding        | March 31,<br>2010 | 1,813,656           | \$ 19.76                                 | 7.66  | 3,586                           |  |
| Outstanding        | July 1, 2008      | 953,378             | \$ 18.20                                 | 7.40  | 5,813                           |  |
| Granted under plan |                   | 560,000             | \$ 24.46                                 | 10.00   | -                               | \$ 4,017   |
| Exercised          |                   | (50,006)            | -  | -   | 1,270                           |  |
| Outstanding        | March 31,<br>2009 | 1,463,372           | \$ 21.12                                 | 7.80  | \$ 1,959                        |  |

No stock options became exercisable during the three and nine months ended March 31, 2010 and 2009.

No stock options were exercised during the three months ended March 31, 2010 and 2009. During the nine months ended March 31, 2010 and 2009, the Company received approximately \$0.3 million and \$0.2 million, respectively, from stock options exercised and approximately \$0.4 million and \$0 million from repayment of stock option-related loans. The Company issues new shares to satisfy stock option exercises.

*Restricted stock*

The following table summarizes restricted stock activity for the nine months ended March 31, 2010, and 2009:

|            |                   | Number of<br>Shares of<br>Restricted<br>Stock | Weighted<br>Average<br>Grant<br>Date Fair<br>Value |
|------------|-------------------|---|--|
| Non-vested | July 1, 2009      | 597,162                                       | -  |
| Granted    | August 2009       | 10,098  | \$185  |
| Vested     | September 2009    | (198,338)                                     | -  |
| Non-vested | December 31, 2009 | 408,922                                       | -  |
| Vested     | February 2010     | (1,094)                                       | -  |
| Non-vested | March 31, 2010    | 407,828                                       | -  |
| Non-vested | July 1, 2008      | 594,782                                       | -  |
| Granted    | August 2008       | 3,474   | \$85   |
| Non-vested | December 31, 2008 | 598,256                                       |  |
| Vested     | February 2009     | (1,094)                                       |  |

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|            |                |         |   |
|------------|----------------|---------|---|
| Non-vested | March 31, 2008 | 597,162 | - |
|------------|----------------|---------|---|

The fair value of restricted stock vested during the nine months ended March 31, 2010 and 2009, was \$3.8 million and \$0.02 million, respectively.



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

The Company has recorded a stock compensation charge of \$1.4 million and \$1.3 million for the three months ended March 31, 2010 and 2009, respectively, which comprised:

|  |  | <b>Total<br/>charge</b> | <b>Allocated to<br/>cost of goods<br/>sold, IT<br/>processing,<br/>servicing<br/>and support</b> | <b>Allocated to<br/>selling,<br/>general and<br/>administration</b> |
|--|--|-------------------------|--|---|
| <b>Three months ended March 31, 2010</b> |  |                         |  |   |
| Stock-based compensation charge          | \$                                       | 1,400                   | \$ 50  | \$ 1,350  |
| <b>Total</b>                             | <b>Three months ended March 31, 2010</b> | <b>\$ 1,400</b>         | <b>\$ 50</b>   | <b>\$ 1,350</b>   |
| <b>Three months ended March 31, 2009</b> |  |                         |  |   |
| Stock-based compensation charge          | \$                                       | 1,317                   | \$ 60  | \$ 1,257  |
| <b>Total</b>                             | <b>Three months ended March 31, 2009</b> | <b>\$ 1,317</b>         | <b>\$ 60</b>   | <b>\$ 1,257</b>   |

The Company has recorded a stock compensation charge of \$4.3 million and \$3.9 million for the nine months ended March 31, 2010 and 2009, respectively, which comprised:

|   |   | <b>Total<br/>charge</b> | <b>Allocated to<br/>cost of goods<br/>sold, IT<br/>processing,<br/>servicing<br/>and support</b> | <b>Allocated to<br/>selling,<br/>general and<br/>administration</b> |
|---|---|-------------------------|--|---|
| <b>Nine months ended March 31, 2010</b> |   |                         |  |   |
| Stock-based compensation charge         | \$                                      | 4,254                   | \$ 152   | \$ 4,102  |
| <b>Total</b>                            | <b>Nine months ended March 31, 2010</b> | <b>\$ 4,254</b>         | <b>\$ 152</b>  | <b>\$ 4,102</b>   |
| <b>Nine months ended March 31, 2009</b> |   |                         |  |   |
| Stock-based compensation charge         | \$                                      | 3,868                   | \$ 181   | \$ 3,687  |
| <b>Total</b>                            | <b>Nine months ended March 31, 2009</b> | <b>\$ 3,868</b>         | <b>\$ 181</b>  | <b>\$ 3,687</b>   |

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

As of March 31, 2010, the total unrecognized compensation cost related to stock options was approximately \$5.1 million, which the Company expects to recognize over approximately four years. As of March 31, 2010, the total unrecognized compensation cost related to restricted stock awards was approximately \$4.9 million, which the Company expects to recognize over approximately one and half years.

As of March 31, 2010, the Company has recorded a deferred tax asset of approximately \$0.7 million related to the stock-based compensation charge recognized related to employees of Net1 as it is able to deduct the grant date fair value for taxation purposes in the United States.

## 11. Operating segments

The Company discloses segment information as reflected in the management information systems reports that its chief operating decision makers use in making decisions and to report certain entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenues.

The Company currently has four reportable segments: Transaction-based activities, Smart card accounts, Financial services and Hardware, software and related technology sales. Each segment, other than the Hardware, software and related technology sales segment, operates mainly within South Africa. The Company's reportable segments offer different products and services and require different resources and marketing strategies and share the Company's assets.

**11. Operating segments (continued)**

The Transaction-based activities segment currently consists mainly of a state pension and welfare benefit distribution service provided to provincial governments in South Africa, transaction processing for retailers, utilities, medical-related claim service customers and banks and transaction fees generated from UEPS-enabled smartcards used in Iraq. The MediKredit and FIHRST business have been allocated to the transaction-based activities segment and are more fully described in note 2. Fee income is earned based on the number of beneficiaries included in the government pay-file as well as from merchants and card holders using the Company's merchant retail application. In addition, utility providers and banks are charged a fee for transaction processing services performed on their behalf at retailers. This segment has individually significant customers that each provides more than 10% of the total revenue of the Company. For the three and nine months ended March 31, 2010, there were three such customers, providing 28%, 17% and 11% and 29%, 17% and 11%, respectively, of total revenue (the three and nine months ended March 31, 2009: there were three and two such customers, providing 34%, 15% and 10%, and 31% and 14%, respectively, of total revenue).

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

The Financial services segment provides short-term loans as a principal and life insurance products on an agency basis and generates interest income and initiation and services fees. Interest income is recognized in the consolidated statement of operations as it falls due, using the interest method by reference to the constant interest rate stated in each loan agreement. The Company sold its traditional microlending business included in this segment on March 1, 2009, and therefore the Financial services segment for the three and nine months ended March 31, 2010, comprised only the Company's UEPS-based microlending business.

The Hardware, software and related technology sales segment markets, sells and implements the UEPS as well as develops and provides Prism secure transaction technology, solutions and services. From September 1, 2008, the segment includes the operations of Net1 UAT, which comprise mainly hardware sales and licenses of the DUET system. The segment undertakes smart card system implementation projects, delivering hardware, software and business solutions in the form of customized systems. Sales of hardware, SIM cards, cryptography services, SIM card licenses and other software licenses are recorded within this segment. This segment also generates rental income from hardware provided to merchants enrolled in the Company's merchant retail application. Sales to SmartSwitch Nigeria Limited and the related taxation implications are not reflected in revenue to external customers, operating income, income taxation expense or net income after taxation presented in the tables below.

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

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

|   | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>March 31,</b>          |             | <b>March 31,</b>         |             |
|   | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Revenues to external customers                  |                           |             |                          |             |
| Transaction-based activities                    | \$ 50,854                 | \$ 35,995   | \$ 141,247               | \$ 109,159  |
| Smart card accounts                             | 7,956                     | 6,676       | 24,167                   | 21,957      |
| Financial services                              | 1,149                     | 1,357       | 2,799                    | 4,571       |
| Hardware, software and related technology sales | 12,332                    | 11,850      | 43,456                   | 49,514      |

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|                                       |           |           |           |           |
|---------------------------------------|-----------|-----------|-----------|-----------|
| Total                                 | 72,291    | 55,878    | 211,669   | 185,201   |
| <b>Inter-company revenues</b>         |           |           |           |           |
| Transaction-based activities          | 1,013     | 810       | 3,064     | 2,603     |
| Smart card accounts                   | -         | -         | -         | -         |
| Financial services                    | -         | -         | -         | -         |
| <b>Hardware, software and related</b> |           |           |           |           |
| technology sales                      | 664       | (19)      | 1,548     | 1,999     |
| Total                                 | 1,677     | 791       | 4,612     | 4,602     |
| <b>Operating income</b>               |           |           |           |           |
| Transaction-based activities          | 26,837    | 21,638    | 80,238    | 60,929    |
| Smart card accounts                   | 3,616     | 3,034     | 10,985    | 9,979     |
| Financial services                    | 831       | (261)     | 1,908     | (1,504)   |
| <b>Hardware, software and related</b> |           |           |           |           |
| technology sales                      | (1,798)   | (1,398)   | (1,851)   | 8,229     |
| Corporate/Eliminations                | (2,627)   | (2,140)   | (8,634)   | (6,677)   |
| Total                                 | \$ 26,859 | \$ 20,873 | \$ 82,646 | \$ 70,956 |

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## 11. Operating segments (continued)

|   | Three months ended |         | Nine months ended |         |
|---|--------------------|---------|-------------------|---------|
|   | March 31,          |         | March 31,         |         |
|   | 2010               | 2009    | 2010              | 2009    |
| <b>Interest earned</b>                          |                    |         |                   |         |
| Transaction-based activities                    | \$ -               | \$ -    | \$ -              | \$ -    |
| Smart card accounts                             | -                  | -       | -                 | -       |
| Financial services                              | -                  | -       | -                 | -       |
| Hardware, software and related technology sales | -                  | -       | -                 | -       |
| Corporate/Eliminations                          | 2,450              | 4,279   | 7,257             | 16,062  |
| Total   | 2,450              | 4,279   | 7,257             | 16,062  |
| <b>Interest expense</b>                         |                    |         |                   |         |
| Transaction-based activities                    | 222                | 2,081   | 744               | 6,284   |
| Smart card accounts                             | -                  | -       | -                 | -       |
| Financial services                              | -                  | -       | 1                 | -       |
| Hardware, software and related technology sales | -                  | 1       | 4                 | 196     |
| Corporate/Eliminations                          | 22                 | 72      | 38                | 1,992   |
| Total   | 244                | 2,154   | 787               | 8,472   |
| <b>Depreciation and amortization</b>            |                    |         |                   |         |
| Transaction-based activities                    | 2,108              | 900     | 4,552             | 2,929   |
| Smart card accounts                             | -                  | -       | -                 | -       |
| Financial services                              | 129                | 102     | 380               | 317     |
| Hardware, software and related technology sales | 2,611              | 2,991   | 8,575             | 7,818   |
| Corporate/Eliminations                          | 293                | 273     | 877               | 886     |
| Total   | 5,141              | 4,266   | 14,384            | 11,950  |
| <b>Income taxation expense</b>                  |                    |         |                   |         |
| Transaction-based activities                    | 7,511              | 5,576   | 22,517            | 15,853  |
| Smart card accounts                             | 1,012              | 849     | 3,074             | 2,793   |
| Financial services                              | 233                | 423     | 534               | 589     |
| Hardware, software and related technology sales | (389)              | (292)   | 124               | 2,449   |
| Corporate/Eliminations                          | 2,074              | 1,987   | 6,715             | 13,760  |
| Total   | 10,441             | 8,543   | 32,964            | 35,444  |
| <b>Net income</b>                               |                    |         |                   |         |
| Transaction-based activities                    | 19,140             | 13,980  | 57,145            | 38,793  |
| Smart card accounts                             | 2,605              | 2,185   | 7,911             | 7,185   |
| Financial services                              | 599                | 271     | 1,373             | (1,139) |
| Hardware, software and related technology sales | (1,491)            | (1,115) | (2,085)           | 5,661   |
| Corporate/Eliminations                          | (2,081)            | (942)   | (8,347)           | 17,885  |
| Total   | 18,772             | 14,379  | 55,997            | 68,385  |
| <b>Segment assets</b>                           |                    |         |                   |         |

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|   |         |         |          |          |
|---|---------|---------|----------|----------|
| Total   | 476,512 | 422,832 | 476,512  | 422,832  |
| Expenditures for long-lived assets              |         |         |          |          |
| Transaction-based activities                    | 831     | 157     | 1,845    | 2,400    |
| Smart card accounts                             | -       | -       | -        | -        |
| Financial services                              | 122     | 34      | 240      | 666      |
| Hardware, software and related technology sales | 31      | 222     | 225      | 630      |
| Corporate/Eliminations                          | -       | -       | -        | -        |
| Total   | \$ 984  | \$ 413  | \$ 2,310 | \$ 3,696 |

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.

## 12. 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 that are reported separately, and have an impact on the tax charge. The cumulative effect of any change in the enacted tax rate, if and when applicable, on the opening balance of deferred tax assets and liabilities is also included in the tax charge as a discrete event in the interim period in which the enactment date occurs.

For the three and nine months ended March 31, 2010, the tax charge was calculated using the expected effective tax rate for the year (34.55%). The Company's effective tax rate for the three and nine months ended March 31, 2010, was 35.9% and 37.0%, respectively.

The Company increased its unrecognized tax benefits by \$0.1 million and \$0.3 million during the three and nine months ended March 31, 2010. As of March 31, 2010, the Company had accrued interest related to uncertain tax positions of approximately \$0.1 million on its balance sheet.

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

The Company files income tax returns mainly in South Africa, Austria, the Russian Federation and in the US federal jurisdiction. As of March 31, 2010, the Company is no longer subject to income tax examination by the South African Revenue Service for years before March 31, 2006. The Company is subject to income tax in other jurisdictions outside South Africa, none of which are individually material to its financial position, statement of cash flows, or results of operations.

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

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

### **Forward-looking statements**

Some of the statements in this Quarterly Report on Form 10-Q constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. Such factors include, among other things, those listed under "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2009. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "we expect," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative and other comparable terminology.

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

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

### **Business Developments During Fiscal 2010**

#### ***South Africa***

##### *SASSA update*

Our one-year contract with the South African Social Security Agency, or SASSA, for the payment of social welfare grants in the five provinces we serve, was scheduled to expire on March 31, 2010, and was extended for a further three months until June 30, 2010, provisionally under the same terms and conditions. We are currently in discussions with the South African government and expect to conclude such discussions over the next four to six weeks. Following the election of a new president and cabinet, the economic crisis and reduced spending requirements and austerity measures imposed on South African government bodies by the new Minister of Finance, SASSA must reduce the cost of grant administration and distribution and has communicated this requirement to its largest suppliers, including us.

We have tabled a number of proposals to government including further contract extensions, a new fixed-term contract, and the commencement of a new tender process and various permutations of the foregoing. The terms of any agreement reached with SASSA, whether a further contract extension or a new fixed-term contract, may vary significantly from the current contract in terms of pricing, volume and service delivery criteria. Such new terms and conditions may be applied retrospectively to become effective from April 1, 2010 in order to coincide with the commencement of SASSA's fiscal year and the South African National Treasury's budget allocation period. Should we



fail to reach any agreement with SASSA, our current contract will terminate on June 30, 2010, unless the current contract is further extended. We are and expect to remain an integral supplier to the South African government.

*Progress of wage payment implementation and UEPS-based lending*

Our recently appointed Financial Services Cluster general manager is pursuing a number of projects in order to further expand our wage payment initiative in South Africa. In addition, through our recent acquisition of FIHRST Management Services (Pty) Limited's business and related software, or FIHRST, described in more detail below, we will be able to promote our wage payment initiative by offering the employees of FIHRST customers banking solutions through our relationship with Grindrod Bank Limited.

During the third quarter of fiscal 2010 we grew our UEPS-based lending book through coordinated marketing of our products to our customer base.

*Acquisition of FIHRST*

At the end of March 2010, we acquired FIHRST, a South African business, for ZAR 70 million (approximately \$9 million) in cash. FIHRST offers a third party payroll payments solution to South African companies, representing approximately 700,000 employees with a transaction volume of approximately R40 billion per annum.

We believe that the acquisition of FIHRST will enhance our position as one of the leading independent transaction processors in South Africa. We believe that the acquisition is strategically important for the following reasons:

- FIHRST gives us access to the 700,000 employees of FIHRST customers will provide us the opportunity to market our range of transaction processing products and financial services, including bill payments, insurance products, prepaid utilities and third party payments to these employees.
- As described above, FIHRST will enable us to promote our wage payment initiative to employees of FIHRST's customers.
- FIHRST's technology platforms and IT development resources enhance our existing platforms and resources. We operate on different IT platforms to FIHRST, which will result in additional resources with complementary IT skills. We may also realize IT-related cost synergies in areas such as disaster recovery and computer maintenance and support.
- The addition of FIHRST's experienced executives increases the depth and diversity of our management team. The FIHRST management team has significant experience and relationships within the third-party payment processing industry, which is key focus area for us.

*Acquisition of MediKredit Integrated Healthcare Solutions (Pty) Limited, or MediKredit*

In January 2010, we acquired 100% of MediKredit, a South African private company, for a purchase price of ZAR 74 million (approximately \$10 million). MediKredit offers transaction processing, financial and clinical risk management solutions to both funders and providers of healthcare. MediKredit was advised in late calendar 2009 that one of its major customers had decided to cancel its contractual relationship with MediKredit. The purchase price paid by Net1 reflects such loss of customer. MediKredit will continue to recognize fees from the customer until April 2010.

MediKredit currently operates its core business in South Africa and this business is currently cash sustainable. In addition, MediKredit is currently exploring various opportunities, primarily in the United States, and the development and set up costs, taken together with the core South Africa business, will result in a net monthly operating loss post April 2010. We do not expect the operating loss at MediKredit to be material to our overall profitability. The MediKredit management team will actively pursue new customers and business opportunities in South Africa's rapidly consolidating private health care industry and will focus on realizing cost savings and synergies identified during the acquisition due diligence process to minimize, and ultimately reverse, the anticipated operating losses.

MediKredit management view processing fee per scheme card holders (the main member in the scheme) and scheme lives (the individuals linked to the main member in the scheme) and fee per line (the number of products within a claim) processed as major drivers of the business.

We believe that MediKredit will provide us the opportunity to expand our technology to another adjacent market and to cross-sell our payment technologies. Together with the FIHRST acquisition, MediKredit has expanded our position as the leading independent transaction processor in South Africa, as we have added leadership in the healthcare transaction processing space to our existing leadership position in the merchant processing space (through EasyPay). The acquisition has also provided us with a small, strategic entry point for the US healthcare administration market. The rapidly changing US healthcare and administration industry provides a significant opportunity for the introduction of MediKredit's technology. MediKredit's wholly owned subsidiary in the US, XeoHealth Corporation,

recently launched its proven Real Time Adjudication rules engine for the health care industry in the US. Finally, like FIHRST, the MediKredit acquisition has also enhanced our technology platforms and IT development resources and added depth and diversity to our management team.

### ***Outside South Africa***

#### *The African Continent and Iraq*

During the third quarter of fiscal 2010, we recorded revenue from transaction fees and the delivery of smartcards under our contract with the government of Iraq. During early January 2010, we received additional orders for 800,000 UEPS-enabled smart cards and 1,500 point of sale devices. We expect to generate ongoing revenues from these sales as well as transaction fees under our Iraqi contract during the fourth quarter of fiscal 2010. We have entered the second phase of our initiative in Ghana and now generate recurring income in the form of hardware and software maintenance fees.

We continue to service our current customers on the African continent and in Iraq. Our UETS business unit continued its business development efforts in multiple new countries on the African continent during the quarter.

During the third quarter of fiscal 2010, SmartSwitch Namibia generated incremental transaction fees from prepaid airtime and electricity transactions and transactions conducted between merchants and UEPS-enabled smartcards in Namibia. SmartSwitch Botswana generated transaction fees during the third quarter of fiscal 2010 from the payment of food voucher grants. We expect SmartSwitch Namibia and Botswana to continue generating transaction fees during the fourth quarter of fiscal 2010.

#### *Net 1 Universal Technologies (Austria) AG, or Net1 UAT*

Net1 UAT's operations are seasonal and the first quarter and third quarters are historically its weakest. Growth at Net1 UAT during the third quarter of fiscal 2010 continued to be adversely impacted by our transitioning of its business model from a hardware and software sale-oriented model to one which generates recurring transaction fees, as well as by challenging economic conditions in Eastern Europe. For the fourth quarter of fiscal 2010, we expect revenue from Net1 UAT to be lower than a year ago due to the business transformation and weak economic conditions. We expect to sign our first agreement that reflects the transformed business model for Net1 UAT during the fourth quarter of fiscal 2010.

#### *Net1 Virtual Card*

During the third quarter of fiscal 2010, we increased our business development efforts of our Virtual Card offering in the continental United States and surrounding territories and successfully demonstrated, in a live environment, this product to a number of prospective partners, including mobile operators, banks and card associations. The Company is currently increasing its technical and operating staff at our Dallas, Texas offices in order to meet anticipated client demand.

### **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, 2009.

- Deferred taxation;
- Stock-based compensation;
- Intangible assets acquired;
- Accounts receivable and provision for doubtful debts;
- Research and development; and
- Revenue Recognition System Implementation Projects.

**Recent accounting pronouncements adopted**

Refer to Note 1 of the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements adopted as of March 31, 2010, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

**Recent accounting pronouncements not yet adopted as of March 31, 2010**

Refer to Note 1 of the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of March 31, 2010, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

**Currency Exchange Rate Information***Actual exchange rates*

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

| <b>Table 1</b>                          | <b>Three months ended</b> |             | <b>Nine months ended</b> |             | <b>Year ended</b> |
|---|---------------------------|-------------|--------------------------|-------------|-------------------|
|   | <b>March 31,</b>          |             | <b>March 31,</b>         |             | <b>June 30,</b>   |
|   | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> | <b>2009</b>       |
| ZAR : \$ average exchange rate          | 7.5359                    | 9.9583      | 7.6287                   | 9.2287      | 9.0484            |
| Highest ZAR : \$ rate during period     | 7.8939                    | 10.7025     | 8.3187                   | 11.8506     | 11.8506           |
| Lowest ZAR : \$ rate during period      | 7.2129                    | 9.1614      | 7.2120                   | 7.1557      | 7.1556            |
| Rate at end of period                   | 7.3926                    | 9.7205      | 7.3926                   | 9.7205      | 7.8821            |
| <b><u>ZAR: US \$ Exchange Rates</u></b> |                           |             |                          |             |                   |

**Translation exchange rates**

We are required to translate our results of operations from ZAR to US dollars on a monthly basis. Thus, the average rates used to translate this data for the three and nine months ended March 31, 2010 and 2009, vary slightly from the averages shown in the table above. The translation rates we use in presenting our results of operations are the rates shown in the following table:

| <b>Table 2</b>                        | <b>Three months ended</b> |             | <b>Nine months ended</b> |             | <b>Year ended</b> |
|---------------------------------------|---------------------------|-------------|--------------------------|-------------|-------------------|
|                                       | <b>March 31,</b>          |             | <b>March 31,</b>         |             | <b>June 30,</b>   |
|                                       | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> | <b>2009</b>       |
| Income and expense items: \$1 = ZAR . | 7.5341                    | 9.9617      | 7.6247                   | 9.0829      | 8.9397            |
| Balance sheet items: \$1 = ZAR        | 7.3926                    | 9.7205      | 7.3926                   | 9.7205      | 7.8821            |

**Results of operations**

The discussion of our consolidated overall results of operations is based on amounts as reflected in Item 1 Financial Statements which are reported in US dollars and are prepared in accordance with US GAAP. Our discussion analyzes our results of operations both in US dollars and ZAR, because ZAR is the functional currency of the entities which contribute the majority of our profits and is the currency in which the majority of our transactions are initially incurred and measured. Due to the significant impact of currency fluctuations between the US dollar and ZAR on our reported results and because we use the US dollar as our reporting currency, we believe that the supplemental presentation of our results of operations in ZAR is useful to investors to understand the changes in the underlying trends of our business. Our results of operations for the three and nine months ended March 31, 2009, include the operations of Net1 UAT from September 1, 2008. Net1 UAT's operations are included in our consolidated financial statements for the entire third quarter of fiscal 2010 and 2009 and the year to date fiscal 2010. The results of operation for the three months ended March 31, 2010, include the operations of MediKredit, which has been allocated to our transaction-based activities operating segment. Our acquisition of FIHRST occurred at the end of the third quarter of fiscal 2010 and therefore, our results will include FIHRST's operations from April 1, 2010. FIHRST has been allocated to our transaction-based activities operating segment.

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

**Third quarter fiscal 2010 compared to the third quarter of fiscal 2009**

The following factors had an influence on our results of operations during the third quarter of fiscal 2010 as compared with the same period in the prior year:

- **Favorable impact from the weakness of the US dollar:** Emerging market currencies were negatively impacted by the global financial crisis during the last three months of calendar 2008 and the first half of calendar 2009. The US dollar depreciated by 24% compared to the ZAR during the third quarter of fiscal 2010 compared to fiscal 2009 which has had a positive impact on our reported results;
- **Increased transaction volumes at EasyPay:** Our reported results were favorably impacted by increased transaction volumes at EasyPay resulting from growth in value-added services;
- **Increased revenue from MediKredit at lower operating margins than other transaction-based activity business:**

Our MediKredit acquisition positively impacted on our revenue during the third quarter of fiscal 2010, however, MediKredit generates a lower operating margin than our other transaction-based activity businesses

and therefore lowered our reported segment margins;

- **Increased user adoption in Iraq:** Our reported results were positively impacted by increased transaction revenues from the adoption of our UEPS technology in Iraq;
- **Lower revenues and margins from hardware, software and related technology sales segment:** Our hardware, software and related technology sales segment continues to be adversely impacted by lower revenues, primarily as a result of fewer ad hoc sales to the Bank of Ghana when compared to a year ago, and overall margin pressure at Net1 UAT and weaker demand for our products as well as pricing pressures resulting from the global recession, all of which was partially offset by hardware sales to Iraq;
- **Intangible asset amortization related to acquisitions:** Our reported results were adversely impacted by additional intangible asset amortization of approximately \$0.5 million related to the RMT acquisition, which closed in April 2009 and \$0.5 million related to the MediKredit acquisition, which closed in January 2010; and
- **Non-recurring items:** During the third quarter of fiscal 2009 we recognized a loss on the sale of our traditional microlending business of \$0.7 million (ZAR 7.4 million).



**Consolidated overall results of operations**

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

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

|  | <b>In United States Dollars</b>     |               |               |
|--|-------------------------------------|---------------|---------------|
|  | <b>(US GAAP)</b>                    |               |               |
|  | <b>Three months ended March 31,</b> |               |               |
|  | <b>2010</b>                         | <b>2009</b>   | <b>%</b>      |
|  | <b>\$ 000</b>                       | <b>\$ 000</b> | <b>change</b> |
| Revenue  | 72,291                              | 55,878        | 29%           |
| Cost of goods sold, IT processing, servicing and support               | 17,910                              | 15,225        | 18%           |
| Selling, general and administration                                    | 22,381                              | 14,772        | 52%           |
| Depreciation and amortization  | 5,141                               | 4,266         | 21%           |
| Loss on sale of microlending business                                  | -                                   | 742           |               |
| Operating income   | 26,859                              | 20,873        | 29%           |
| Interest income, net   | 2,206                               | 2,125         | 4%            |
| Income before income taxes   | 29,065                              | 22,998        | 26%           |
| Income tax expense   | 10,441                              | 8,543         | 22%           |
| Net income before loss from equity-accounted investments               | 18,624                              | 14,455        | 29%           |
| Loss from equity-accounted investments                                 | (44)                                | (261)         | (83)%         |
| Net income   | 18,580                              | 14,194        | 31%           |
| (Add) Less: net (loss) income attributable to non-controlling interest | (192)                               | (185)         | -%            |
| Net income attributable to us  | 18,772                              | 14,379        | 31%           |

|  | <b>In South African Rand</b>        |             |               |
|--|-------------------------------------|-------------|---------------|
|  | <b>(US GAAP)</b>                    |             |               |
|  | <b>Three months ended March 31,</b> |             |               |
|  | <b>2010</b>                         | <b>2009</b> | <b>ZAR</b>    |
|  | <b>ZAR</b>                          | <b>ZAR</b>  | <b>%</b>      |
|  | <b>000</b>                          | <b>000</b>  | <b>change</b> |
| Revenue  | 544,651                             | 556,640     | (2)%          |
| Cost of goods sold, IT processing, servicing and support               | 134,937                             | 151,666     | (11)%         |
| Selling, general and administration                                    | 168,622                             | 147,154     | 15%           |
| Depreciation and amortization  | 38,732                              | 42,496      | (9)%          |
| Loss on sale of microlending business                                  | -                                   | 7,392       |               |
| Operating income   | 202,360                             | 207,932     | (3)%          |
| Interest income, net   | 16,620                              | 21,169      | (21)%         |
| Income before income taxes   | 218,980                             | 229,101     | (4)%          |
| Income tax expense   | 78,664                              | 85,103      | (8)%          |
| Net income before loss from equity-accounted investments               | 140,316                             | 143,998     | (3)%          |
| Loss from equity-accounted investments                                 | (332)                               | (2,600)     | (87)%         |
| Net income   | 139,984                             | 141,398     | (1)%          |
| (Add) Less: net (loss) income attributable to non-controlling interest | (1,447)                             | (1,843)     | -%            |
| Net income attributable to us  | 141,431                             | 143,241     | (1)%          |

Analyzed in ZAR, the decrease in revenue and cost of goods sold, IT processing, servicing and support for the third quarter of fiscal 2010, was primarily due to lower sales of hardware, software and related technologies, which

was partially offset by higher revenues in our transaction-based activities operating segment.

Our operating income margin for the third quarter of fiscal 2010 and 2009 was 37%. We discuss the components of the operating income margin under Results of operations by operating segment .

Analyzed in ZAR, selling, general and administration expenses increased during the third quarter of fiscal 2010 primarily due to increases in goods and services purchased from third parties and the inclusion of MediKredit s operations. Selling, general and administration expenses include transaction-related costs of \$0.3 million (ZAR 2.1 million) and the stock-based compensation charge related to the stock options awarded in the May 2009 and restricted stock granted in August 2009.

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Our direct costs of maintaining a listing on Nasdaq and obtaining a listing on the JSE, as well as compliance with the Sarbanes-Oxley Act of 2002, or Sarbanes, particularly Section 404 of Sarbanes, includes independent directors' fees, legal fees, fees paid to Nasdaq and the JSE, our compliance officer's salary, fees paid to consultants who assist with Sarbanes compliance and fees paid to our independent accountants related to the audit and review process. This has resulted in expenditures of \$0.6 million (ZAR 4.5 million) and \$0.4 million (ZAR 4.1 million) during the third quarter of fiscal 2010 and 2009, respectively.

Depreciation and amortization and deferred tax expenses increased during fiscal 2010 primarily as a result of the RMT and MediKredit acquisitions, as summarized in the tables below:

| <b>Table 5</b>  | <b>Three months ended</b> |               |
|---|---------------------------|---------------|
|   | <b>March 31,</b>          |               |
|   | <b>2010</b>               | <b>2009</b>   |
|   | <b>\$ 000</b>             | <b>\$ 000</b> |
| Amortization included in depreciation and amortization expense: | 3,780                     | 3,189         |
| Prism acquisition   | 429                       | 999           |
| RMT acquisition   | 532                       | -             |
| MediKredit acquisition  | 497                       | -             |
| Net1 UAT acquisition  | 2,322                     | 2,190         |
| Deferred tax included in income tax expense:                    | 1,047                     | 888           |
| Prism acquisition   | 144                       | 340           |
| RMT acquisition   | 149                       | -             |
| MediKredit acquisition  | 172                       | -             |
| Net1 UAT acquisition  | 582                       | 548           |

| <b>Table 6</b>  | <b>Three months ended</b> |                |
|---|---------------------------|----------------|
|   | <b>March 31,</b>          |                |
|   | <b>2010</b>               | <b>2009</b>    |
|   | <b>ZAR 000</b>            | <b>ZAR 000</b> |
| Amortization included in depreciation and amortization expense: | 28,478                    | 31,767         |
| Prism acquisition   | 3,229                     | 9,951          |
| RMT acquisition   | 4,010                     | -              |
| MediKredit acquisition  | 3,745                     | -              |
| Net1 UAT acquisition  | 17,494                    | 21,816         |
| Deferred tax included in income tax expense:                    | 7,883                     | 8,844          |
| Prism acquisition   | 1,081                     | 3,385          |
| RMT acquisition   | 1,123                     | -              |
| MediKredit acquisition  | 1,294                     | -              |
| Net1 UAT acquisition  | 4,385                     | 5,459          |

Property, plant and equipment acquired to provide administration and distribution services to our customers is depreciated over the shorter of expected useful life and the contract period with SASSA. Through March 31, 2010, we were in an extension phase with our contract and thus the majority of our property, plant and equipment related to the administration and distribution of social welfare grants had been fully depreciated in prior periods. Accordingly, depreciation expense related to these activities decreased during the third quarter of fiscal 2010 compared with the third quarter of fiscal 2009. This reduction in depreciation was partially offset by the increase in depreciation related to new back-end processing computers, our participating merchant POS terminals and MediKredit assets acquired.

During the third quarter of fiscal 2009 we sold our traditional microlending business and recognized a loss of approximately \$0.7 million (ZAR 7.4 million).

Interest on surplus cash for the third quarter of fiscal 2010 decreased to \$2.5 million (ZAR 18.8 million) from \$4.3 million (ZAR 42.6 million) for the third quarter of fiscal 2009. The decrease in interest on surplus cash held in South Africa was due to a lower average daily ZAR cash balance during the third quarter of fiscal 2010 compared with the third quarter of fiscal 2009 and lower deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 14.32% per annum for the third quarter of fiscal 2009 to 10.47% per annum for the third quarter of fiscal 2010. The lower cash balances resulted primarily from our repurchase of our shares from Brait S.A.'s investment affiliates in August 2009.

Interest expense decreased during the third quarter of fiscal 2010 due to a decrease in the average rates of interest on our short-term facilities and the elimination of our obligation to provide prefunded social welfare grants to provincial governments. In ZAR, finance costs decreased to \$0.2 million (ZAR 1.5 million) for the third quarter of fiscal 2010 from \$2.1 million (ZAR 21.4 million) for the third quarter of fiscal 2009.

Total tax expense for the third quarter of fiscal 2010 was \$10.4 million (ZAR 78.7 million) compared with \$8.5 million (ZAR 85.1 million) during the same period in the prior fiscal year. Our total tax expense decreased due to lower taxable income resulting from a decrease in overall trading activity. Our effective tax rate for the third quarter of fiscal 2010 was 35.9%, compared to 37.1% for the third quarter of fiscal 2009. The change in our effective tax rate was primarily due to a decrease in non-deductible expenses during the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009.

### 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**

*In United States Dollars (US GAAP)*

| Operating Segment   | Three months ended March 31, |               |                |               |             |
|---|------------------------------|---------------|----------------|---------------|-------------|
|   | 2010<br>\$ 000               | % of<br>total | 2009<br>\$ 000 | % of<br>total | %<br>change |
| Consolidated revenue:   |                              |               |                |               |             |
| Transaction-based activities                                  | 50,854                       | 70%           | 35,995         | 64%           | 41%         |
| Smart card accounts   | 7,956                        | 11%           | 6,676          | 12%           | 19%         |
| Financial services  | 1,149                        | 2%            | 1,357          | 2%            | (15)%       |
| Hardware, software and related technology sales               | 12,332                       | 17%           | 11,850         | 22%           | 4%          |
| <b>Total consolidated revenue</b>                             | <b>72,291</b>                | <b>100%</b>   | <b>55,878</b>  | <b>100%</b>   | <b>29%</b>  |
| Consolidated operating income (loss):                         |                              |               |                |               |             |
| Transaction-based activities                                  | 26,837                       | 100%          | 21,638         | 104%          | 24%         |
| Operating income before amortization                          | 28,143                       |               | 21,962         |               | 28%         |
| Amortization of intangible assets                             | (1,306)                      |               | (324)          |               | 303%        |
| Smart card accounts   | 3,616                        | 13%           | 3,034          | 15%           | 19%         |
| Financial services  | 831                          | 3%            | (261)          | (1)%          | (418)%      |
| Operating income before loss on sale of microlending business | 831                          |               | 481            |               | 73%         |
| Loss on sale of microlending business                         | -                            |               | (742)          |               |             |
| Hardware, software and related technology sales               | (1,798)                      | (7)%          | (1,398)        | (7)%          | 29%         |
| Operating income before amortization                          | 676                          |               | 1,467          |               | (54)%       |
| Amortization of intangible assets                             | (2,474)                      |               | (2,865)        |               | (14)%       |
| Corporate/eliminations  | (2,627)                      | (9)%          | (2,140)        | (11)%         | 23%         |
| <b>Total consolidated operating income</b>                    | <b>26,859</b>                | <b>100%</b>   | <b>20,873</b>  | <b>100%</b>   | <b>29%</b>  |

Table 8

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

| Operating Segment   | 2010<br>ZAR<br>000 | % of<br>total | 2009<br>ZAR<br>000 | % of<br>total | %<br>change |
|---|--------------------|---------------|--------------------|---------------|-------------|
| Consolidated revenue:   |                    |               |                    |               |             |
| Transaction-based activities                                  | 383,141            | 70%           | 358,572            | 64%           | 7%          |
| Smart card accounts   | 59,942             | 11%           | 66,504             | 12%           | (10)%       |
| Financial services  | 8,657              | 2%            | 13,518             | 2%            | (36)%       |
| Hardware, software and related technology sales               | 92,911             | 17%           | 118,046            | 22%           | (21)%       |
| <b>Total consolidated revenue</b>                             | <b>544,651</b>     | <b>100%</b>   | <b>556,640</b>     | <b>100%</b>   | <b>(2)%</b> |
| Consolidated operating income (loss):                         |                    |               |                    |               |             |
| Transaction-based activities                                  | 202,194            | 100%          | 215,552            | 103%          | (6)%        |
| Operating income before amortization                          | 212,037            |               | 218,781            |               | (3)%        |
| Amortization of intangible assets                             | (9,843)            |               | (3,229)            |               | 205%        |
| Smart card accounts   | 27,243             | 13%           | 30,224             | 15%           | (10)%       |
| Financial services  | 6,261              | 3%            | (2,600)            | (1)%          | (341)%      |
| Operating income before loss on sale of microlending business | 6,261              |               | 4,792              |               | 31%         |
| Loss on sale of microlending business                         | -                  |               | (7,392)            |               |             |
| Hardware, software and related technology sales               | (13,546)           | (7)%          | (13,926)           | (7)%          | (3)%        |
| Operating income before amortization                          | 5,089              |               | 14,612             |               | (65)%       |
| Amortization of intangible assets                             | (18,635)           |               | (28,538)           |               | (35)%       |
| Corporate/eliminations  | (19,792)           | (9)%          | (21,318)           | (10)%         | (7)%        |
| <b>Total consolidated operating income</b>                    | <b>202,360</b>     | <b>100%</b>   | <b>207,932</b>     | <b>100%</b>   | <b>(3)%</b> |
| <b>Transaction-based activities</b>                           |                    |               |                    |               |             |

In ZAR, the increases in revenue were primarily due to increased transaction volumes at EasyPay and from the utilization of our UEPS system in Iraq and the acquisition of MediKredit.

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

Operating income margin of our transaction-based activities decreased to 53% from 60%. The decrease was primarily due to additional intangible asset amortization related to the acquisition of MediKredit, lower margins in our MediKredit operation compared with other transaction-based activities and ad hoc hardware maintenance charges at EasyPay, which was partially offset by increased transaction fees from the utilization of our UEPS system in Iraq.

***Pension and welfare operations:***

Effective April 1, 2009, we signed a one-year contract with SASSA which expired on March 31, 2010, and which was subsequently extended on its existing terms (which may be varied retrospectively by any subsequent

agreement reached with SASSA) by three months to June 30, 2010. The SASSA contract contains a standard pricing formula for all provinces based on a transaction fee per beneficiary paid regardless of the number or amount of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month. Under our previous provincial contracts, depending on the province, we received either a fee per grant distributed, or per beneficiary paid, or as a percentage of the total grant amount distributed. In addition, commencing with the May 2009 pay cycle, SASSA assumed responsibility for the pre-funding of all social welfare grants. Our average revenue per beneficiary paid will therefore remains unchanged during the term of the contract, including the current extension. From time to time, we are requested to assist with the payment of ad-hoc special grants or benefits (such as disaster relief payments), which may be at a different rate than the standard welfare distribution price. We also receive a once-off registration fee for every new beneficiary we enroll on our system.

***Key statistics of our merchant acquiring system:***

The increase in the number of POS devices and number of participating UEPS retail locations since March 31, 2009, is due to increased rental or purchase of POS devices by current merchants requesting additional equipment and new merchants joining our UEPS merchant acquiring system.

The key statistics and indicators of our merchant acquiring system during the third quarter of fiscal 2010 and 2009, in each of the South African provinces where we distribute social welfare grants are summarized in the table below:

| Province included (1)  | Three months ended<br>March 31,     |                                     |
|--|-------------------------------------|-------------------------------------|
|  | 2010<br>NC, EC,<br>KZN, L<br>and NW | 2009<br>NC, EC,<br>KZN, L<br>and NW |
| Total POS devices installed  | 4,700                               | 4,263                               |
| Number of participating UEPS retail locations  | 2,552                               | 2,391                               |
| Value of transactions processed through POS devices during the quarter (2) (in \$ 000)                               | 397,141                             | 276,947                             |
| Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in \$ 000)  | 381,993                             | 278,685                             |
| Value of transactions processed through POS devices during the quarter (2) (in ZAR 000)                              | 2,992,828                           | 2,758,391                           |
| Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in ZAR 000) | 2,878,675                           | 2,775,707                           |
| Number of grants paid through POS devices during the quarter (2)   | 4,370,553                           | 4,690,822                           |
| Number of grants paid through POS devices during the completed pay cycles for the quarter (3)                        | 4,699,620                           | 4,769,010                           |
| Average number of grants processed per terminal during the quarter (2) .   | 933                                 | 1,111                               |
| Average number of grants processed per terminal during the completed pay cycles for the quarter (3)                  | 1,003                               | 1,129                               |

- (1) NC = Northern Cape, EC = Eastern Cape, KZN = KwaZulu-Natal, L = Limpopo, NW = North West.  
(2) Refers to events occurring during the quarter (i.e., based on three calendar months).  
(3) Refers to events occurring during the completed pay cycle.

***EasyPay transaction fees:***

During the third quarter of fiscal 2010 and 2009, EasyPay processed 162 million and 143 million transactions with an approximate value of \$4.7 billion (ZAR 35.4 billion) and \$3.1 billion (ZAR 31.3 billion), respectively. The increase in transaction volumes results from more value-added services processed by EasyPay during the third quarter of fiscal 2010 compared with 2009. The average fee per transaction during the third quarter of fiscal 2010 and 2009, was \$0.03 (ZAR 0.21) and \$0.02 (ZAR 0.21), respectively. We expect transaction volumes to increase as a result of higher value-added services processed by EasyPay during the fourth quarter of fiscal 2010 compared with fiscal 2009. In ZAR, we do not expect a significant fluctuation in the average fee per transaction during the fourth quarter of fiscal 2010.

Operating income margin generated by EasyPay during each of the third quarter of fiscal 2010 and 2009 are lower than those generated by our pension and welfare business and reduced the operating income margins within our transaction-based activities segment. During the third quarter of fiscal 2010, we incurred ad hoc hardware maintenance costs which reduced our margin. We have entered into hardware maintenance supply contracts in order to mitigate the re-occurrence of these ad hoc maintenance costs in future. Certain EasyPay intangible assets were fully amortized at the end of fiscal 2009. Accordingly, our results for the third quarter of fiscal 2010 includes less EasyPay intangible asset amortization compared with fiscal 2009 which has resulted in a higher operating income margin at EasyPay.





**MediKredit service fees:**

We acquired MediKredit at the beginning of January 2010 and its results are included for the entire third quarter of fiscal 2010. MediKredit's results include claims processing support fees received from a customer it lost in late calendar 2009 and will continue to contractually pay fees through the end of April 2010. MediKredit currently generates a nominal amount of operating income after intangible asset amortization. We expect this business to generate a loss during the fourth quarter of fiscal 2010.

**Smart card accounts**

In ZAR, revenue from the provision of smart card-based accounts decreased in proportion to the lower number of beneficiaries serviced through our SASSA contract. A total number of 3,609,652 smart card-based accounts were active at March 31, 2010, compared to 4,006,847 active accounts as at March 31, 2009. The decrease in the number of active accounts resulted largely from the suspension and removal of invalid or fraudulent grants by SASSA.

Operating income margin from providing smart card accounts was constant at 45% for the third quarter of fiscal 2010 and 2009.

**Financial services**

On March 1, 2009, we sold our traditional microlending business to Finbond, and therefore our segment results for the third quarter of fiscal 2010 do not include any revenue or loss from this business.

Included in our operating loss for the first quarter of fiscal 2009 is the loss on the sale of our traditional microlending business of \$0.7 million (ZAR 7.4 million).

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

Operating income margin before the loss on sale of our traditional microlending business for the financial services segment increased to 72% for the third quarter of fiscal 2010 from 35% for the third quarter of fiscal 2009 primarily due to sale of the traditional microlending business, which had an overall lower operating income margin compared with UEPS-based lending.

**Hardware, software and related technology sales**

The following table presents our revenue and operating income during the third quarter of fiscal 2010 and 2009:

| <b>Table 10</b>  | <b>Three months ended</b> |               |
|--|---------------------------|---------------|
|  | <b>March 31,</b>          |               |
|  | <b>2010</b>               | <b>2009</b>   |
|  | <b>\$ 000</b>             | <b>\$ 000</b> |
| Revenue  | 12,332                    | 11,850        |
| Hardware, software and related technology sales excluding Net1 UAT | 10,408                    | 9,690         |
| Net1 UAT   | 1,924                     | 2,160         |
| Operating income before amortization of intangible assets          | 676                       | 1,467         |
| Operating (loss) income  | (1,798)                   | (1,398)       |

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|  |         |         |
|--|---------|---------|
| Hardware, software and related technology sales excluding Net1 UAT       | 1,587   | 2,018   |
| Net1 UAT   | (3,385) | (3,416) |
| Net1 UAT excluding amortization of acquisition related intangible assets | (1,063) | (1,226) |
| Amortization of acquisition related intangible assets                    | (2,322) | (2,190) |

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| Table 11   | Three months ended |          |
|--|--------------------|----------|
|  | March 31,          |          |
|  | 2010               | 2009     |
|  | ZAR 000            | ZAR 000  |
| Revenue  | 92,911             | 118,046  |
| Hardware, software and related technology sales excluding Net1 UAT       | 78,415             | 96,529   |
| Net1 UAT   | 14,496             | 21,517   |
| Operating income before amortization of intangible assets                | 5,089              | 14,612   |
| Operating (loss) income  | (13,546)           | (13,926) |
| Hardware, software and related technology sales excluding Net1 UAT       | 11,957             | 20,103   |
| Net1 UAT   | (25,503)           | (34,029) |
| Net1 UAT excluding amortization of acquisition related intangible assets | (8,009)            | (12,213) |
| Amortization of acquisition related intangible assets                    | (17,494)           | (21,816) |

In ZAR, the decrease in revenue was primarily due to lower revenues at Net1 UAT and lower ad hoc hardware and software development sales in 2010 as compared with the prior year when we recorded revenue from sales under our Ghana contract, which was offset marginally by increase hardware sales to Iraq. In addition, our revenues in ZAR were further impacted by the depreciation of the USD against the ZAR as sales to customers in Europe, Ghana and Iraq are primarily denominated in USD. In ZAR, the decrease in operating income was primarily due to lower sales activity.

During the third quarter of fiscal 2009, we delivered hardware, including smart cards, to and performed software development for the Bank of Ghana and recognized revenue of approximately \$0.8 million (ZAR 8.1 million).

Amortization of Prism intangible assets during the third quarter of fiscal 2010 and 2009 was approximately \$0.2 million (ZAR 1.1 million) and \$0.7 million (ZAR 6.7 million), respectively, and reduced our operating income.

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

### Corporate/eliminations

In USD, the increase in our losses in this segment resulted from increases in corporate head office-related expenditure, including the effects of the increase in inflation in South Africa and stock-based compensation charges.

Our operating loss includes expenditure related to compliance with Sarbanes; non-executive directors fees; employee and executive salaries and bonuses; stock-based compensation; legal and audit fees; directors and officer s insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.



**Year to date fiscal 2010 compared to year to date fiscal 2009**

The following factors had an influence on our results of operations during the year to date fiscal 2010 as compared with the same period in the prior year:

- **Favorable impact from the weakness of the US dollar:** The US dollar depreciated by 16% compared to the ZAR during the year to date fiscal 2010 compared to fiscal 2009 which has had a positive impact on our reported results;
- **Improved operating income from pension and welfare business:** Our year to date fiscal 2010 results were favorably impacted by cost management controls and continued increases in merchant adoption;
- **Increased transaction volumes at EasyPay:** Our reported results were positively impacted by increased transaction volumes at EasyPay resulting from growth in value-added services and higher than expected activity at retailers during the Christmas season;
- **Increased user adoption in Iraq:** Our reported results were favorably impacted by increased transaction revenues from the adoption of our UEPS technology in Iraq;
- **Lower revenues and margins from hardware, software and related technology sales segment:** Our hardware, software and related technology sales segment was adversely impacted by fewer ad hoc sales to the Bank of Ghana, lower revenues and overall margin generated by Net1 UAT and weaker demand for our products as well as pricing pressures resulting from the global recession in calendar 2009, all of which was partially offset by hardware sales to Iraq;
- **Intangible asset amortization related to acquisition:** Our reported results were adversely impacted by additional intangible asset amortization of approximately \$0.5 million related to the RMT acquisition, which closed in April 2009 and \$0.5 million related to the MediKredit acquisition, which closed in January 2010; and
- **Non-recurring items:** During the year to date fiscal 2009 we recognized a foreign exchange gain of \$26.7 million (ZAR 234.6 million) resulting from an asset swap arrangement, impaired goodwill with a value of \$1.8 million and recognized a loss on the sale of our traditional microlending business of \$0.7 million (ZAR 6.7 million).

**Consolidated overall results of operations**

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

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

|   | <b>In United States Dollars</b>    |               |               |
|---|------------------------------------|---------------|---------------|
|   | <b>(US GAAP)</b>                   |               |               |
|   | <b>Nine months ended March 31,</b> |               |               |
|   | <b>2010</b>                        | <b>2009</b>   | <b>\$%</b>    |
|   | <b>\$ 000</b>                      | <b>\$ 000</b> | <b>change</b> |
| Revenue   | 211,669                            | 185,201       | 14%           |
| Cost of goods sold, IT processing, servicing and support          | 55,652                             | 51,636        | 8%            |
| Selling, general and administration                               | 58,987                             | 48,081        | 23%           |
| Depreciation and amortization                                     | 14,384                             | 11,950        | 20%           |
| Loss on sale of microlending business                             | -                                  | 742           | -             |
| Impairment of goodwill  | -                                  | 1,836         | -             |
| Operating income  | 82,646                             | 70,956        | 16%           |
| Unrealized foreign exchange gain related to short-term investment | -                                  | 26,657        | -             |
| Interest income, net  | 6,470                              | 7,590         | (15)%         |

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|  |        |         |       |
|--|--------|---------|-------|
| Income before income taxes   | 89,116 | 105,203 | (15)% |
| Income tax expense   | 32,964 | 35,444  | (7)%  |
| Net income before loss from equity-accounted investments               | 56,152 | 69,759  | (20)% |
| Loss from equity-accounted investments                                 | (425)  | (797)   | (47)% |
| Net income   | 55,727 | 68,962  | (19)% |
| (Add) Less: net (loss) income attributable to non-controlling interest | (270)  | 577     | -%    |
| Net income attributable to us  | 55,997 | 68,385  | (18)% |

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**Table 13**

|  | <b>In South African Rand<br/>(US GAAP)</b> |             |               |
|--|--|-------------|---------------|
|  | <b>Nine months ended March 31,</b>         |             |               |
|  | <b>2010</b>                                | <b>2009</b> | <b>ZAR</b>    |
|  | <b>ZAR</b>                                 | <b>ZAR</b>  | <b>%</b>      |
|  | <b>000</b>                                 | <b>000</b>  | <b>change</b> |
| Revenue  | 1,613,904                                  | 1,682,170   | (4)%          |
| Cost of goods sold, IT processing, servicing and support               | 424,327                                    | 469,007     | (10)%         |
| Selling, general and administration                                    | 449,755                                    | 436,716     | 3%            |
| Depreciation and amortization  | 109,673                                    | 108,542     | 1%            |
| Loss on sale of microlending business                                  | -  | 6,740       | -%            |
| Impairment of goodwill   | -  | 16,676      | -%            |
| Operating income   | 630,149                                    | 644,489     | (2)%          |
| Unrealized foreign exchange gain related to short-term investment      | -  | 242,124     | -%            |
| Interest income, net   | 49,332                                     | 68,940      | (28)%         |
| Income before income taxes   | 679,481                                    | 955,553     | (29)%         |
| Income tax expense   | 251,339                                    | 321,936     | (22)%         |
| Net income before loss from equity-accounted investments               | 428,142                                    | 633,617     | (32)%         |
| Loss from equity-accounted investments                                 | (3,240)                                    | (7,239)     | (55)%         |
| Net income   | 424,902                                    | 626,378     | (32)%         |
| (Add) Less: net (loss) income attributable to non-controlling interest | (2,059)                                    | 5,241       | -%            |
| Net income attributable to us  | 426,961                                    | 621,137     | (31)%         |

Analyzed in ZAR, the decrease in revenue and cost of goods sold, IT processing, servicing and support for the year to date fiscal 2010, was primarily due to lower sales of hardware, software and related technologies, which was partially offset by higher revenues in our transaction-based activities operating segment.

Our operating income margin for the year to date fiscal 2010 increased to 39% from 38% for the year to date fiscal 2009. We discuss the components of the operating income margin under Results of operations by operating segment .

Analyzed in ZAR, selling, general and administration expenses increased during the year to date fiscal 2010 primarily due to increases in goods and services purchased from third parties and the inclusion of MediKredit s operations. Selling, general and administration expenses include transaction-related costs of \$0.4 million (ZAR 2.9 million) and the stock-based compensation charge related to the stock options awarded in the May 2009 and restricted stock granted in August 2009.

Our direct costs of maintaining a listing on Nasdaq and obtaining a listing on the JSE, as well as compliance with Sarbanes, particularly Section 404 of Sarbanes, includes independent directors fees, legal fees, fees paid to Nasdaq and the JSE, our compliance officer s salary, fees paid to consultants who assist with Sarbanes compliance, fees paid to our independent accountants related to the audit and review process and, during fiscal 2009, fees paid to our consultants and advisors assisting with the JSE listing. This has resulted in expenditures of \$1.8 million (ZAR 13.3 million) and \$1.8 million (ZAR 15.9 million) during the year to date fiscal 2010 and 2009, respectively.

Depreciation and amortization and deferred tax expenses increased during fiscal 2010 primarily as a result of the RMT and MediKredit acquisitions, as summarized in the tables below:

**Table 14**

**Nine months ended  
March 31,**



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|   | <b>2010</b>   | <b>2009</b>   |
|---|---------------|---------------|
|   | <b>\$ 000</b> | <b>\$ 000</b> |
| Amortization included in depreciation and amortization expense: | 10,532        | 8,488         |
| Prism acquisition   | 1,270         | 3,287         |
| RMT acquisition   | 1,576         | 0             |
| MediKredit acquisition  | 491           | 0             |
| Net1 UAT acquisition  | 7,195         | 5,201         |
| Deferred tax included in income tax expense:                    | 2,839         | 2,420         |
| Prism acquisition   | 425           | 1,118         |
| RMT acquisition   | 441           | 0             |
| MediKredit acquisition  | 170           | 0             |
| Net1 UAT acquisition  | 1,803         | 1,302         |

| Table 15  | Nine months ended |         |
|---|-------------------|---------|
|   | March 31,         |         |
|   | 2010              | 2009    |
|   | ZAR 000           | ZAR 000 |
| Amortization included in depreciation and amortization expense: | 80,308            | 77,093  |
| Prism acquisition   | 9,686             | 29,853  |
| RMT acquisition   | 12,018            | -       |
| MediKredit acquisition  | 3,745             | -       |
| Net1 UAT acquisition  | 54,859            | 47,240  |
| Deferred tax included in income tax expense:                    | 21,650            | 21,981  |
| Prism acquisition   | 3,244             | 10,155  |
| RMT acquisition   | 3,365             | -       |
| MediKredit acquisition  | 1,294             | -       |
| Net1 UAT acquisition  | 13,747            | 11,826  |

Property, plant and equipment acquired to provide administration and distribution services to our customers is depreciated over the shorter of expected useful life and the contract period with SASSA. Through March 31, 2010, we were in an extension phase with our contract and thus the majority of our property, plant and equipment related to the administration and distribution of social welfare grants had been fully depreciated in prior periods. Accordingly, depreciation expense related to these activities decreased during the year to date fiscal 2010 compared with the year to date fiscal 2009. This reduction in depreciation was partially offset by the increase in depreciation related to new back-end processing computers, our participating merchant POS terminals and MediKredit assets acquired.

We recognized a foreign exchange gain of \$26.7 million (ZAR 234.6 million) during the year to date fiscal 2009 resulting from an asset swap arrangement we entered into in August 2008.

During the year to date fiscal 2009 we sold our traditional microlending business and recognized a loss of approximately \$0.7 million (ZAR 6.7 million) and impaired goodwill of \$1.8 million (ZAR 16.7 million).

Interest on surplus cash for the year to date fiscal 2010 decreased to \$7.4 million (ZAR 56.5 million) from \$16.1 million (ZAR 146.0 million) for the year to date fiscal 2009. The decrease in interest on surplus cash held in South Africa was due to a lower average daily ZAR cash balance during the year to date fiscal 2010 compared with the year to date fiscal 2009 and lower deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 15.08% per annum for the year to date fiscal 2009 to 10.57% per annum for the year to date fiscal 2010. The lower cash balances resulted primarily from our repurchase of our shares from Brait S.A. investment affiliates in August 2009.

Included in interest expense for the year to date fiscal 2009 is the facility fee of approximately \$1.1 million (ZAR 9.7 million) that we paid to the lender under the short-term loan facility we obtained to fund the Net1 UAT acquisition and approximately \$0.8 million (ZAR 7.3 million) interest on the short-term loan facility. Excluding the impact of this facility fee and the interest on the short-term loan facility, interest expense decreased during the year to date fiscal 2010 due to a decrease in the average rates of interest on our short-term facilities and the elimination of our obligation to provide prefunded social welfare grants to provincial governments. In ZAR, excluding the impact of the facility fee, finance costs decreased to \$0.8 million (ZAR 6.1 million) for the year to date fiscal 2010 from \$6.6 million (ZAR 59.6 million) for the year to date fiscal 2009.

Total tax expense for the year to date fiscal 2010 was \$33.0 million (ZAR 251.3 million) compared with \$35.4 million (ZAR 321.9 million) during the same period in the prior fiscal year. Deferred tax assets and liabilities are measured utilizing the enacted fully distributed tax rate. Accordingly, a reduction in the fully distributed tax rate from 35.45% to 34.55% results in lower deferred tax assets and liabilities and the net change of \$3.5 million (ZAR 26.5 million) is included in our income tax expense in our unaudited condensed consolidated statement of operations for the year to date fiscal 2009. Our total tax expense decreased primarily due to the foreign exchange gain discussed above. Our effective tax rate for the year to date fiscal 2010 was 37.0%, compared to 33.7% for the year to date fiscal 2009. The change in our effective tax rate was primarily due to reduction in our fully distributed tax rate to 34.55% during fiscal 2009, offset by an increase in non-deductible expenses, including stock-based compensation charges and legal fees, during the year to date fiscal 2010 compared to the year to date fiscal 2009.

### Results of operations by operating segment

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

**Table 16**

| Operating Segment                                  | <i>In United States Dollars (US GAAP)</i> |               |                |               |             |
|--|---|---------------|----------------|---------------|-------------|
|  | 2010<br>\$ 000                            | % of<br>total | 2009<br>\$ 000 | % of<br>total | %<br>change |
| Consolidated revenue:                              |   |               |                |               |             |
| Transaction-based activities                       | 141,247                                   | 67%           | 109,159        | 59%           | 29%         |
| Smart card accounts                                | 24,167                                    | 11%           | 21,957         | 12%           | 10%         |
| Financial services                                 | 2,799                                     | 1%            | 4,571          | 2%            | (39)%       |
| Hardware, software and related<br>technology sales | 43,456                                    | 21%           | 49,514         | 27%           | (12)%       |
| <b>Total consolidated revenue</b>                  | <b>211,669</b>                            | <b>100%</b>   | <b>185,201</b> | <b>100%</b>   | <b>14%</b>  |
| Consolidated operating income (loss):              |   |               |                |               |             |
| Transaction-based activities                       | 80,238                                    | 97%           | 60,929         | 86%           | 32%         |
| Operating income before amortization               | 83,127                                    |               | 61,995         |               | 34%         |
| Amortization of intangible assets                  | (2,889)                                   |               | (1,066)        |               | 171%        |
| Smart card accounts                                | 10,985                                    | 13%           | 9,979          | 14%           | 10%         |
| Financial services                                 | 1,908                                     | 2%            | (1,504)        | (2)%          | (227)%      |

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|  |               |             |               |             |            |
|--|---------------|-------------|---------------|-------------|------------|
| Operating income before impairment and loss                      | 1,908         |             | 1,074         |             | 78%        |
| on sale of microlending business                                 |               |             |               |             |            |
| Impairment of goodwill and loss on sale of microlending business | -             |             | (2,578)       |             |            |
| Hardware, software and related technology sales                  | (1,851)       | (2)%        | 8,229         | 12%         | (122)%     |
| Operating income before amortization                             | 5,793         |             | 15,651        |             | (63)%      |
| Amortization of intangible assets                                | (7,644)       |             | (7,422)       |             | 3%         |
| Corporate/eliminations   | (8,634)       | (10)%       | (6,677)       | (10)%       | 29%        |
| <b>Total consolidated operating income</b>                       | <b>82,646</b> | <b>100%</b> | <b>70,956</b> | <b>100%</b> | <b>16%</b> |

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Table 17

*In South African Rand (US GAAP)*  
**Nine months ended March 31,**

| <b>Operating Segment</b>   | <b>2010<br/>ZAR<br/>000</b> | <b>% of<br/>total</b> | <b>2009<br/>ZAR<br/>000</b> | <b>% of<br/>total</b> | <b>%<br/>change</b> |
|--|-----------------------------|-----------------------|-----------------------------|-----------------------|---------------------|
| <b>Consolidated revenue:</b>   |                             |                       |                             |                       |                     |
| Transaction-based activities   | 1,076,961                   | 67%                   | 991,485                     | 59%                   | 9%                  |
| Smart card accounts  | 184,265                     | 11%                   | 199,434                     | 12%                   | (8)%                |
| Financial services   | 21,341                      | 1%                    | 41,518                      | 2%                    | (49)%               |
| Hardware, software and related technology sales                              | 331,337                     | 21%                   | 449,733                     | 27%                   | (26)%               |
| <b>Total consolidated revenue</b>  | <b>1,613,904</b>            | <b>100%</b>           | <b>1,682,170</b>            | <b>100%</b>           | <b>(4)%</b>         |
| <b>Consolidated operating income (loss):</b>                                 |                             |                       |                             |                       |                     |
| Transaction-based activities   | 611,788                     | 97%                   | 553,414                     | 86%                   | 11%                 |
| Operating income before amortization   | 633,814                     |                       | 563,100                     |                       | 13%                 |
| Amortization of intangible assets  | (22,026)                    |                       | (9,686)                     |                       | 127%                |
| Smart card accounts  | 83,757                      | 13%                   | 90,639                      | 14%                   | (8)%                |
| Financial services   | 14,548                      | 2%                    | (13,661)                    | (2)%                  | (206)%              |
| Operating income before impairment and loss on sale of microlending business | 14,548                      |                       | 9,755                       |                       | 49%                 |
| Impairment of goodwill and loss on sale of microlending business             | -                           |                       | (23,416)                    |                       |                     |
| Hardware, software and related technology sales                              | (14,113)                    | (2)%                  | 74,744                      | 12%                   | (119)%              |
| Operating income before amortization   | 44,169                      |                       | 142,151                     |                       | (69)%               |
| Amortization of intangible assets  | (58,282)                    |                       | (67,407)                    |                       | (14)%               |
| Corporate/eliminations   | (65,831)                    | (10)%                 | (60,647)                    | (10)%                 | 9%                  |
| <b>Total consolidated operating income</b>                                   | <b>630,149</b>              | <b>100%</b>           | <b>644,489</b>              | <b>100%</b>           | <b>(2)%</b>         |

**Transaction-based activities**

In ZAR, the increases in revenue were primarily due to our MediKredit acquisition and increased transaction volumes at EasyPay. We discuss these factors in more detail below.

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

Operating income margin of our transaction-based activities increased to 57% from 56%. The increase was due primarily to cost management controls in our pension and welfare business and increased transaction fees from the utilization of our UEPS system in Iraq.

***Pension and welfare operations:***

Refer to discussion under Third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 Results of operations by operating segment Transaction-based activities Pension and welfare operations.

During the first quarter of fiscal 2010 we paid ad hoc grants on behalf of the South Africa government which resulted in higher revenue and operating income during the year to date 2010 compared with 2009.

***Continued adoption of our merchant acquiring system:***

Refer to discussion under Third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 Results of operations by operating segment Transaction-based activities Key statistics of our merchant acquiring system.

***EasyPay transaction fees:***

During the year to date fiscal 2010 and 2009, EasyPay processed 488 million and 434 million transactions with an approximate value of \$14.1 billion (ZAR 107.5 billion) and \$10.9 billion (ZAR 99.2 billion), respectively. The increase in transaction volumes results from more value-added services processed by EasyPay during the year to date fiscal 2010 compared with 2009. The average fee per transaction during each of the year to date fiscal 2010 and 2009, was \$0.03 (ZAR 0.21) and \$0.02 (ZAR 0.21), respectively.

Operating income margin generated by EasyPay during the year to date fiscal 2010 and 2009 are is lower than those generated by our pension and welfare business and reduced the operating income margins within our transaction-based activities segment. Certain EasyPay intangible assets were fully amortized at the end of fiscal 2009. Accordingly, our results for the year to date fiscal 2010 includes less EasyPay intangible asset amortization compared with fiscal 2009 which has resulted in a higher operating income margin at EasyPay.

### ***MediKredit service fees:***

Refer to discussion under Third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 Results of operations by operating segment Transaction-based activities MediKredit service fees.

### **Smart card accounts**

In ZAR, revenue from the provision of smart card-based accounts decreased in proportion to the lower number of beneficiaries serviced through our SASSA contract. A total number of 3,609,652 smart card-based accounts were active at March 31, 2010, compared to 4,006,847 active accounts as at March 31, 2009. The decrease in the number of active accounts resulted largely from the suspension and removal of invalid or fraudulent grants by SASSA.

Operating income margin from providing smart card accounts was constant at 45% for the year to date fiscal 2010 and 2009.

### **Financial services**

On March 1, 2009, we sold our traditional microlending business to Finbond, and therefore our segment results for the year to date fiscal 2010 do not include any revenue or loss from this business.

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

We recorded a goodwill impairment of \$1.8 million and a loss on the sale of our microlending business of \$0.7 million during the year to date fiscal 2009.

Excluding the effects of the goodwill impairment and loss on the sale of our traditional microlending business, operating income margin for the Financial services segment increased to 68% from 23%.

### **Hardware, software and related technology sales**

Operating results include Net1 UAT for the entire year to date fiscal 2010 and from September 1, 2008, for the year to date fiscal 2009. The following table presents our revenue and operating income during the year to date fiscal 2010 and 2009:

| <b>Table 18</b>  | <b>Nine months ended</b> |               |
|--|--------------------------|---------------|
|  | <b>March 31,</b>         |               |
|  | <b>2010</b>              | <b>2009</b>   |
|  | <b>\$ 000</b>            | <b>\$ 000</b> |
| Revenue  | 43,456                   | 49,514        |
| Hardware, software and related technology sales excluding Net1 UAT | 31,792                   | 35,745        |
| Net1 UAT   | 11,664                   | 13,769        |

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|  |         |         |
|--|---------|---------|
| Operating income before amortization of intangible assets                | 5,793   | 15,651  |
| Operating (loss) income  | (1,851) | 8,229   |
| Hardware, software and related technology sales excluding Net1 UAT       | 5,661   | 9,339   |
| Net1 UAT   | (7,512) | (1,110) |
| Net1 UAT excluding amortization of acquisition related intangible assets | (317)   | 4,091   |
| Amortization of acquisition related intangible assets                    | (7,195) | (5,201) |

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| Table 19   | Nine months ended |          |
|--|-------------------|----------|
|  | March 31,         |          |
|  | 2010              | 2009     |
|  | ZAR 000           | ZAR 000  |
| Revenue  | 331,337           | 449,733  |
| Hardware, software and related technology sales excluding Net1 UAT       | 242,403           | 324,670  |
| Net1 UAT   | 88,934            | 125,063  |
| Operating income before amortization of intangible assets                | 44,169            | 142,151  |
| Operating (loss) income  | (14,113)          | 74,744   |
| Hardware, software and related technology sales excluding Net1 UAT       | 43,163            | 84,826   |
| Net1 UAT   | (57,276)          | (10,082) |
| Net1 UAT excluding amortization of acquisition related intangible assets | (2,417)           | 37,158   |
| Amortization of acquisition related intangible assets                    | (54,859)          | (47,240) |

In ZAR, the decrease in revenue was primarily due to lower revenues at Net1 UAT and software development sales in 2009 from sales under our Ghana contract, which was offset marginally by increase hardware sales to Iraq. In addition, our revenues in ZAR are further impacted by the depreciation of the USD against the ZAR as sales to customers in Europe, Ghana and Iraq are primarily denominated in USD. In ZAR, the decrease in operating income was primarily due to amortization of Net1 UAT intangible assets and lower sales activity.

During the year to date fiscal 2010 and 2009, we delivered hardware, including smart cards and terminals, to the Bank of Ghana and recognized revenue of approximately \$2.3 million (ZAR 18.3 million) and \$8.1 million (ZAR 71.5 million), respectively.

During the year to date fiscal 2010 and 2009 we recognized revenue of \$2.3 million (ZAR 17.7 million) and \$2.5 million (ZAR 19.5 million), respectively, from sales of hardware to Nedbank. Sales to Nedbank occur on an ad hoc basis and there were no significant sales during the year to date fiscal 2010.

Amortization of Prism intangible assets during the year to date fiscal 2010 and 2009, respectively, was approximately \$0.5 million (ZAR 3.4 million) and \$2.2 million (ZAR 20.2 million), respectively, and reduced our operating income.

### Corporate/eliminations

The increase in our losses in this segment resulted from increases in corporate head office-related expenditure, including the effects of the increase in inflation in South Africa and stock-based compensation charges.

Our operating loss includes expenditure related to compliance with Sarbanes; non-executive directors fees; employee and executive salaries and bonuses; stock-based compensation; legal and audit fees; directors and officer s insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

### Liquidity and Capital Resources

Our business has historically generated and continues to generate high levels of cash. At March 31, 2010, our cash balances were \$184.3 million, which comprised mainly ZAR-denominated balances of ZAR 1,180.8 million (\$159.7 million), US dollar-denominated balances of \$16.4 million and other currency deposits, primarily euro, of \$8.2 million. Our cash balances decreased from June 30, 2009, levels mainly as a result of the repurchase of our common stock from Brait S.A. s investment affiliates, which decrease was offset by cash generated by operating

activities. In April 2010, we paid approximately \$9 million (ZAR 70.0 million) to acquire the business and software of FIHRST.

On February 5, 2010, our Board of Directors authorized the repurchase of up to \$50 million of our common stock and on May 5, 2010, the authorization was increased by an additional \$50 million to \$100 million in total. The authorization does not have an expiration date. The authorization may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, liquidity and other factors that management deems appropriate. During the three months ended March 31, 2010, we did not repurchase any shares.

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.

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

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

We have a unique cash flow cycle due to the funding mechanism under our SASSA contract and our pre-finding of merchants. Under our SASSA contract, we receive the grant funds 48 hours prior to the provision of the service and any interest we earn on these amounts is for the benefit of SASSA. In addition, we pre-fund certain merchants who facilitate the distribution of grants through our merchant acquiring system. When grants are paid at merchant locations before the start of the payment service at pay points, we pre-fund these payments to the merchants distributing the grants on our behalf. We typically reimburse these merchants within 48 hours after they distribute the grants to the social welfare beneficiaries.

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

### *Cash flows from operating activities*

*Three months ended March 31, 2010*

Net cash provided by operating activities for the third quarter of fiscal 2010 was \$31.7 million (ZAR 238.9 million) compared to \$5.1 million (ZAR 50.9 million) for the third quarter of fiscal 2009. Our net cash from operating activities increased mainly due to the removal of the requirement to pre-fund social welfare grant payments in the fourth quarter of fiscal 2009.

During the third quarter of fiscal 2010 we made additional first provisional tax payments of \$2.0 million (ZAR 14.7 million) related to our 2010 tax year in South Africa. During the third quarter of fiscal 2009, we paid a \$8.2 million (ZAR 82.4 million) first provisional payment for our 2009 tax year.

Taxes paid during the third quarter of fiscal 2010 and 2009 were as follows:

**Table 20**

|                            | <b>Three months ended March 31,</b> |              |               |               |
|----------------------------|-------------------------------------|--------------|---------------|---------------|
|                            | <b>2010</b>                         | <b>2009</b>  | <b>2010</b>   | <b>2009</b>   |
|                            | <b>\$</b>                           | <b>\$</b>    | <b>ZAR</b>    | <b>ZAR</b>    |
|                            | <b>000</b>                          | <b>000</b>   | <b>000</b>    | <b>000</b>    |
| First provisional payments | 1,979                               | 8,598        | 14,734        | 85,976        |
| <b>Total tax paid</b>      | <b>1,979</b>                        | <b>8,598</b> | <b>14,734</b> | <b>85,976</b> |

We expect to pay our second provisional payments in South Africa related to our 2010 tax year in the fourth quarter of fiscal 2010.

*Nine months ended March 31, 2010*

Net cash provided by operating activities for fiscal period to March 2010 was \$82.4 million (ZAR 628.6 million) compared to \$18.0 million (ZAR 163.5 million) for the third quarter of fiscal 2009. Our net cash from operating activities increased mainly due to the removal of the requirement to pre-fund social welfare grant payments in the fourth quarter of fiscal 2009.

During the fiscal period to March 2010 we made an additional second provisional tax payment of \$3.9 million (ZAR 29.6 million) related to our 2009 tax year in South Africa. In addition, we made a first provisional payment of \$17.8 million (ZAR 133.5 million) related to our 2010 tax year in South Africa. See the table below for a summary of all taxes paid (refunded).

During the fiscal period to March 2009, we made a third provisional payment of \$2.9 million (ZAR28.7 million) and an additional second provisional payment of \$8.6 million (ZAR 66.9 million) related to our 2008 tax year in South Africa. In addition, we paid our first provisional tax payments of \$18.1 million (ZAR 181.5 million) related to our 2009 tax year in South Africa. We also paid taxes of \$1.2 million related to our 2008 tax year in the United States and \$1.4 million (ZAR 13.4 million) related to our 2008 tax year in Europe, primarily Austria. Finally, we paid Secondary Tax on Companies of \$2.2 million (ZAR 22.3 million) related to dividends paid by one of our South African subsidiaries to Net1.

Taxes paid during the fiscal period to March 2010 and 2009 were as follows:

**Table 21**

|                                      | <b>Nine months ended March 31,</b> |               |                |                |
|--------------------------------------|------------------------------------|---------------|----------------|----------------|
|                                      | <b>2010</b>                        | <b>2009</b>   | <b>2010</b>    | <b>2009</b>    |
|                                      | <b>\$</b>                          | <b>\$</b>     | <b>ZAR</b>     | <b>ZAR</b>     |
|                                      | <b>000</b>                         | <b>000</b>    | <b>000</b>     | <b>000</b>     |
| First provisional payments           | 17,788                             | 18,497        | 133,522        | 185,068        |
| Second provisional payments          | -                                  | 9,595         | -              | 76,826         |
| Third provisional payments           | 239                                | 2,868         | 1,789          | 28,704         |
| Taxation paid related to prior years | 3,929                              | -             | 29,611         | -              |
| Taxation refunds received            | (241)                              | (61)          | (1,913)        | (471)          |
| Secondary taxation on companies      | -                                  | 2,230         | -              | 22,318         |
| <b>Total tax paid</b>                | <b>21,715</b>                      | <b>33,129</b> | <b>163,009</b> | <b>312,445</b> |

***Cash flows from investing activities***

*Three months ended March 31, 2010*

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

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

Cash used in investing activities for the third quarter of fiscal 2009 includes capital expenditure of \$0.4 million (ZAR 4.1 million).

During the third quarter of fiscal 2009, we paid \$3.4 million (ZAR 34.8 million) in cash to acquire 43,495,150 shares in Finbond Property Finance Company, or Finbond. In addition, we received 41,137,375 shares as consideration for the sale of our traditional microlending business to Finbond on March 1, 2009. Under the Net1 UAT purchase agreement we paid an additional \$1.9 million (ZAR 19.1 million) to former shareholders of BGS on March 31, 2009. Finally, in March 2009, we provided additional loan funding to VTU Colombia of approximately \$0.2 million.

*Nine months ended March 31, 2010*

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

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

Cash used in investing activities for the fiscal period to March 2009 includes capital expenditure of \$3.7 million (ZAR 33.0 million), related to six backend processing machines to maintain and expand current operations, equipment acquired for our card manufacturing facility and modifications to vehicles acquired to distribute social welfare grants.

During the fiscal period to March 2009 we paid \$97.7 million (ZAR 767.3 million), net of cash received, for 80.1% of the outstanding ordinary capital of Net1 UAT, which includes approximately \$0.5 million paid to consultants. In addition, we acquired additional shares of VinaPay for approximately \$0.3 million and acquired additional shares of VTU Colombia for approximately \$0.3 million and provided loan funding of approximately \$0.2 million. Finally, during the fiscal period to March 2009 we paid \$3.4 million (ZAR34.8 million) in cash to acquire Finbond,

**Cash flows from financing activities***Three months ended March 31, 2010*

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

During the third quarter of fiscal 2009, we were required to use our overdraft facilities. The majority of the amount utilized was repaid in March 2009.

*Nine months ended March 31, 2010*

During the fiscal period to March 2010 we repurchased, using our ZAR reserves, 9,221,526 shares of our common stock from Brait S.A.'s investment affiliates for \$13.50 (ZAR 105.98) per share, for an aggregate repurchase price of \$124.5 million (ZAR 977.3 million). In addition, we incurred costs of approximately \$0.5 million (ZAR 3.9 million) related to the repurchase of these shares. During the fiscal period to March 2010, we also paid \$1.3 million on account of shares we repurchased on June 30, 2009, under our share buy-back program.

During the fiscal period to March 2010 and 2009 we received \$0.7 (ZAR 5.5 million) and \$0.2 (ZAR 1.2 million), respectively, from employees exercising stock options and repaying loans.

During the fiscal period to March 2009, we received and repaid the \$110 million short-term loan facility described above. In addition we paid the \$1.1 million facility fee related to this facility. During the fiscal period to March 2009 we acquired 2,419,581 shares of our common stock for \$24.8 million.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Capital Expenditures**

All of our capital expenditures for the past three fiscal years have been funded through internally generated funds. We had outstanding capital commitments of \$0.2 million as of March 31, 2010. We anticipate that capital spending for the fourth quarter of fiscal 2010 will relate primarily to on-going replacement of equipment used to administer and distribute social welfare grants and provide a switching service through EasyPay. We expect to fund these expenditures through internally generated funds.

We discuss our capital expenditures during the third quarter of fiscal 2010 under **Liquidity and capital resources** Cash flows from investing activities.

**Contingent Liabilities, Commitments and Contractual Obligations**

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

|                              | <b>Total</b> | <b>Less than 1 year</b> | <b>1-3 years</b> | <b>3-5 years</b> | <b>More than 5 years</b> |
|------------------------------|--------------|-------------------------|------------------|------------------|--------------------------|
| Interest-bearing liabilities | \$ 4,272     | -                       | -                | -                | \$ 4,272                 |
| Operating lease obligations  | 8,021        | \$ 3,188                | \$ 3,680         | \$ 1,153         | -                        |
| Purchase obligations         | 2,562        | 2,562                   | -                | -                | -                        |

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|                     |    |        |    |       |    |       |    |       |    |       |
|---------------------|----|--------|----|-------|----|-------|----|-------|----|-------|
| Capital commitments |    | 207    |    | 207   |    | -     |    | -     |    | -     |
| Total               | \$ | 15,062 | \$ | 5,957 | \$ | 3,680 | \$ | 1,153 | \$ | 4,272 |
|                     |    |        |    | 42    |    |       |    |       |    |       |

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### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

#### Currency Exchange Risk

We are subject to currency exchange risk because we purchase inventories that we are required to settle in other currencies, primarily the euro and US dollar. We have used forward contracts to limit our exposure in these transactions to fluctuations in exchange rates between the ZAR, on the one hand, and the US dollar and the euro, on the other hand. As of March 31, 2010 and 2009, our outstanding foreign exchange contracts were as follows:

##### As of March 31, 2010

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

##### As of March 31, 2009

| Notional amount |         | Strike price |         | Fair market value price |         | Maturity        |
|-----------------|---------|--------------|---------|-------------------------|---------|-----------------|
| EUR             | 47,651  | ZAR          | 12.8441 | ZAR                     | 12.7818 | April 30, 2009  |
| EUR             | 241,500 | ZAR          | 13.1515 | ZAR                     | 13.0233 | August 14, 2009 |

#### Translation Risk

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

#### Interest Rate Risk

As a result of our normal borrowing and leasing activities, our operating results are exposed to fluctuations in interest rates, which we manage primarily through our regular financing activities. We generally maintain limited investment in cash equivalents and have occasionally invested in marketable securities. The interest earned on our bank balances and short term cash investments is dependent on the prevailing interest rates in the jurisdictions where our cash reserves are invested.

#### Credit Risk

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

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

**Equity Price and Liquidity Risk**

Equity price risk relates to the risk of loss that we would incur as a result of the volatility in the exchange-traded price of equity securities that we hold and the risk that we may not be able to liquidate these securities. We have invested in approximately 22% of the issued share capital of Finbond Group Limited, or Finbond, which are exchange-traded equity securities. The fair value of these securities as of March 31, 2010, represented approximately 1% of our total assets, including these securities. We expect to hold these securities for an extended period of time and we are not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the company remain sound.

The market price of these securities may fluctuate for a variety of reasons, consequently, the amount we may obtain in a subsequent sale of these securities may significantly differ from the reported market value.

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

The following table summarizes our exchange traded equity securities with equity price risk as of March 31, 2010. The effects of a hypothetical 10% increase and a 10% decrease in market prices as of March 31, 2010 is also shown. The selected 10% hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned liquidity risk.

**As of March 31, 2010**

**Table 23**

|                                   | <b>Fair<br/>value</b> | <b>Hypothetical<br/>price change</b> | <b>Estimated<br/>fair<br/>value after<br/>hypothetical<br/>change in<br/>price</b> | <b>Hypothetical<br/>Percentage<br/>Increase<br/>(Decrease) in<br/>Shareholders<br/>Equity</b> |
|-----------------------------------|-----------------------|--------------------------------------|--|---|
|                                   | (\$ 000)              |                                      | (\$ 000)   |   |
| Exchange-traded equity securities | 6,754                 | 10%                                  | 7,429  | 0.21%   |
|                                   | 6,754                 | (10)%                                | 6,079  | (0.21)%   |

#### **Item 4. Controls and Procedures**

##### *Evaluation of disclosure controls and procedures*

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of March 31, 2010. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2010.

##### *Changes in Internal Control over Financial Reporting*

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2010, 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**

We sued SASSA in the South African High Court, the court, alleging that it unlawfully moved beneficiaries to the South African Post Office, or SAPO, in violation of our contract and the Public Finance Management Act, seeking injunctive relief. On January 26, 2010, the court ruled in our favor and directed SASSA to discontinue the registration of any beneficiaries with SAPO until a proper procurement process has been completed. On January 26, 2010, SASSA notified the court and us that it will appeal the court's ruling.

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

**Item 1A. Risk Factors**

See Item 1A RISK FACTORS in Part I of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009, for a discussion of the Company's risk factors. We do not believe that there have been any material changes to these risk factors.

**Item 6. Exhibits**

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

| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| <u>31.1</u>           | <u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act</u>  |
| <u>31.2</u>           | <u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act</u>  |
| <u>32</u>             | <u>Certification pursuant to 18 USC Section 1350</u>   |
| <u>10.49*</u>         | <u>Amendment to Restricted Stock Agreement for Non-U.S. Employees by and Net 1 UEPS Technologies, Inc. and Serge C. P. Belamant dated March 18, 2010</u> |
| <u>10.50*</u>         | <u>Amendment to Restricted Stock Agreement for Non-U.S. Employees by and Net 1 UEPS Technologies, Inc. and Herman G. Kotze dated March 18, 2010</u>      |

\* Indicates a management contract or compensatory plan or arrangement.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 6, 2010.

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