FULL HOUSE RESORTS INC
Form 4
December 02, 2014

# FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

## STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

| OMB APPROVAL | |
|---|---|
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(Print or Type Responses)

1. Name and Address of Reporting Person *
LEE DANIEL R

(Last) (First) (Middle)

C/O FULL HOUSE RESORTS, INC.,, 4670 SOUTH FORT APACHE ROAD, SUITE 190

(Street)

LAS VEGAS, NV 89147

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FULL HOUSE RESORTS INC [FLL]

3. Date of Earliest Transaction (Month/Day/Year)
11/28/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Executive Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common Stock | | | | | | | | 233,369 | D | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares |
| Stock Option (right to buy) | $ 1.25 | 11/28/2014 | | A | | 943,834 | | (1) | 11/28/2014 | Common Stock | 943,834 |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| LEE DANIEL R<br>C/O FULL HOUSE RESORTS, INC.,<br>4670 SOUTH FORT APACHE ROAD, SUITE 190<br>LAS VEGAS, NV 89147 | X | | Chief Executive Officer | |

# Signatures

| /s/ Daniel R. Lee | 12/02/2014 |
|---|---|
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** The option provides for vesting with respect to 25% of the shares subject to the stock option on November 28, 2015 and will continue to vest with respect to an additional 1/48th of the shares subject to the stock option on each monthly anniversary thereafter, subject to Mr. Lee's continued service through the applicable vesting date.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ly, the financial performance targets is Fundamental EPS, as defined below, of $1.44, $1.60 and $1.90 for the years ended June 30, 2011, 2012 and 2013, respectively. For the purpose of this award, Fundamental EPS is calculated as Company s diluted earnings per share as reflected in the Company s consolidated financial statements, measured in U.S. dollars and determined in accordance with GAAP, adjusted to exclude the effects related to the amortization of intangible assets and acquisition-related costs, stock-based compensation charges, foreign exchange gains and losses arising from foreign currency hedging transactions, and other items that the Committee may determine in its discretion to be appropriate (for example, accounting changes and one-time or unusual items), and assumes a constant tax rate equal to the Company s effective tax rate for the year ended June 30, 2010. If Fundamental EPS for the specified fiscal year does not equal or exceed the Fundamental EPS target for such year, no award shares will become vested or nonforfeitable on the corresponding vesting date but are available to become vested and nonforfeitable as of a subsequent vesting date if the Fundamental EPS target for a subsequent fiscal year is met; provided that the recipient s service continues through such subsequent vesting date. Any outstanding award shares that have not become vested and nonforfeitable as of November 10, 2013, will be forfeited by the recipient on

November 10, 2013, and transferred to the Company for no consideration. One-third of the award shares vested on November 10, 2011.

***Stock Appreciation Rights***

The Remuneration Committee also may grant stock appreciation rights, either singly or in tandem with underlying stock options. Stock appreciation rights entitle the holder upon exercise to receive an amount in any combination of cash or shares of common stock (as determined by the Remuneration Committee) equal in value to the excess of the fair market value of the shares covered by the right over the grant price. No stock appreciation rights have been granted.

**Stock option and restricted stock activity**

***Options***

The following table summarizes stock option activity for the years ended June 30, 2012, 2011 and 2010:

| | | Number of shares | Weighted average exercise price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value ($ 000) | Weighted Average Grant Date Fair Value ($ 000) |
|---|---|---|---|---|---|---|
| Outstanding | July 1, 2009 | 1,896,994 | $ 19.03 | 8.30 | $ 1,576 | - |
| Exercised | | (83,338) | 3.00 | - | 1,667 | - |
| Outstanding | June 30, 2010 | 1,813,656 | 19.76 | 7.41 | 585 | - |
| Granted under Plan: November 2010 | | 307,000 | 10.59 | 10.00 | - | $ 2.61 |
| Outstanding | June 30, 2011 | 2,120,656 | 18.44 | 6.82 | 243 | |
| Granted under Plan: August 2011 | | 165,000 | 6.59 | 10.0 | 297 | $ 1.80 |
| Granted under Plan: October 2011 | | 202,000 | 7.98 | 10.0 | 442 | $ 2.19 |
| Forfeitures | | (240,073) | 21.68 | - | - | - |
| Outstanding | June 30, 2012 | 2,247,583 | $ 16.28 | 6.43 | $ 602 | - |

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## NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the consolidated financial statements**
**for the years ended June 30, 2012, 2011 and 2010**
**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

**17. STOCK-BASED COMPENSATION (continued)**

**Stock option and restricted stock activity (continued)**

***Options (continued)***

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

| | | | | | | |
|---|---|---|---|---|---|---|
| Exercisable | 1,373,916 | $ | 19.43 | 5.40 | $ | 229 |

During each of the years ended June 30, 2012, 2011 and 2010, approximately 300,000, 380,000 and 374,000, stock options became exercisable, respectively. During the year ended June 30, 2012, employees forfeited 240,073 stock options. There were no forfeitures during the years ended June 30, 2011 and 2010, respectively. During the year ended June 30, 2010, the Company received approximately $0.7 million from stock options exercised. No stock options were exercised during the years ended June 30, 2012 and 2011, respectively.

***Restricted stock***

The following table summarizes restricted stock activity for the years ended June 30, 2012, 2011 and 2010:

| | Number of Shares of Restricted Stock | | Weighted Average Grant Date Fair Value ($ 000) |
|---|---|---|---|
| Non-vested July 1, 2009 | 597,162 | | - |
| Granted August 2009 | 10,098 | $ | 185 |
| Vested | (199,432) | | 3,800 |
| Non-vested June 30, 2010 | 407,828 | | - |
| Granted August 2010 | 13,956 | | 185 |
| Granted October 2010 | 60,000 | | 740 |
| Granted November 2010 | 83,000 | | 879 |
| Vested | (203,956) | | 2,267 |
| Awards not vesting | (257,156) | | - |
| Non-vested June 30, 2011 | 103,672 | | |
| Granted August 2011 | 30,155 | | 199 |
| Granted February 2012 | 550,000 | | 6,111 |
| Granted May 2012 | 2,574 | | 23 |
| Vested - August 2011 | (6,141) | | 40 |
| Vested - November 2011 | (27,667) | | 209 |
| Forfeitures | (5,976) | $ | 50 |
| Non-vested June 30, 2012 | 646,617 | | |

The fair value of restricted stock vested during the year ended June 30, 2012, 2011 and 2010, was $0.2 million, $2.3 million and $3.8 million, respectively. One of the Company s non-employee directors resigned effective June 29, 2012, and he forfeited 5,976 restricted shares that had not vested.

The third tranche of 197,156 shares of restricted stock granted in August 2007 to executive officers and other employees of the Company and 60,000 shares granted to an employee of the Company in October 2010 did not vest because the agreed performance target was not achieved. The Company has recorded a reversal of the compensation charge related to August 2007 and October 2010 restricted stock of $3.4 million and $0.09 million, respectively, during the year ended June 30, 2011. These 257,156 shares of restricted stock will be returned to the Company and, in accordance with the Plan, are available for future issuances by the Remuneration Committee.

# NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the consolidated financial statements**
**for the years ended June 30, 2012, 2011 and 2010**
**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

**17. STOCK-BASED COMPENSATION (continued)**

**Stock-based compensation charge and unrecognized compensation cost**

The Company has recorded a net stock compensation charge of $2.8 million, $1.7 million and $5.7 million for the year ended June 30, 2012, 2011 and 2010, respectively, which comprised:

| | Total charge (reversal) | Allocated to cost of goods sold, IT processing, servicing and support | Allocated to selling, general and administration |
|---|---|---|---|
| Year ended June 30, 2012 | | | |
| Stock-based compensation charge | $ 2,909 | $ - | $ 2,909 |
| Reversal of stock compensation charge related to options forfeited | (134) | - | (134) |
| Total year ended June 30, 2012 | $ 2,775 | $ - | $ 2,775 |
| | | | |
| Year ended June 30, 2011 | | | |
| Stock-based compensation charge | $ 5,212 | $ 193 | $ 5,019 |
| Reversal of stock compensation charge related to August 2007 and October 2010 restricted stock that did not vest | (3,492) | - | (3,492) |
| Total year ended June 30, 2011 | $ 1,720 | $ 193 | $ 1,527 |
| | | | |
| Year ended June 30, 2010 | | | |
| Stock-based compensation charge | $ 5,670 | $ 202 | $ 5,468 |
| Total year ended June 30, 2010 | $ 5,670 | $ 202 | $ 5,468 |

The stock compensation charge and reversals 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 June 30, 2012, the total unrecognized compensation cost related to stock options was approximately $0.8 million, which the Company expects to recognize over approximately three years. As of June 30, 2012, the total unrecognized compensation cost related to restricted stock awards was approximately $5.9 million, which the Company expects to recognize over approximately three years.

**Tax consequences**

There are no tax consequences related to options and restricted stock granted to employees of Company subsidiaries incorporated in South Africa. The Company has recorded a deferred tax asset of approximately $1.1 million and $0.8 million, respectively, for the years ended June 30, 2012 and 2011, related to the stock-based compensation charge recognized related to employees of Net1 as it is able to deduct the difference between the market value on date of exercise by the option recipient and the exercise price from income subject to taxation in the United

States.

# NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the consolidated financial statements**
**for the years ended June 30, 2012, 2011 and 2010**
**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

## 18. PROFIT ON LIQUIDATION OF SMARTSWITCH NIGERIA

The Company has ceased operations in the Federation of Nigeria due to an inability to implement its technology on a profitable basis. During the year ended June 30, 2012, the Company, together with the other shareholders, agreed to liquidate SmartSwitch Nigeria, the company through which operating activities in Nigeria were performed. SmartSwitch Nigeria was capitalized primarily with shareholder loans. The Company eliminated its portion of the loan funding on consolidation, and included the loans due to the non-controlling interest in long-term borrowings on its June 30, 2011, consolidated balance sheet. The shareholders of SmartSwitch Nigeria have agreed to waive all outstanding capital and interest repayments related to the loan funding initially provided as part of the liquidation processes. The non-cash profit on liquidation of SmartSwitch Nigeria of $4.0 million includes the write back of all assets and liabilities, including non-controlling interest loans, of SmartSwitch Nigeria, except for expected liabilities related to the liquidation of SmartSwitch Nigeria. The profit has been allocated to corporate/eliminations.

## 19. INCOME TAXES

### Income tax provision

The table below presents the components of income before income taxes as of June 30, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| South Africa | $ 67,054 | $ 108,349 | $ 136,197 |
| United States | (6,340) | (15,053) | (6,909) |
| Other | (333) | (56,886) | (50,408) |
| Income before income taxes | $ 60,381 | $ 36,410 | $ 78,880 |

Presented below is the provision for income taxes by location of the taxing jurisdiction for each of the years ended June 30:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Current income tax | $ 49,092 | $ 117,141 | $ 109,669 |
| South Africa | 26,787 | 38,882 | 47,225 |
| United States | 20,746 | 77,085 | 62,443 |
| Other | 1,559 | 1,174 | 1 |
| Deferred taxation (benefit) charge | (4,598) | (4,862) | (2,770) |
| South Africa | (2,941) | (776) | (441) |
| United States | 31 | 2,306 | (1,236) |
| Other | (1,688) | (6,392) | (1,093) |
| Capital gains tax | 1,465 | - | - |
| Secondary taxation on companies | 327 | - | - |
| Change in tax rate | (18,315) | - | - |
| Foreign tax credits generated United States | (12,035) | (78,754) | (66,077) |
| Income tax provision | $ 15,936 | $ 33,525 | $ 40,822 |

The capital gains tax paid represents the taxes paid resulting from an intercompany capital transaction in South Africa during the year ended June 30, 2012. There were no capital gains taxes paid during the years ended June 30, 2011 and 2010, respectively.

The Company s South African subsidiary paid a dividend to Net1 after the tax law had changed but before the effective date of the South African dividends withholding tax which resulted in the payment of STC in the third quarter of the year ended June 30, 2012. For the first half of the year ended June 30, 2012, and in the years ended June 30, 2011 and 2010, the Company s effective tax rate included an accrual for STC and therefore any STC obligation arising during these periods was charged against the STC liability provided. This STC liability was released during the year end June 30, 2012, as a result of the change in tax law discussed below.

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# NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the consolidated financial statements**
**for the years ended June 30, 2012, 2011 and 2010**
**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

## 19. INCOME TAXES (continued)

### Income tax provision (continued)

On December 20, 2011, there was a change in South African tax law to impose a dividends withholding tax (a tax levied and withheld by a company on distributions to its shareholders) to replace STC. The change was effective on April 1, 2012. As a result, the Company has recorded a net deferred taxation benefit of approximately $18.3 million in income taxation expense in its consolidated statements of operations during the year ended June 30, 2012. There were no changes to the enacted tax rate in the year ended June 30, 2011 and 2010.

As a result of the change in South African tax law and the Company s intention to permanently reinvest its undistributed earnings in South Africa, the Company does not believe it will be able to recover foreign tax credits previously recognized of $8.2 million. The movement in valuation allowance during the year ended June 30, 2012, includes a valuation allowance related to this foreign tax credits. The movement in the valuation allowance for the year ended June 30, 2011 relates to valuation allowances for foreign tax credits and the Net1 UTA valuation allowances related to its license ruling, tax deductible goodwill, and net operating loss carryforwards.

Net1 included actual and deemed dividends received from New Aplitec in its year ended June 30, 2012, 2011 and 2010, taxation computation. Net1 applied net operating losses against this income. Net1 generated foreign tax credits as a result of the inclusion of the dividends in its taxable income. Net1 has applied certain of these foreign tax credits against its current income tax provision for the year ended June 30, 2012, 2011 and 2010, respectively.

A reconciliation of income taxes, calculated at the fully-distributed South African income tax rate to the Company s effective tax rate, for the years ended June 30, 2012, 2011 and 2010 is as follows:

| | **2012** | **2011** | **2010** |
|---|---|---|---|
| Income tax rate reconciliation: | | | |
| Income taxes at fully-distributed South African tax rates | 28.00% | 34.55% | 34.55% |
| Permanent items | 6.60% | 6.93% | 21.45% |
| Foreign tax rate differential | 7.22% | 5.46% | 0.24% |
| Foreign tax credits | (21.12%) | (209.00)% | (82.70)% |
| Taxation on deemed dividends in the United States | 31.29% | 217.52% | 85.60% |
| Capital gains tax paid | 2.43% | -% | -% |
| Secondary taxation on companies | 0.54% | -% | -% |
| Movement in valuation allowance | 1.23% | 34.01% | (5.02)% |
| Prior year adjustments | 0.53% | 2.61% | (2.37)% |
| Change in tax law | (30.33%) | -% | -% |
| Income tax provision | 26.39% | 92.08% | 51.75% |

The permanent items during the years ended June 30, 2012, relates principally to stock-based compensation charges, interest expense and an equity award issued pursuant to the Company s BBBEE transaction, which is not deductible for tax purposes. The permanent items during the years ended June 30, 2011 relates principally to interest expense and transaction-related expenditure which is not deductible for tax purposes. The permanent items during the year ended June 30, 2010, relates principally to impairment of goodwill which is not deductible for tax purposes.

Explanation of Responses:

## NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the consolidated financial statements**
**for the years ended June 30, 2012, 2011 and 2010**
**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**
**19. INCOME TAXES (continued)**

**Deferred tax assets and liabilities**

Deferred income taxes reflect the temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The primary components of the temporary differences that gave rise to the Company s deferred tax assets and liabilities as at June 30, and their classification, were as follows:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Total deferred tax assets** | | | | |
| | | | | |
| Net operating loss carryforwards | $ | 11,869 | $ | 10,696 |
| Provisions and accruals | | 2,450 | | 2,715 |
| FTS patent | | 1,436 | | 1,831 |
| Intangible assets | | 18,290 | | 22,338 |
| Foreign tax credits | | 19,089 | | 22,566 |
| Other | | 5,006 | | 4,785 |
| **Total deferred tax assets before valuation allowance** | | 58,140 | | 64,931 |
| Valuation allowances | | (47,496) | | (45,866) |
| **Total deferred tax assets, net of valuation allowance** | | 10,644 | | 19,065 |
| | | | | |
| **Total deferred tax liabilities:** | | | | |
| | | | | |
| Intangible assets | | 22,215 | | 29,307 |
| STC liability, net of STC credits | | - | | 24,380 |
| Other | | 3,826 | | 2,281 |
| **Total deferred tax liabilities** | | 26,041 | | 55,968 |
| | | | | |
| **Reported as** | | | | |
| Current deferred tax assets | | 5,591 | | 15,882 |
| Long term deferred tax liabilities | | 20,988 | | 52,785 |
| **Net deferred income tax liabilities** | $ | 15,397 | $ | 36,903 |

***Decrease in total deferred tax assets***

*Net operating loss carryforwards*

Included in total deferred tax assets net operating loss carryforwards are net operating losses generated by MediKredit of $3.5 million. MediKredit net operating losses increased by $0.1 million during the year ended June 30, 2012, and a valuation allowance has been created against this amount. Net operating loss carryforwards also includes $6.7 million related to Net1 UTA. A valuation allowance has been created for the full amount of the Net1 UTA net operating losses.

*Intangible assets*

Included in total deferred tax assets    intangible assets as of June 30, 2012, is an intangible asset related to license rights in Net1 UTA. These license rights are termed software for Austrian tax purposes and were valued for Austrian tax purposes based on previous license payments at €50.76 million in June 2006. The Company expects to amortize the license rights in its tax returns over a period of 15 years. Any unused amounts are not carried forward to the subsequent year of assessment. During the years ended June 30, 2012 and 2011, Net1 UTA utilized approximately $0.04 million and $0.2 million, respectively, of these license rights against its taxable income and in 2011 expensed $1.2 million unutilized deferred tax asset. In addition, during the year ended June 30, 2011, the Company provided in full for this deferred tax asset and recognized an additional valuation allowance of $2.7 million. As of June 30, 2012, the gross carrying value of this deferred tax asset is approximately $9.6 million and there is a full valuation allowance.

## NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the consolidated financial statements**
**for the years ended June 30, 2012, 2011 and 2010**
**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**
**19. INCOME TAXES (continued)**

**Deferred tax assets and liabilities (continued)**

***Decrease in total deferred tax assets (continued)***

*Intangible assets (continued)*

Net1 Applied Technologies Austria GmbH ( Net1Austria ) generated tax deductible goodwill related to the acquisition of Net1 UTA in August 2008 and under Austrian tax law Net1Austria can deduct up to 50% of the goodwill recognized, as defined under Austrian tax law, over a period of 15 years. Unused amounts are carried forward to subsequent years of assessment and are included in net operating loss carryforwards. During the year ended June 30, 2011, the Company provided in full for the deferred tax asset and recognized an additional valuation allowance of approximately $1.7 million. As of June 30, 2012, the gross value of this goodwill deferred tax asset was approximately $8.4 million and there is a full valuation allowance. The Company did not utilize the goodwill deferred tax asset during the years ended June 30, 2012 and 2011, respectively.

***Decrease in total deferred tax liabilities***

*Intangible assets*

Deferred tax liabilities intangible assets have decreased during the year ended June 30, 2012, primarily as a result of the amortization of the underlying KSNET intangible assets during the year.

*STC liability, net of STC credits*

Deferred tax liabilities STC liability, net of STC credits have decreased during the year ended June 30, 2012, primarily as a result of the change in South African tax law to replace STC with a dividend withholdings tax.

***Valuation allowance***

At June 30, 2012, the Company had deferred tax assets of $10.6 million (2011: $19.1 million), net of the valuation allowance. Management believes, based on the weight of available positive and negative evidence it is more likely than not that the Company will realize the benefits of these deductible differences, net of the valuation allowance. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

At June 30, 2012, the Company had a valuation allowance of $47.5 million (2011: $45.9 million) to reduce its deferred tax assets to estimated realizable value. The valuation allowances at June 30, 2012 and 2011, relate primarily to intangible assets including tax deductible goodwill (2012: $18.0 million, 2011: $22.1 million); foreign tax credits (2012: $19.1 million, 2011: $14.3 million); net operating loss carryforwards (2012: $9.6 million, 2011: $8.1 million) and the FTS patent (2012: $0.7 million, 2011: $1.1 million).

***Net operating loss carryforwards and foreign tax credits***

*United States*

As of June 30, 2012, Net1 had net operating loss carryforwards that will expire, if unused, as follows:

| Year of expiration | US net operating loss carry forwards |
|---|---|
| 2024 | $ 4,072 |

During the years ended June 30, 2012 and 2011, Net1 generated additional foreign tax credits related to the cash dividends received. Net1 had no net unused foreign tax credits that are more likely than not to be realized as of June 30, 2012 (June 30, 2011: 8.2 million). The unused foreign tax credits generated expire after ten years in 2022, 2021, 2020 and 2019.

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# NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the consolidated financial statements**
**for the years ended June 30, 2012, 2011 and 2010**
**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

## 19. INCOME TAXES (continued)

**Deferred tax assets and liabilities (continued)**

***Net operating loss carryforwards and foreign tax credits (continued)***

*South Africa and Austria*

Net operating losses incurred in South Africa generally expire if a company does not trade during the year. In South Africa, the subsidiary companies that incurred the losses are currently trading and will continue to trade for the foreseeable future. Net operating losses incurred in Austria generally do not expire.

**Uncertain tax positions**

As of June 30, 2012 and 2011, respectively the Company has unrecognized tax benefits of $1.3 million and $2.7 million, all of which would impact the Company s effective tax rate. The Company files income tax returns mainly in South Africa, Korea, Austria, the Russian Federation and in the US federal jurisdiction. As of June 30, 2012, the Company s South African subsidiaries are no longer subject to income tax examination by the South African Revenue Service for periods before June 30, 2008. 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. 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 following is a reconciliation of the total amounts of unrecognized tax benefits for the year ended June 30, 2012, 2011 and 2010:

| | | 2012 | | 2011 | | 2010 |
|---|---|---|---|---|---|---|
| Unrecognized tax benefits - opening balance | $ | 2,664 | $ | 1,460 | $ | 1,060 |
| Gross decreases - tax positions in prior periods | | (1,159) | | - | | |
| Gross increases - tax positions in current period | | 97 | | 1,233 | | 368 |
| Lapse of statute limitations | | - | | - | | - |
| Foreign currency adjustment | | (288) | | (29) | | 32 |
| Unrecognized tax benefits - closing balance | $ | 1,314 | $ | 2,664 | $ | 1,460 |

As of June 30, 2012 and 2011, the Company had accrued interest related to uncertain tax positions of approximately $0.03 million and $0.2 million, respectively, on its balance sheet.

## 20. EARNINGS PER SHARE

Basic earnings per share include restricted stock awards that meet the definition of a participating security . Restricted stock awards are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the years ended June 30, 2012, 2011 and 2010, reflects only undistributed earnings.

Diluted earnings per share has been calculated to give effect to the number of additional 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 includes the dilutive effect of a portion of the restricted stock awards granted to employees in August 2007, October 2010, November 2010 and February 2012 as these restricted stock awards are considered contingently issuable shares for the purposes of the diluted earnings per share calculation and the vesting conditions in respect of a portion of the awards had been satisfied. The vesting conditions are discussed in Note 17.

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# NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the consolidated financial statements**
**for the years ended June 30, 2012, 2011 and 2010**
**(All amounts stated in thousands of United States Dollars, unless otherwise stated)**

**20. EARNINGS PER SHARE (continued)**

The following tables detail the weighted average number of outstanding shares used for the calculation of earnings per share as of June 30, 2012, 2011 and 2010:

| | 2012<br>000 | 2011<br>000 | 2010<br>000 |
|---|---|---|---|
| Weighted average number of outstanding shares of common stock basic | 45,187 | 45,175 | 46,245 |
| Weighted average effect of dilutive securities: equity instruments | 59 | 56 | 190 |
| Weighted average number of outstanding shares of common stock diluted | 45,246 | 45,231 | 46,435 |

Options to purchase 10,589,863 shares of the Company s common stock at prices ranging from $7.98 to $24.46 per share were outstanding during the year ended June 30, 2012, but were not included in the computation of diluted earnings per share because the options exercise price were greater than the average market price of the Company s common shares. The options, which expire at various dates through on October 28 2014 and includes the 8,955,000 equity instrument issued pursuant to BBBEE transaction, were still outstanding as of June 30, 2012.

**21. SUPPLEMENTAL CASH FLOW INFORMATION**

**Supplemental cash flow information:**

The following table presents the supplemental cash flow disclosures for the years ended June 30, 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Cash received from interest | $ 9,180 | $ 8,764 | $ 10,294 |
| Cash paid for interest | $ 9,773 | $ 5,660 | $ 747 |
| Cash paid for income taxes | $ 30,704 | $ 48,630 | $ 54,143 |

***Financing activities***

Treasury shares, at cost acquired on June 30, 2009, for approximately $1.3 million were paid for on July 1, 2009 and are included in the Company s consolidated cash flow statement for the year ended June 30, 2010.

**22. OPERATING SEGMENTS**

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

The Company has reallocated its EP Kiosk business unit to the South African transaction-based activities segment from the hardware, software and related technology segment, as the unit is no longer in pilot phase and now forms part of EasyPay. Following XeoHealth s first contract signing, the Company has allocated its revenue and costs to the international transaction-based activities segment, which were previously included in the South African transaction-based activities segment. Revenue and administration costs related to the Company s comprehensive financial services offerings are all included in the financial services segment. The effect of these reallocations has not significantly impacted the Company s reported results. Re-casted amounts for the year ended June 30, 2011, also include the effects of reallocating the Company s initiatives in Iraq, Nigeria and Net1 VCC.

# NET 1 UEPS TECHNOLOGIES, INC.

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**22. OPERATING SEGMENTS (continued)**

The impact of these reallocations on the Company s revenue, operating income (loss) and net income (loss) is presented in the table below:

| | Year ended June 30, 2011 | | |
|---|---|---|---|
| | Re-casted | As previously reported | Difference |
| Revenues to external customers | | | |
| SA transaction-based activities | $ 189,206 | $ 188,590 | $ 616 |
| International transaction-based activities | 70,382 | 69,947 | 435 |
| Smart card accounts | 33,315 | 33,315 | - |
| Financial services | 7,350 | 7,313 | 37 |
| Hardware, software and related technology sales | 43,167 | 44,255 | (1,088) |
| Total | 343,420 | 343,420 | - |
| Operating income (loss) | | | |
| SA transaction-based activities | 75,668 | 74,642 | 1,026 |
| International transaction-based activities | (220) | 1,707 | (1,927) |
| Smart card accounts | 15,140 | 15,140 | - |
| Financial services | 4,999 | 5,658 | (659) |
| Hardware, software and related technology sales | (48,372) | (49,930) | 1,558 |
| Corporate/Eliminations | (9,787) | (9,789) | 2 |
| Total | 37,428 | 37,428 | - |
| Net income (loss) | | | |
| SA transaction-based activities | 54,009 | 52,613 | 1,396 |
| International transaction-based activities | 652 | 2,700 | (2,048) |
| Smart card accounts | 10,904 | 10,904 | - |
| Financial services | 3,587 | 4,061 | (474) |
| Hardware, software and related technology sales | (45,191) | (46,316) | 1,125 |
| Corporate/Eliminations | (21,314) | (21,315) | 1 |
| Total | $ 2,647 | $ 2,647 | $ - |

There were no reallocations between the Company s June 30, 2012 and 2010, operating segments.

The Company currently has five reportable segments: South African transaction-based activities, international transaction-based activities, smart card accounts, financial services and hardware, software and related technology sales. Each segment, other than international transaction-based activities and the hardware, software and related technology sales segments, operates mainly within South Africa. The Company s reportable segments offer different products and services and require different resources and marketing strategies and share the Company s assets.

The South African transaction-based activities segment currently consists mainly of a state pension and welfare benefit distribution service provided to the South African government and transaction processing for retailers, utilities, medical-related claim service customers and banks. Fee income is earned based on the number of beneficiaries paid as well as from merchants and card holders using the Company s merchant acquiring system. Utility providers and banks are charged a fee for transaction processing services performed on their behalf at retailers. In addition, the operating segment includes sales of prepaid products (electricity and airtime). The Company earns a commission for prepaid electricity sales and revenue from the sale of airtime vouchers. This segment has individually significant customers that each provides more than 10% of the total revenue of the Company. For the year ended June 30, 2012, there was one such customer, providing 41% of total revenue (2011: one such customer, providing 47% of total revenue; 2010: one such customer, providing 66% of total revenue).

## NET 1 UEPS TECHNOLOGIES, INC.

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**22. OPERATING SEGMENTS (continued)**

The international transaction-based activities segment currently consists mainly of KSNET which generates revenue from the provision of payment processing services to merchants and card issuers through its VAN. This segment generates fee revenue from the provision of payment processing services and to a lesser extent from the sale of goods, primarily point of sale terminals, to customers in Korea. The segment also generates transaction fee revenue from transaction processing of UEPS-enabled smartcards through NUETS initiative in Iraq and transaction processing of medical-related claims. The Company allocated its international transaction-based activities to this segment effective July 1, 2010, and the Company s reported results for the year ended June 30, 2011, include all legacy international transaction-processing activities from July 1, 2010 and include KSNET from November 1, 2010. Segment results for the year ended June 30, 2010, have not been re-casted due to the insignificance of the transaction processing activities of Net1 Virtual Card, and NUETS transaction processing activities in Iraq.

The smart card accounts segment derives revenue from the provision of smart card accounts, as a fixed monthly fee per card is charged for the maintenance of these accounts. The financial services segment provides short-term loans as a principal and life insurance products on an agency basis and generates initiation and services fees. As a result of the acquisition of SmartLife, we earn premium income from the sale of life insurance products and investment income.

The hardware, software and related technology sales segment markets, sells and implements the UEPS as well as develops and provides Prism secure transaction technology, solutions and services. The segment also includes the operations of Net1 UTA, which comprise mainly hardware sales and licenses of the DUET system. The segment undertakes smart card system implementation projects, delivering hardware, software and business solutions in the form of customized systems. Sales of hardware, SIM cards, cryptography services, SIM card licenses and other software licenses are recorded within this segment. This segment also generates rental income from hardware provided to merchants enrolled in the Company s merchant retail application. The impairment losses incurred during the years ended June 30, 2011 and 2010, of approximately $41.8 million and $37.4 million, respectively, discussed in Note 9 are included in the results of this operating segment.

Corporate/eliminations includes the Company s head office cost centers in addition to the elimination of inter-segment transactions. The profit related to the liquidation of SmartSwitch Nigeria discussed in Note 16 has been allocated to corporate/eliminations.

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

| | | June 30, | |
|---|---|---|---|
| | **2012** | **2011** | **2010** |
| Revenues to external customers | | | |
| South African transaction-based activities | $ 201,207 | $ 189,206 | $ 191,362 |
| International transaction-based activities | 118,281 | 70,382 | - |
| Smart card accounts | 31,263 | 33,315 | 31,971 |
| Financial services | 8,121 | 7,350 | 4,023 |
| Hardware, software and related technology sales | 31,392 | 43,167 | 53,008 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | | 390,264 | | 343,420 | | 280,364 |
| Inter-company revenues | | | | | | |
| South African transaction-based activities | | 5,452 | | 4,015 | | 3,837 |
| International transaction-based activities | | - | | - | | - |
| Smart card accounts | | 1,065 | | - | | - |
| Financial services | | - | | - | | - |
| Hardware, software and related technology sales | | 1,784 | | 2,281 | | 1,892 |
| Total | $ | 8,301 | $ | 6,296 | $ | 5,729 |

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## NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the consolidated financial statements**
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**22. OPERATING SEGMENTS (continued)**

| | June 30, 2012 | 2011 | 2010 |
|---|---|---|---|
| Operating income | | | |
| South African transaction-based activities | $ 49,824 | $ 75,668 | $ 106,036 |
| International transaction-based activities | 1,257 | (220) | - |
| Smart card accounts | 12,820 | 15,140 | 14,532 |
| Financial services | 4,636 | 4,999 | 2,881 |
| Hardware, software and related technology sales | 3,619 | (48,372) | (42,524) |
| Corporate/ Eliminations | (11,006) | (9,787) | (11,114) |
| Total | 61,150 | 37,428 | 69,811 |
| Interest earned | | | |
| South African transaction-based activities | - | - | - |
| International transaction-based activities | - | - | - |
| Smart card accounts | - | - | - |
| Financial services | - | - | - |
| Hardware, software and related technology sales | - | - | - |
| Corporate/ Eliminations | 8,576 | 7,654 | 10,116 |
| Total | 8,576 | 7,654 | 10,116 |
| Interest expense | | | |
| South African transaction-based activities | 463 | 652 | 981 |
| International transaction-based activities | 44 | 526 | - |
| Smart card accounts | - | - | - |
| Financial services | 2 | 15 | 1 |
| Hardware, software and related technology sales | 109 | 59 | 5 |
| Corporate/ Eliminations | 8,727 | 7,420 | 60 |
| Total | 9,345 | 8,672 | 1,047 |
| Depreciation and amortization | | | |
| South African transaction-based activities | 9,370 | 8,997 | 6,714 |
| International transaction-based activities | 26,206 | 16,584 | - |
| Smart card accounts | - | - | - |
| Financial services | 345 | 539 | 510 |
| Hardware, software and related technology sales | 624 | 7,846 | 10,978 |
| Corporate/ Eliminations | (46) | 705 | 1,146 |
| Total | 36,499 | 34,671 | 19,348 |
| Income taxation expense | | | |
| South African transaction-based activities | 13,948 | 21,003 | 29,713 |
| International transaction-based activities | (449) | (1,003) | - |
| Smart card accounts | 3,590 | 4,238 | 4,068 |
| Financial services | 1,286 | 1,394 | 806 |
| Hardware, software and related technology sales | 894 | (3,111) | 684 |
| Corporate/ Eliminations | (3,333) | 11,004 | 5,551 |
| Total | 15,936 | 33,525 | 40,822 |

| | | | |
|---|---|---|---|
| Net income attributable to Net1 | | | |
| South African transaction-based activities | 35,414 | 54,009 | 75,536 |
| International transaction-based activities | 2,190 | 652 | - |
| Smart card accounts | 9,230 | 10,904 | 10,465 |
| Financial services | 3,309 | 3,587 | 2,073 |
| Hardware, software and related technology sales | 2,616 | (45,191) | (43,405) |
| Corporate/ Eliminations | (8,108) | (21,314) | (5,679) |
| Total | $ 44,651 | $ 2,647 | $ 38,990 |

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# NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the consolidated financial statements**
**for the years ended June 30, 2012, 2011 and 2010**
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**22. OPERATING SEGMENTS (continued)**

| | | | June 30, | | | |
|---|---|---|---|---|---|---|
| | | **2012** | | **2011** | | **2010** |
| Expenditures for long-lived assets | | | | | | |
| South African transaction-based activities | $ | 23,408 | $ | 2,423 | $ | 2,177 |
| International transaction-based activities | | 14,978 | | 12,113 | | - |
| Smart card accounts | | - | | - | | - |
| Financial services | | 620 | | 400 | | 302 |
| Hardware, software and related technology sales | | 161 | | 117 | | 251 |
| Corporate/ Eliminations | | - | | - | | - |
| Total | $ | 39,167 | $ | 15,053 | $ | 2,730 |

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.

**Geographic Information**

Revenues based on the geographic location from which the sale originated for the years ended June 30, are presented in the table below:

| | | **2012** | | **2011** | | **2010** |
|---|---|---|---|---|---|---|
| South Africa | $ | 272,063 | $ | 264,485 | $ | 267,478 |
| Korea | | 114,096 | | 68,392 | | - |
| Europe | | 2,413 | | 10,465 | | 12,301 |
| Rest of world | | 1,692 | | 78 | | 585 |
| Total | $ | 390,264 | $ | 343,420 | $ | 280,364 |

**23. COMMITMENTS AND CONTINGENCIES**

**Operating lease commitments**

The Company leases certain premises. At June 30, 2012, the future minimum payments under operating leases consist of:

| | | |
|---|---|---|
| Due within 1 year | $ | 3,785 |
| Due within 2 years | | 2,878 |
| Due within 3 years | | 1,779 |
| Due within 4 years | | 1,504 |
| Due within 5 years | $ | 265 |

Operating lease payments related to the premises and equipment were $7.5 million, $7.0 million and $5.2 million, respectively, for the years ended June 2012, 2011 and 2010, respectively.

**Capital commitments**

As of June 30, 2012 and 2011, the Company had outstanding capital commitments of approximately $5.0 million and $0.4 million, respectively.

# NET 1 UEPS TECHNOLOGIES, INC.

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**23. COMMITMENTS AND CONTINGENCIES (continued)**

**Purchase obligations**

As of June 30, 2012 and 2011, the Company had purchase obligations totaling $5.0 million and $1.9 million, respectively.

**Contingencies**

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

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

**24. RELATED PARTY TRANSACTIONS**

During the year end June 30, 2010, the Company engaged the services of PBel (Pty) Ltd ( PBel ) to perform software development services, primarily software utilized on mobile phones and by cash-accepting kiosks. All software developed is the Company s property. PBel is jointly owned by Dr. Belamant and his son. The PBel transaction was approved by the Company s Audit Committee and thus Dr. Belamant did not participate in the Board s decision to engage PBel. During the year ended June 30, 2012 and 2011, the Company recognized expenses related to PBel of approximately $0.8 million and $0.9 million, respectively, for software development services. As of each of June 30, 2012 and 2011, respectively, the Company s accounts payable included $0.08 million due to PBel.

**25. UNAUDITED QUARTERLY RESULTS**

The following tables contain selected unaudited consolidated statements of income (loss) for each quarter of fiscal 2012 and 2011:

| | Three months ended | | | | |
|---|---|---|---|---|---|
| | **Jun 30, 2012** | **Mar 31, 2012** | **Dec 31, 2011** | **Sep 30, 2011** | **Total YTD** |
| | **(In thousands except per share data)** | | | | |
| Revenue | $ 107,616 | $ 90,664 | $ 92,058 | $ 99,926 | $ 390,264 |
| Operating (loss) income | (2,402) | 12,478 | 20,228 | 30,846 | 61,150 |
| Net (loss) income attributable to Net1 | $ (7,977) | $ 7,766 | $ 25,094 | $ 19,768 | $ 44,651 |
| Earnings per share | | | | | |
| Basic (loss) earnings per share, in $ | (0.17) | 0.17 | 0.56 | 0.44 | 0.99 |
| Diluted (loss) earnings per share, in $ | (0.17) | 0.17 | 0.56 | 0.44 | 0.99 |

**Three months ended**

| | Jun 30, 2011 | Mar 31, 2011 | Dec 31, 2010 | Sep 30, 2010 | Total YTD |
|---|---|---|---|---|---|
| | (In thousands except per share data) | | | | |
| Revenue | $ 97,368 | $ 92,758 | $ 89,011 | $ 64,283 | $ 343,420 |
| Operating income (loss) | 26,593 | (22,125) | 21,974 | 10,986 | 37,428 |
| Net income (loss) attributable to Net1 | $ 6,832 | $ (21,562) | $ 9,948 | $ 7,429 | $ 2,647 |
| Earnings (Loss) per share | | | | | |
| Basic earnings (loss) per share, in $ | 0.15 | (0.47) | 0.22 | 0.16 | 0.06 |
| Diluted earnings (loss) per share, in $ | 0.15 | (0.47) | 0.22 | 0.16 | 0.06 |

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