NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
February 06, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

OR

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

For the transition period from _______ To ________

Commission file number: **000-31203**

NET 1 UEPS TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Florida	**98-0171860**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

President Place, 4th Floor, Cnr. Jan Smuts Avenue and Bolton Road
Rosebank, Johannesburg 2196, South Africa
(Address of principal executive offices, including zip code)

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

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

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

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

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

As of February 6, 2014 (the latest practicable date), 45,773,342 shares of the registrant s common stock, par value $0.001 per share, net of treasury shares, were outstanding.

Form 10-Q

NET 1 UEPS TECHNOLOGIES, INC.

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

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

	Unaudited December 31, 2013	(A) June 30, 2013
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 22,362	$ 53,665
Pre-funded social welfare grants receivable (Note 2)	7,971	2,934
Accounts receivable, net of allowances of December: $1,326; June: $4,701	125,062	102,614
Finance loans receivable, net of allowances of December: $1,813; June: $-	42,847	8,350
Inventory (Note 3)	13,537	12,222
Deferred income taxes	5,001	4,938
Total current assets before settlement assets	216,780	184,723
Settlement assets (Note 4)	466,599	752,476
Total current assets	683,379	937,199
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of December: $87,536; June: $84,808	47,619	48,301
EQUITY-ACCOUNTED INVESTMENTS	1,290	1,183
GOODWILL (Note 6)	181,111	175,806
INTANGIBLE ASSETS, net (Note 6)	73,874	77,257
OTHER LONG-TERM ASSETS, including reinsurance assets (Note 7)	34,271	36,576
TOTAL ASSETS	1,021,544	1,276,322
LIABILITIES		
CURRENT LIABILITIES		
Bank overdraft (Note 8)	24,256	-
Accounts payable	13,689	26,567
Other payables	34,386	33,808
Current portion of long-term borrowings (Note 9)	14,108	14,209
Income taxes payable	3,479	2,275
Total current liabilities before settlement obligations	89,918	76,859
Settlement obligations (Note 4)	466,599	752,476
Total current liabilities	556,517	829,335
DEFERRED INCOME TAXES	18,261	18,727
LONG-TERM BORROWINGS (Note 9)	57,452	66,632
OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 7)	20,131	21,659
TOTAL LIABILITIES	652,361	936,353
COMMITMENTS AND CONTINGENCIES (Note 17)		
EQUITY		
COMMON STOCK (Note 10)		

Authorized: 200,000,000 with $0.001 par value;				
Issued and outstanding shares, net of treasury - December: 45,773,342; June: 45,592,550		59		59
PREFERRED STOCK				
Authorized shares: 50,000,000 with $0.001 par value; Issued and outstanding shares, net of treasury: December: -; June: -		-		-
ADDITIONAL PAID-IN-CAPITAL		164,060		160,670
TREASURY SHARES, AT COST: December: 13,455,090; June: 13,455,090		(175,823)		(175,823)
ACCUMULATED OTHER COMPREHENSIVE LOSS		(96,103)		(100,858)
RETAINED EARNINGS		476,963		452,618
TOTAL NET1 EQUITY		369,156		336,666
NON-CONTROLLING INTEREST		27		3,303
TOTAL EQUITY		369,183		339,969
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	1,021,544	$	1,276,322

(A) Derived from audited financial statements

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended December 31, 2013	Three months ended December 31, 2012	Six months ended December 31, 2013	Six months ended December 31, 2012
	(In thousands, except per share data)		(In thousands, except per share data)	
REVENUE	$ 137,283	$ 111,442	$ 260,777	$ 223,124
EXPENSE				
Cost of goods sold, IT processing, servicing and support	67,883	47,227	124,442	92,328
Selling, general and administration	40,824	48,756	81,330	96,008
Depreciation and amortization	9,774	10,487	19,803	20,491
OPERATING INCOME	18,802	4,972	35,202	14,297
INTEREST INCOME	3,236	2,589	6,555	5,680
INTEREST EXPENSE	2,226	2,023	3,978	4,094
INCOME BEFORE INCOME TAXES	19,812	5,538	37,779	15,883
INCOME TAX EXPENSE (Note 16)	7,099	2,971	13,584	6,700
NET INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	12,713	2,567	24,195	9,183
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	47	54	150	182
NET INCOME	12,760	2,621	24,345	9,365
LESS (ADD) NET INCOME (LOSS)				
ATTRIBUTABLE TO NON-CONTROLLING INTEREST	11	(8)	-	(8)
NET INCOME ATTRIBUTABLE TO NET1	$ 12,749	$ 2,629	$ 24,345	$ 9,373

Net income per share, in United States dollars (Note 13)				
Basic earnings attributable to Net1 shareholders	$0.28	$0.06	$0.53	$0.21
Diluted earnings attributable to Net1 shareholders	$0.28	$0.06	$0.53	$0.21

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended December 31, 2013	Three months ended December 31, 2012	Six months ended December 31, 2013	Six months ended December 31, 2012
	(In thousands)		(In thousands)	
Net income	$ 12,760	$ 2,621	$ 24,345	$ 9,365
Other comprehensive (loss) income				
Net unrealized income (loss) on asset available for sale, net of tax	216	258	(39)	258
Movement in foreign currency translation reserve	(2,597)	5,927	4,972	10,182
Total other comprehensive (loss) income, net of taxes	(2,381)	6,185	4,933	10,440
Comprehensive income	10,379	8,806	29,278	19,805
(Less) Add comprehensive (income) loss attributable to non-controlling interest	(11)	8	-	8
Comprehensive income attributable to Net1	$ 10,368	$ 8,814	$ 29,278	$ 19,813

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Consolidated Statement of Changes in Equity (dollar amounts in thousands)

	Net 1 UEPS T				
	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury
Balance July 1, 2013	59,047,640	$ 59	(13,455,090)	$ (175,823)	45,592,550
Restricted stock granted	187,963				187,963
Stock-based compensation charge					
Reversal of stock-based compensation charge	(7,171)				(7,171)
Income tax benefit from vested stock awards					
Acquisition of KSNET non-controlling interest (Note 10)					
Net income					
Other comprehensive income					
Balance December 31, 2013	59,228,432	$ 59	(13,455,090)	$ (175,823)	45,773,342

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended December 31,		Six months ended December 31,	
	2013	**2012**	**2013**	**2012**
	(In thousands)		(In thousands)	
Cash flows from operating activities				
Net income	$ 12,760	$ 2,621	$ 24,345	$ 9,365
Depreciation and amortization	9,774	10,487	19,803	20,491
Earnings from equity-accounted investments	(47)	(54)	(150)	(182)
Fair value adjustments	72	1,000	(61)	707
Interest payable	694	1,117	1,666	2,309
Profit on disposal of property, plant and equipment	(15)	(86)	(16)	(86)
Stock-based compensation charge	968	1,117	1,898	2,233
Facility fee amortized	509	76	578	164
(Increase) Decrease in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable	(37,977)	(5,061)	(61,078)	831
Increase in inventory	(2,853)	(6,250)	(1,842)	(7,209)
Decrease in accounts payable and other payables	(4,883)	(4,939)	(13,551)	(6,288)
(Decrease) increase in taxes payable	(5,559)	(6,032)	1,362	(594)
Decrease in deferred taxes	(691)	(916)	(1,878)	(2,932)
Net cash (used in) provided by operating activities	(27,248)	(6,920)	(28,924)	18,809
Cash flows from investing activities				
Capital expenditures	(6,845)	(5,597)	(12,461)	(12,050)
Proceeds from disposal of property, plant and equipment	1,953	251	2,001	356
Acquisitions, net of cash acquired (Note 2)	-	(230)	-	(2,143)
Repayment of loan by equity-accounted investment	-	-	-	3
Proceeds from maturity of investments related to insurance business	-	-	-	545
Other investing activities	-	-	(1)	-
Net change in settlement assets	204,730	(72,835)	256,503	(12,056)
Net cash provided by (used in) investing activities	199,838	(78,411)	246,042	(25,345)

Cash flows from financing activities								
Long-term borrowings obtained (Note 9)		71,605		-		71,605		-
Repayment of long-term borrowings (Note 9)		(87,008)		(7,307)		(87,008)		(7,307)
Payment of facility fee (Note 9)		(872)		-		(872)		-
Proceeds from bank overdraft		24,580		-		24,580		-
Acquisition of interests in KSNET (Note 10)		(1,968)		-		(1,968)		-
Proceeds from issue of common stock		-		-		-		240
Net change in settlement obligations		(204,730)		72,835		(256,503)		12,056
Net cash (used in) provided by financing activities		(198,393)		65,528		(250,166)		4,989
Effect of exchange rate changes on cash		495		375		1,745		540
Net decrease in cash and cash equivalents		(25,308)		(19,428)		(31,303)		(1,007)
Cash and cash equivalents beginning of period		47,670		57,544		53,665		39,123
Cash and cash equivalents end of period	$	22,362	$	38,116	$	22,362	$	38,116

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 six months ended December 31, 2013 and 2012
(All amounts in tables stated in thousands or thousands of United States Dollars, unless otherwise stated)

1. Basis of Presentation and Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with US generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three and six months ended December 31, 2013 and 2012, are not necessarily indicative of the results for the full year. The Company believes that the disclosures are adequate to make the information presented not misleading.

These financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2013. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

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

The Company has updated its accounting policy for the allowance for doubtful finance loans receivable as a result of the increase in its UEPS-based lending book which is included in finance loans receivable in its unaudited condensed consolidated balance sheet. The Company does not believe that an allowance for doubtful finance loans receivable is required for finance loans receivable as of June 30, 2013, because this was an established book and has been recovered. However, the profile of the loan book has changed due to the expansion of the UEPS-based lending book during the six months ended December 31, 2013, and accordingly an allowance for doubtful finance loans receivable is deemed required by the Company.

Loan provisions and allowance for doubtful accounts receivable

UEPS-based lending

The Company s policy is to regularly review the ageing of outstanding amounts due from borrowers and adjust the provision based on management s estimate of the recoverability of finance loans receivable. The Company writes off UEPS-based loans and related service fees if a borrower is in arrears with repayments for more than three months or dies.

Recent accounting pronouncements adopted

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

Recent accounting pronouncements not yet adopted as of December 31, 2013

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

2. Pre-funded social welfare grants receivable

Pre-funded social welfare grants receivable represents amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The January 2014 payment service commenced on January 1, 2014, but the Company pre-funded certain merchants participating in the merchant acquiring system during the last two days of December 2013.

3. Inventory

The Company s inventory comprised the following categories as of December 31, 2013 and June 30, 2013.

	December 31, 2013	June 30, 2013
Finished goods	$ 13,537	$ 12,222
	$ 13,537	$ 12,222

4. Settlement assets and settlement obligations

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

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

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

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

Fair value of financial instruments

Risk management

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

Currency exchange risk

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

The Company s outstanding foreign exchange contracts are as follows: As of December 31, 2013

None.

As of June 30, 2013

Notional amount	Strike price	Fair market value price	Maturity

USD	4,000,000	ZAR	9.06	ZAR	10.1397	September 30, 2013

Translation risk

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

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

Fair value of financial instruments (continued)

Risk management (continued)

Interest rate risk

As a result of its normal borrowing and leasing activities, the Company s operating results are exposed to fluctuations in interest rates, which it manages primarily through regular financing activities. The Company generally maintains limited investment in cash equivalents and has occasionally invested in marketable securities.

Credit risk

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

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

UEPS-based microlending credit risk

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

Equity price and liquidity risk

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

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

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

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

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

The Company's Level 3 asset represents an investment of 156,788,712 shares of common stock of Finbond, which are exchange-traded equity securities. Finbond s shares are traded on the JSE Limited (JSE) and the Company has designated such shares as available for sale investments. The Company has concluded that the market for Finbond shares is not active and consequently has employed alternative valuation techniques in order to determine the fair value of such stock. Currently, the operations of Finbond relate primarily to the provision of microlending products. Finbond was recently issued a mutual banking licence and intends to offer financial products under this licence. In determining the fair value of Finbond, the Company has considered amongst other things Finbond s historical financial information (including its most recent public accounts), press releases issued by Finbond and its published net asset value. The Company believes that the best indicator of fair value of Finbond is its published net asset value and has used this value to determine the fair value.

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

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

The fair value of these securities as of December 31, 2013, represented approximately 1% of the Company s total assets, including these securities.

The following table presents the Company s assets measured at fair value on a recurring basis as of December 31, 2013, according to the fair value hierarchy:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	$ 1,769	$ -	$ -	$ 1,769
Investment in Finbond (available for sale assets included in other long-term assets)	-	-	7,721	7,721
Other	-	139	-	139
Total assets at fair value	$ 1,769	$ 139	$ 7,721	$ 9,629

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

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

Changes in the Company s investment in Finbond (Level 3 that are measured at fair value on a recurring basis) were insignificant during the three and six months ended December 31, 2013 and 2012, respectively. There have been no transfers in or out of Level 3 during the three and six months ended December 31, 2013 and 2012, respectively.

Assets and liabilities measured at fair value on a nonrecurring basis

The Company measures its assets at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The Company has no liabilities that are measured at fair value on a nonrecurring basis. The Company reviews the carrying values of its assets when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary.

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

Assets and liabilities measured at fair value on a nonrecurring basis (continued)

The fair values of the Company s assets are determined using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the assets exceeds its fair value and the excess is determined to be other-than-temporary. The Company has not recorded any impairment charges during the reporting periods presented herein.

6. Goodwill and intangible assets

Goodwill

Summarized below is the movement in the carrying value of goodwill for the six months ended December 31, 2013:

		Gross value		Accumulated impairment		Carrying value
Balance as of June 30, 2013	$	218,558	$	(42,752)	$	175,806
Foreign currency adjustment (1)		7,383		(2,078)		5,305
Balance as of December 31, 2013	$	225,941		($44,830)	$	181,111

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

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

		As of December 31, 2013		As of June 30, 2013
SA transaction-based activities	$	28,749	$	30,525
International transaction-based activities		122,538		113,972
Smart card accounts		-		-
Financial services		-		-
Hardware, software and related technology sales		29,824		31,309
Total	$	181,111	$	175,806

Intangible assets

Carrying value and amortization of intangible assets

Summarized below is the carrying value and accumulated amortization of the intangible assets as of December 31, 2013 and June 30, 2013:

	As of December 31, 2013						As of June 30, 2013					
		Gross carrying value		Accumulated amortization		Net carrying value		Gross carrying value		Accumulated amortization		Net carrying value
Finite-lived intangible assets:	$	95,000	$	(35,332)	$	59,668	$	90,469	$	(29,818)	$	60,651

Customer relationships										
Software and unpatented technology		36,116		(25,531)		10,585		34,951		(22,151)		12,800
FTS patent		3,648		(3,648)		-		3,873		(3,873)		-
Exclusive licenses		4,506		(4,506)		-		4,506		(4,506)		-
Trademarks		6,721		(3,100)		3,621		6,611		(2,805)		3,806
Customer database		579		(579)		-		614		(614)		-
Total finite-lived intangible assets	$	146,570	$	(72,696)	$	73,874	$	141,024	$	(63,767)	$	77,257

Aggregate amortization expense on the finite-lived intangible assets for the three and six months ended December 31, 2013, was approximately $4.1 million and $7.8 million, respectively (three and six months ended December 31, 2012, was approximately $4.9 million and $9.6 million, respectively).

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

Future estimated annual amortization expense for the next five fiscal years and thereafter, assuming exchange rates prevailing on December 31, 2013, is presented in the table below. Actual amortization expense in future periods could differ from this estimate as a result of acquisitions, changes in useful lives, exchange rate fluctuations and other relevant factors.

2014	$ 15,793
2015	15,742
2016	11,361
2017	9,023
2018	9,023
Thereafter	$ 20,823

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

Reinsurance assets and policy holder liabilities under insurance contracts

Summarized below is the movement in reinsurance assets and policy holder liabilities under insurance contracts during the six months ended December 31, 2013:

	Reinsurance assets (1)	Insurance contracts (2)
Balance as of June 30, 2013	$ 19,557	$ (19,711)
Foreign currency adjustment (3)	(1,138)	1,147
Balance as of December 31, 2013	$ 18,419	$ (18,564)

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

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

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

Assets and policy holder liabilities under investment contracts

Summarized below is the movement in assets and policy holder liabilities under investment contracts during the six months ended December 31, 2013:

	Assets (1)	Investment contracts (2)
Balance as of June 30, 2013	$ 953	$ (953)
Foreign currency adjustment (3)	(56)	56

Balance as of December 31, 2013	$	897	$	(897)

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

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

8. Short-term credit facility

During December 2013, the Company increased its short-term South African credit facility with Nedbank Limited to ZAR 650 million ($61.9 million, translated at exchange rates applicable as of December 31, 2013) through March 31, 2014. The short-term facility comprises an overdraft facility of up to ZAR 500 million and indirect and derivative facilities of up to ZAR 150 million, which include letters of guarantee, letters of credit and forward exchange contracts. The overdraft facility of ZAR 500 million will revert to ZAR 250 million on March 31, 2014. As of December 31, 2013, the interest rate on the overdraft facility was 7.35% . The Company has ceded its investment in Cash Paymaster Services Proprietary Limited (CPS), a wholly owned South African subsidiary, as security for its repayment obligations under the facility. A commitment fee of 0.35% per annum is payable on the monthly unutilized amount of the overdraft portion of the short-term facility. The Company is required to comply with customary non-financial covenants, including, without limitation, covenants that restrict the Company s ability to dispose of or encumber its assets, incur additional indebtedness or engage in certain business combinations. As of December 31, 2013, the Company had utilized ZAR 254.8 million ($24.3 million, translated at exchange rates applicable as of December 31, 2013) of the overdraft facility and ZAR 132.0 million ($12.6 million, translated at exchange rates applicable as of December 31, 2013) of this facility to enable the bank to issue guarantees, including stand-by letters of credit, in order for the Company to honor its obligations to third parties requiring such guarantees (Refer to Note 17). As of June 30, 2013, the Company had utilized none of this facility.

9. Long-term borrowings

In October 2013, the Company refinanced its existing long-term Korean credit facility and signed a new five-year senior secured facilities agreement (the Facilities Agreement) with a consortium of Korean banks. The Facilities Agreement provides for three separate facilities to the Company s wholly owned subsidiary, Net1 Applied Technologies Korea (Net1 Korea): a Facility A loan of up to KRW 60.0 billion ($56.4 million), a Facility B loan of up to KRW 15 billion ($14.1 million) and a Facility C revolving credit facility of up to KRW 10.0 billion ($9.4 million) (all facilities denominated in KRW and translated at exchange rates applicable as of December 31, 2013).

The Facility A and B loans were fully drawn on October 29, 2013, and used to repay KRW 75.0 billion ($70.6 million) of the KRW 92.4 billion ($87.0 million) loan outstanding under the existing facility. The remaining outstanding KRW 17.4 billion ($16.4 million) balance of that facility was paid from cash on hand on October 29, 2013. In addition, the Company drew KRW 1.1 billion ($1.0 million) of the revolving credit facility on October 29, 2013, to pay fees and expenses related to the Facilities Agreement.

Interest on the loans and revolving credit facility is payable quarterly and is based on the Korean CD rate in effect from time to time plus a margin of 3.10% for the Facility A loan and Facility C revolving credit facility; and a margin of 2.90% for the Facility B loan. The CD rate was 2.66% on December 31, 2013 and therefore the interest rate in effect as of December 31, 2013, for the Facility A loan and Facility C revolving credit facility was 5.76% and for the Facility B loan was 5.56%, respectively. The Company paid facilities fees of approximately KRW 0.9 billion on October 29, 2013 and amortized approximately $0.1 million during the three and six months ended December 31, 2013. A commitment fee of 0.3% is payable on any un-drawn and un-cancelled amount of the revolving credit facility. Total interest expense related to the new and refinanced facilities during the three and six months ended December 31, 2013 and 2012, was $1.8 million and $1.8 million; and $3.6 million and $3.6 million, respectively.

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

The loans under the Facilities Agreement are secured by a pledge by Net1 Korea of its entire equity interest in KSNET and a pledge by the immediate parent of Net1 Korea (also one of the Company s subsidiaries) of its entire equity interest in Net1 Korea. The Facilities Agreement contains customary covenants that require Net1 Korea to maintain agreed leverage and debt service coverage ratios and restricts Net1 Korea s ability to make certain distributions with respect to its capital stock, prepay other debt, encumber its assets, incur additional indebtedness, or engage in certain business combinations. The loans under the Facilities Agreement are without recourse to, and the covenants and other agreements contained therein do not apply to, the Company or any of the Company s subsidiaries (other than Net1 Korea).

The Company s refinanced KRW 92.4 billion Korean senior secured loan facility is described in Note 13 to the Company s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2013. The Company has expensed the remaining prepaid facility fees related to the refinanced facility of approximately $0.4 million during the three and six months ended December 31, 2013. The third scheduled repayment related to this refinanced facility of $7.3 million was paid on October 29, 2012.

10. Capital structure

The following table presents reconciliation between the number of shares, net of treasury, presented in the consolidated statement of changes in equity during the six months ended December 31, 2013 and 2012, respectively, and the number of shares, net of treasury, excluding non-vested equity shares that have not vested during the six months ended December 31, 2013 and 2012, respectively:

	Six months ended December 31,	
	2013	2012
	000	000
Number of shares, net of treasury:		
Statement of changes in equity	45,773,342	45,600,471
Less: Non-vested equity shares that have not vested	(569,111)	(644,750)
Number of shares, net of treasury excluding non-vested equity shares that have not vested	45,204,231	44,955,721

December 2013 Black Economic Empowerment transactions

On December 10, 2013, the Company entered into definitive agreements relating to two Black Economic Empowerment (BEE) transactions. Pursuant to the Relationship Agreements dated December 10, 2013 between the Company and its BEE partners, the Company will sell an aggregate of 4,400,000 shares of its common stock (BEE shares) for a purchase price of ZAR 60.00 per share. Closing of these BEE transactions is subject to the satisfaction of certain conditions contained in the Relationship Agreements, including receipt of any required regulatory approvals (including approval of the South African Reserve Bank) and the finalization of ancillary agreements. Closing of one transaction is not contingent on the closing of the other transaction. As of December 31, 2013, the transactions had not been implemented because the agreed conditions had not been satisfied. As of January 31, 2014, the closing conditions had not yet been met and therefore the parties extended the date to satisfy all closing conditions to March 15, 2014.

The ZAR 60.00 per share purchase price for the BEE shares, which will be contractually restricted as to resale as described below, will be paid in ZAR and represents 75% of the closing price of the Company s common stock on the JSE on December 6, 2013, the date the Company completed final negotiation of the terms of these BEE transactions.

The Relationship Agreements provide that the entire purchase price for the BEE shares will be financed through a five-year loan to be extended to each of the BEE partners by a South African subsidiary of the Company. The obligations of the BEE partners under the loans are several, and not joint. Each of the BEE partners will grant the lender a security interest in all the BEE shares being purchased by such BEE partner to secure the repayment of its loan. The principal amount of the loans being made by the subsidiary will be contributed by Net1 to the equity capital of the subsidiary. As a result of the making of the loans, the net cash position of the Company after the sale of the BEE shares will remain unchanged.

The loans will bear interest at a rate equal to the Johannesburg Interbank Rate (550 basis points as of December 31, 2013) plus 300 basis points. Interest on the loans is payable semi-annually in arrears on January 1 and July 1 of each year. 10% of the outstanding principal amount of the loans will be payable on each of the first and second anniversaries of the date of issuance of the BEE shares, 15% of the outstanding principal amount of the loans will be payable on each of the third and fourth anniversaries of the date of issuance of the BEE shares and the remaining outstanding principal amount of the loans will be payable on the fifth anniversary of the date of issuance of the BEE shares. Further, the entire outstanding principal amount of the loans will be payable if the price of the Company s common stock on the JSE equals or exceeds ZAR 120.00 per share at any time during term of the loans. Upon the occurrence of certain trigger events with respect to a BEE partner, the BEE shares held by that BEE partner may be repurchased by the Company or one of its designees. These trigger events include the following:

- failure by the BEE partner to pay any amount due on its loan (including interest) to the lender (in this case, the Company may repurchase only that number of shares which would raise sufficient funds to settle any amount due and unpaid);
- any other breach by the BEE partner (or in certain circumstances its shareholders) of any provision of the Relationship Agreement, including without limitation, its failure to maintain its BEE status;
- the Company s common stock trades at or below ZAR 60.00 on the JSE or at or below the equivalent trading price on Nasdaq;
- the occurrence of certain insolvency events or liquidation proceedings affecting the BEE partner; or
- the BEE partner fails to satisfy any judgment or arbitration award granted or made against it within 7 days.

10. Capital structure (continued)

December 2013 Black Economic Empowerment transactions (continued)

If the trigger event involves a failure by a BEE partner to pay any amount due on its loan, then the repurchase price is the volume-weighted average price of the Company s common stock on the Nasdaq for the period of 30 trading days prior to the trigger event, or 30-day VWAP. In the case of other trigger events, the repurchase price is the lower of the 30-day VWAP or ZAR 60.00 per share.

The BEE shares will be contractually restricted as to resale for a period of five years from the date of issuance, with the exception of periodic sales which may be made to fund the repayment of principal and interest on the loans. In addition, the Company may call the BEE shares then owned by the BEE partners, either in exchange for a minority interest in CPS or for a cash payment equal to the 30-day VWAP. Further, after the fifth anniversary of the date of issuance of the BEE shares, the Company will have a right of first refusal on the shares owned by the BEE partners.

The loans to the BEE partners do not provide that they are recourse only to the BEE shares. Nevertheless, the Company expects that the sole source of repayment of the loans will be proceeds from the sale of its shares by the BEE partners from time to time, in open market or in privately negotiated transactions.

Acquisition of KSNET non-controlling interests

The Company acquired substantially all of the issued share capital of KSNET, Inc. that it did not previously own for approximately $2.0 million in cash. After the acquisition of the additional shares, the Company now owns almost 100% of KSNET and intends to purchase the remaining shares it does not yet own. The Company believes that it will realize certain Korean tax efficiencies in the future if it is able to acquire the remaining KSNET shares that it does not own. The transaction was accounted for as an equity transaction with a non-controlling interest and accordingly, no gain or loss was recognized in the Company s consolidated statement of operations. The carrying amount of the non-controlling interest was adjusted to reflect the change in ownership interest in KSNET. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest was adjusted, of $1.5 million, was recognized in equity attributable to Net1.

11. Accumulated other comprehensive (loss) income

The table below presents the change in accumulated other comprehensive (loss) income per component during the six months ended December 31, 2013:

		Six months ended December 31, 2013	
	Foreign currency translation reserve 000	**Net unrealized income (loss) on asset available for sale, net of tax 000**	**Total 000**
Balance as of June 30, 2013	$ (101,188)	$ 330	$ (100,858)
Movement in foreign currency translation reserve	4,794	-	4,794
	-	(39)	(39)

Unrealized loss on asset available for sale, net of tax of $15						
Balance as of December 31, 2013	$	(96,394)	$	291	$	(96,103)

There were no reclassification from accumulated other comprehensive loss to comprehensive (loss) income during the six months ended December 31, 2013 or 2012, respectively.

12. Stock-based compensation

Stock option and restricted stock activity

Options

The following table summarizes stock option activity for the three and six months ended December 31, 2013 and 2012:

	Number of shares	Weighted average exercise price ($)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ($ 000)	Weighted Average Grant Date Fair Value ($)
Outstanding June 30, 2013	2,648,583	15.15	5.98	313	
Granted under Plan: August 2013	224,896	7.35	10.00	568	2.53
Outstanding December 31, 2013	2,873,479	14.54	5.79	1,037	
Outstanding June 30, 2012	2,247,583	16.28	6.43	602	
Granted under Plan: August 2012	431,000	8.75	10.00	1,249	2.90
Exercised	(30,000)	7.98		24	
Outstanding December 31, 2012	2,648,583	15.15	6.74	978	

The fair value of each option is estimated on the date of grant using the Cox Ross Rubinstein binomial model that uses the assumptions noted in the following table. The estimated expected volatility is calculated based on the Company s 250 day volatility. The estimated expected life of the option was determined based historical behavior of employees who were granted options with similar terms. The Company has estimated no forfeitures for options awarded in August 2013 and 2012, respectively. The table below presents the range of assumptions used to value options granted during the three and six months ended December 31, 2013 and 2012:

	Three and six months ended December 31,	
	2013	2012
Expected volatility	50%	49%
Expected dividends	0%	0%
Expected life (in years)	3	3
Risk-free rate	0.9%	0.3%

The following table presents stock options vesting and expecting to vest as of December 31, 2013:

	Number of shares	Weighted average exercise price ($)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ($ 000)
Vested and expecting to vest December 31, 2013	2,873,479	14.54	5.79	1,037

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

12. Stock-based compensation (continued)

Stock option and restricted stock activity (continued)

Options (continued)

	Number of shares	Weighted average exercise price ($)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ($ 000)
Exercisable	2,144,917	16.51	4.97	566

During each of the three months ended December 31, 2013 and 2012, respectively, 159,666 stock options became exercisable. During the six months ended December 31, 2013 and 2012, respectively, 358,333 and 244,666 stock options became exercisable. Included in the 244,666 stock options are 30,000 stock options with respect to which the Remuneration Committee of the Board agreed to accelerate vesting, in August 2012, prior to the resignation of a non-employee director. During the six months ended December 31, 2012, the Company received approximately $0.2 million from 30,000 stock options exercised by the non-employee director that resigned. No stock options were exercised during the three and six months ended December 31, 2013 or during the three months ended December 31, 2012. The Company issues new shares to satisfy stock option exercises.

Restricted stock

The following table summarizes restricted stock activity for the three and six months ended December 31, 2013 and 2012:

	Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value ($ 000)
Non-vested June 30, 2013	405,226	4,393
Granted August 2013	187,963	1,382
Vested August 2013	(16,907)	161
Forfeitures October 2013	(7,171)	161
Non-vested December 31, 2013	569,111	5,572
Non-vested June 30, 2012	646,617	7,061
Granted August 2012	21,569	189
Vested August 2012	(23,436)	216
Non-vested December 31, 2012	644,750	7,021

No restricted stock vested during the three months ended December 31, 2013 and 2012, respectively. The fair value of restricted stock vesting during the six months ended December 31, 2013 and 2012, respectively, was $0.2 million and $0.2 million. A non-employee director resigned during the three months ended December 31, 2013, and forfeited 7,171 shares of restricted stock. Included in the 23,436 shares of restricted stock that vested in August 2012 are 8,547 shares with respect to which the Remuneration Committee of the Board agreed to accelerate vesting prior to the resignation of a non-employee director.

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

17

12. Stock-based compensation (continued)

Stock-based compensation charge and unrecognized compensation cost

The Company has recorded a stock compensation charge of $1.0 million and $1.1 million for the three months ended December 31, 2013 and 2012, respectively, which comprised:

	Total charge	Allocated to cost of goods sold, IT processing, servicing and support	Allocated to selling, general and administration
Three months ended December 31, 2013			
Stock-based compensation charge	$ 974	-	$ 974
Reversal of stock compensation charge related to restricted stock forfeited	(6)	-	(6)
Total three months ended December 31, 2013 .	$ 968	$ -	$ 968
Three months ended December 31, 2012			
Stock-based compensation charge	$ 1,117	$ -	$ 1,117
Total three months ended December 31, 2012 .	$ 1,117	$ -	$ 1,117

The Company has recorded a stock compensation charge of $1.9 million and $2.2 million for the six months ended December 31, 2013 and 2012, respectively, which comprised:

	Total charge	Allocated to cost of goods sold, IT processing, servicing and support	Allocated to selling, general and administration
Six months ended December 31, 2013			
Stock-based compensation charge	$ 1,904	$ -	$ 1,904
Reversal of stock compensation charge related to restricted stock forfeited	(6)	-	(6)
Total six months ended December 31, 2013	$ 1,898	$ -	$ 1,898
Six months ended December 31, 2012			
Stock-based compensation charge	$ 2,233	$ -	$ 2,233
Total six months ended December 31, 2012	$ 2,233	$ -	$ 2,233

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

As of December 31, 2013, the total unrecognized compensation cost related to stock options was approximately $1.3 million, which the Company expects to recognize over approximately three years. As of December 31, 2013, the total unrecognized compensation cost related to restricted stock awards was approximately $3.6 million, which the Company expects to recognize over approximately two years.

As of each of December 31, 2013 and June 30, 2013, respectively, the Company has recorded a deferred tax asset of approximately $1.4 million related to the stock-based compensation charge recognized related to employees and directors of Net1 as it is able to deduct the grant date fair value for taxation purposes in the United States.

13. Earnings per share

Basic earnings per share include shares of restricted stock that meet the definition of a participating security because these shares are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the three and six months ended December 31, 2013 and 2012, reflects only undistributed earnings. The computation below of basic earnings per share excludes the net income attributable to shares of unvested restricted stock (participating non-vested restricted stock) from the numerator and excludes the dilutive impact of these unvested shares of restricted stock from the denominator.

13. Earnings per share (continued)

Diluted earnings per share has been calculated to give effect to the number of shares of additional common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. Stock options are included in the calculation of diluted earnings per share utilizing the treasury stock method and are not considered to be participating securities as the stock options do not contain non-forfeitable dividend rights. The calculation of diluted earnings per share includes the dilutive effect of a portion of the restricted stock granted to employees in February 2012 and August 2013 as these shares of restricted stock are considered contingently returnable shares for the purposes of the diluted earnings per share calculation and the vesting conditions in respect of a portion of the restricted stock had been satisfied. The vesting conditions are discussed in Note 17 to the Company s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2013.

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

	Three months ended December 31, 2013	Three months ended December 31, 2012	Six months ended December 31, 2013	Six months ended December 31, 2012
	(in thousands except percent and per share data)		(in thousands except percent and per share data)	
Numerator:				
Net income attributable to Net1	$ 12,749	$ 2,629	$ 24,345	$ 9,373
Undistributed earnings	12,749	2,629	24,345	9,373
Percent allocated to common shareholders (Calculation 1)	99%	99%	99%	99%
Numerator for earnings per share: basic and diluted	$ 12,594	$ 2,597	$ 24,075	$ 9,256
Denominator:				
Denominator for basic earnings per share:				
weighted-average common shares outstanding	45,221	44,989	45,218	44,981
Effect of dilutive securities:				
Performance shares related to acquisition	-	-	-	-
Stock options	156	26	113	37
Denominator for diluted earnings per share: adjusted weighted average common shares outstanding and assumed	45,377	45,015	45,331	45,018

conversion								
Earnings per share:								
Basic	$	0.28	$	0.06	$	0.53	$	0.21
Diluted	$	0.28	$	0.06	$	0.53	$	0.21
(Calculation 1)								
Basic weighted-average common shares outstanding (A)		45,221		44,989		45,218		44,981
Basic weighted-average common shares outstanding and unvested restricted shares expected to vest (B)		45,776		45,550		45,725		45,550
Percent allocated to common shareholders (A) / (B)		99%		99%		99%		99%

Options to purchase 1,530,863 shares of the Company s common stock at prices ranging from $13.14 to $24.46 per share were outstanding during the three and six months ended December 31, 2013, but were not included in the computation of diluted earnings per share because the options exercise price were greater than the average market price of the Company s common shares. The options, which expire at various dates through August 21, 2023, were still outstanding as of December 31, 2013.

14. Supplemental cash flow information

The following table presents the supplemental cash flow disclosures for the three and six months ended December 31, 2013 and 2012:

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
Cash received from interest	$ 3,223	$ 2,584	$ 6,464	$ 5,709
Cash paid for interest	$ 2,027	$ 2,053	$ 3,666	$ 4,053
Cash paid for income taxes	$ 14,029	$ 10,137	$ 14,527	$ 10,479

15. Operating segments

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

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

	Three months ended December 31,		Six months ended December 31,	
	2013	2012	2013	2012
Revenues from external customers				
SA transaction-based activities	$ 72,237	$ 60,764	$ 135,269	$ 122,128
International transaction-based activities	37,288	33,113	74,105	64,762
Smart card accounts	11,237	8,219	22,566	16,583
Financial services	6,199	1,448	8,626	2,832
Hardware, software and related technology sales	10,322	7,898	20,211	16,819
Total	137,283	111,442	260,777	223,124
Inter-company revenues				
SA transaction-based activities	2,957	3,885	5,232	7,868
International transaction-based activities	-	-	-	-
Smart card accounts	-	-	-	-
Financial services	273	401	525	787
Hardware, software and related technology sales	349	379	519	587
Total	3,579	4,665	6,276	9,242
Operating income (loss)				
SA transaction-based activities	13,398	1,933	26,680	8,333
International transaction-based activities	1,365	202	3,416	31

Smart card accounts		3,203		2,342	6,431	4,727
Financial services		1,727		1,048	1,783	2,145
Hardware, software and related technology sales		1,592		795	4,540	2,779
Subtotal: Operating segments		21,285		6,320	42,850	18,015
Corporate/Eliminations		(2,483)		(1,348)	(7,648)	(3,718)
Total		18,802		4,972	35,202	14,297
Interest income						
SA transaction-based activities		-		-	-	-
International transaction-based activities		-		-	-	-
Smart card accounts		-		-	-	-
Financial services		-		-	-	-
Hardware, software and related technology sales		-		-	-	-
Subtotal: Operating segments		-		-	-	-
Corporate/Eliminations		3,236		2,589	6,555	5,680
Total	$	3,236	$	2,589 $	6,555 $	5,680

15. Operating segments (continued)

	Three months ended December 31, 2013	Three months ended December 31, 2012	Six months ended December 31, 2013	Six months ended December 31, 2012
Interest expense				
SA transaction-based activities	$ 20	$ 202	$ 43	$ 345
International transaction-based activities	-	-	44	-
Smart card accounts	-	-	-	-
Financial services	338	-	389	-
Hardware, software and related technology sales	198	56	359	126
Subtotal: Operating segments	556	258	835	471
Corporate/Eliminations	1,670	1,765	3,143	3,623
Total	2,226	2,023	3,978	4,094
Depreciation and amortization				
SA transaction-based activities	2,485	3,289	4,932	6,430
International transaction-based activities	7,064	7,025	14,470	13,704
Smart card accounts	-	-	-	-
Financial services	116	97	233	184
Hardware, software and related technology sales	109	76	168	173
Subtotal: Operating segments	9,774	10,487	19,803	20,491
Corporate/Eliminations	-	-	-	-
Total	9,774	10,487	19,803	20,491
Income taxation expense (benefit)				
SA transaction-based activities	3,746	483	7,458	2,236
International transaction-based activities	487	(147)	644	(580)
Smart card accounts	896	655	1,799	1,323
Financial services	393	298	403	610
Hardware, software and related technology sales	309	192	1,002	630
Subtotal: Operating segments	5,831	1,481	11,306	4,219
Corporate/Eliminations	1,268	1,490	2,278	2,481
Total	7,099	2,971	13,584	6,700
Net income (loss)				

SA transaction-based activities	9,632	1,247	19,179	5,751
International transaction-based activities	1,049	492	2,986	835
Smart card accounts	2,307	1,686	4,631	3,402
Financial services	1,011	769	1,038	1,570
Hardware, software and related technology sales	1,088	552	3,183	2,029
Subtotal: Operating segments	15,087	4,746	31,017	13,587
Corporate/Eliminations	(2,338)	(2,117)	(6,672)	(4,214)
Total	12,749	2,629	24,345	9,373
Expenditures for long-lived assets				
SA transaction-based activities	1,743	1,375	2,299	4,969
International transaction-based activities	4,682	4,067	9,513	6,770
Smart card accounts	-	-	-	-
Financial services	(14)	127	186	272
Hardware, software and related technology sales	434	28	463	39
Subtotal: Operating segments	6,845	5,597	12,461	12,050
Corporate/Eliminations	-	-	-	-
Total	$ 6,845	$ 5,597	$ 12,461	$ 12,050

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

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

16. Income tax

Income tax in interim periods

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

For the three and six months ended December 31, 2013, the tax charge was calculated using the expected effective tax rate for the year. The Company s effective tax rate for the three and six months ended December 31, 2013, was 35.8% and 35.9%, respectively, and was higher than the South African statutory rate primarily as a result of non-deductible expenses (including interest expense related to the Company s long-term Korean borrowings and stock-based compensation charges). The Company s effective tax rate for the three and six months ended December 31, 2012, was 53.6% and 42.2%, respectively, and was higher than the South African statutory rate primarily as a result of non-deductible expenses (including interest expense related to the Company s long-term Korean borrowings and stock-based compensation charges) and South African dividend withholding taxes.

Uncertain tax positions

There were no changes during the three and six months ended December 31, 2013. As of December 31, 2013, the Company had accrued interest related to uncertain tax positions of approximately $0.2 million on its balance sheet.

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

The Company files income tax returns mainly in South Africa, Korea, Austria, Botswana, the Russian Federation and in the US federal jurisdiction. As of December 31, 2013, the Company is no longer subject to any new income tax examination by the South African Revenue Service for years before June 30, 2009. In 2011, the Korea National Tax Service had completed the examination of the Company s returns in Korea related to years 2006 through 2010. The Company is subject to income tax in other jurisdictions outside South Africa and Korea, none of which are individually material to its financial position, cash flows, or results of operations.

17. Commitments and contingencies

Guarantees

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

Nedbank has issued guarantees to these third parties amounting to ZAR 132.0 million ($12.6 million, translated at exchange rates applicable as of December 31, 2013) and thereby utilizing part of the Company s short-term facility. The Company in turn has provided nonrecourse, unsecured counter-guarantees to Nedbank for the same amount. The Company pays commission of between 0.2% per annum to 2.0% per annum of the face value of these guarantees and does not recover any of the commission from third parties.

The Company has not recognized any obligation related to these counter-guarantees in its unaudited condensed consolidated balance sheet as of December 31, 2013. The maximum potential amount that the Company could pay under these guarantees is ZAR 132.0 million ($12.6 million, translated at exchange rates applicable as of December 31, 2013). The guarantees have reduced the amount available for borrowings under the Company s short-term credit facility described in note 8.

Contingencies

Securities Litigation

On December 24, 2013, Net1, its chief executive officer and its chief financial officer were named as defendants in a purported class action lawsuit filed in the United States District Court for the Southern District of New York alleging violations of the federal securities laws.

17. Commitments and contingencies (continued)

Contingencies (continued)

Securities Litigation (continued)

The lawsuit alleges that Net1 made materially false and misleading statements regarding its business and compliance policies in its SEC filings and other public disclosures. The lawsuit was brought on behalf of a purported shareholder of Net1 and all other similarly situated shareholders who purchased its securities between August 27, 2009 and November 27, 2013. The lawsuit seeks unspecified damages. The Company believes this lawsuit has no merit and intends to defend it vigorously.

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.

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

The following discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended June 30, 2013, and the unaudited condensed consolidated financial statements and the accompanying notes included in this Form 10-Q.

Forward-looking statements

Some of the statements in this Form 10-Q constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. Such factors include, among other things, those listed under Item 1A. Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2013 and Item 1A Risk Factors and elsewhere in this Form 10-Q. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, would, expects, plans, intends, anticipates, believes, estimates, pre
or the negative of such terms and other comparable terminology.

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

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

Recent Developments

AllPay Challenge to Tender Award

On November 29, 2013, the South African Constitutional Court ruled that the tender process followed by SASSA in awarding a five-year social welfare grants distribution contract to us was constitutionally invalid. However, the Constitutional Court suspended its declaration of invalidity pending determination of a just and equitable remedy. The grant of a just and equitable remedy was reserved pending a further hearing, which has been set for February 11, 2014. As ordered by the Constitutional Court, the parties have submitted additional information on affidavit. See Part II, Item 1 Legal Proceedings.

December 2013 Black Economic Empowerment, or BEE, transactions

On December 10, 2013, we entered into definitive agreements relating to two BEE transactions. Refer to note 10 to our unaudited condensed consolidated financial statements for a full description of the BEE transactions.

Growth in mobile value-added services

Our Net1 Mobile Solutions business unit introduced a new suite of mobile value-added services, commencing with a prepaid airtime product called Umoya Manje during the first quarter of fiscal 2014. We continued to see adoption of this product increase in the second quarter of fiscal 2014. This product allows our customers in South Africa to electronically purchase prepaid airtime without having to visit a physical prepaid airtime vendor.

Traditional prepaid airtime procurement is usually time consuming for the customer and results in them having to pay additional costs. Our product allows our customers, many of whom do not have their own means of transport or ready access to transport, to purchase prepaid airtime without having to travel. We also believe that our product is substantially cheaper than traditional prepaid airtime channels, which often require customers to pay a substantial premium to obtain airtime. At December 31, 2013, we had over 2.4 million registered users, effecting more than one million transactions per day during peak periods. In December 2013, Net1 Mobile Solutions launched other mobile value-added services, including prepaid electricity, and expects the adoption rates of these products to be similar to its prepaid airtime offering. We believe that these new products are also cheaper than existing offerings and will make a meaningful difference in the lives of users of these new products.

Expansion of financial service offering

During the second quarter of fiscal 2014, our Financial Services business unit continued the national rollout of our financial services offering in the six provinces in which we did not offer our product during fiscal 2013.

Acquisition of KSNET non-controlling interests

We acquired substantially all of the issued share capital of KSNET that we did not previously own for approximately $2.0 million in cash. Refer to note 10 to our unaudited condensed consolidated financial statements for a full description of the acquisition of KSNET non-controlling interests.

Critical Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in accordance with US GAAP, which requires management to make estimates and assumptions about future events that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities. As future events and their effects cannot be determined with absolute certainty, the determination of estimates requires management s judgment based on a variety of assumptions and other determinants such as historical experience, current and expected market conditions and certain scientific evaluation techniques.

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially may result in materially different results under different assumptions and conditions. Management has identified the following critical accounting policies that are described in more detail in our Annual Report on Form 10-K for the year ended June 30, 2013:

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

During the first half of 2014, we created an allowance for doubtful finance loans receivable related to our financial services segment as a result of UEPS-based loans provided to our customers. Our policy is to regularly review the ageing of outstanding amounts due from borrowers and adjust the provision based on management s estimate of the recoverability of finance loans receivable. We write off UEPS-based loans and related service fees if a borrower is in arrears with repayments for more than three months or dies.

This is a new allowance and management considered factors including the period of the UEPS-loan outstanding, creditworthiness of the customers and the past payment history and trends of its established UEPS-based lending book. We consider this policy to be appropriate taking into account factors such as historical bad debts, current economic trends and changes in our customer payment patterns. Additional allowances may be required should the ability of our customers to make payments when due deteriorate in the future. A significant amount of judgment is required to assess the ultimate recoverability of these finance loan receivables, including on-going evaluation of the creditworthiness of each customer.

Recent accounting pronouncements adopted

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

Recent accounting pronouncements not yet adopted as of December 31, 2013

Refer to note 1 to our unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of December 31, 2013, including the expected dates of adoption and effects on our financial condition, results of operations and cash flows.

Currency Exchange Rate Information

Actual exchange rates

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

Table 1	**Three months ended December 31,**		**Six months ended December 31,**		**Year ended June 30,**
	2013	**2012**	**2013**	**2012**	**2013**
ZAR : $ average exchange rate	10.1603	8.7029	10.0809	8.4836	8.8462
Highest ZAR : $ rate during period	10.5730	9.0047	10.5730	9.0047	10.3587
Lowest ZAR : $ rate during period					