

NET 1 UEPS TECHNOLOGIES INC  
Form 10-Q  
May 08, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **March 31, 2014**

OR

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

For the transition period from \_\_\_\_\_ To \_\_\_\_\_

Commission file number: **000-31203**

**NET 1 UEPS TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

**Florida**  
(State or other jurisdiction  
of incorporation or organization)

**98-0171860**  
(IRS Employer  
Identification No.)

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

(Address of principal executive offices, including zip code)

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

**Not Applicable**

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

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

YES  NO

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

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a smaller reporting company)

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

YES  NO

As of May 8, 2014 (the latest practicable date), 50,183,342 shares of the registrant's common stock, par value \$0.001 per share, net of treasury shares, were outstanding.

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## Form 10-Q

## NET 1 UEPS TECHNOLOGIES, INC.

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## Part I. Financial Information

## Item 1. Financial Statements

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

	<b>Unaudited March 31, 2014</b>	<b>(A) June 30, 2013</b>
	(In thousands, except share data)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 30,875	\$ 53,665
Pre-funded social welfare grants receivable (Note 2)	4,728	2,934
Accounts receivable, net of allowances of March: \$1,592; June: \$4,701	132,356	102,614
Finance loans receivable, net of allowances of March: \$1,815; June: \$-	42,379	8,350
Inventory (Note 3)	10,491	12,222
Deferred income taxes	5,350	4,938
Total current assets before settlement assets	226,179	184,723
Settlement assets (Note 4)	744,782	752,476
Total current assets	970,961	937,199
<b>PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of March: \$92,314; June: \$84,808</b>		
	46,150	48,301
<b>EQUITY-ACCOUNTED INVESTMENTS</b>	1,347	1,183
<b>GOODWILL (Note 6)</b>	179,832	175,806
<b>INTANGIBLE ASSETS, net (Note 6)</b>	69,265	77,257
<b>OTHER LONG-TERM ASSETS, including reinsurance assets (Note 7)</b>	34,338	36,576
<b>TOTAL ASSETS</b>	<b>1,301,893</b>	<b>1,276,322</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank overdraft (Note 8)	-	-
Accounts payable	14,592	26,567
Other payables	35,682	33,808
Current portion of long-term borrowings (Note 9)	14,005	14,209
Income taxes payable	11,749	2,275
Total current liabilities before settlement obligations	76,028	76,859
Settlement obligations (Note 4)	744,782	752,476
Total current liabilities	820,810	829,335
<b>DEFERRED INCOME TAXES</b>	17,343	18,727
<b>LONG-TERM BORROWINGS (Note 9)</b>	58,061	66,632
<b>OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 7)</b>	20,117	21,659
<b>TOTAL LIABILITIES</b>	<b>916,331</b>	<b>936,353</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 17)</b>		
<b>EQUITY</b>		
<b>COMMON STOCK (Note 10)</b>		
Authorized: 200,000,000 with \$0.001 par value;	59	59
Issued and outstanding shares, net of treasury - March: 45,783,342;		

June: 45,592,550

## PREFERRED STOCK

Authorized shares: 50,000,000 with \$0.001 par value;

Issued and outstanding shares, net of treasury: March: -; June: -

-

-

ADDITIONAL PAID-IN-CAPITAL	165,076	160,670
TREASURY SHARES, AT COST: March: 13,455,090; June: 13,455,090	(175,823)	(175,823)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(97,910)	(100,858)
RETAINED EARNINGS	494,145	452,618
TOTAL NET1 EQUITY	385,547	336,666
NON-CONTROLLING INTEREST	15	3,303
<b>TOTAL EQUITY</b>	<b>385,562</b>	<b>339,969</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 1,301,893</b>	<b>\$ 1,276,322</b>

(A) Derived from audited financial statements

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended March 31,		Nine months ended March 31,	
	2014	2013	2014	2013
	(In thousands, except per share data)		(In thousands, except per share data)	
REVENUE	\$ 138,126	\$ 111,141	\$ 398,903	\$ 334,265
EXPENSE				
Cost of goods sold, IT processing, servicing and support	63,149	51,461	187,591	143,789
Selling, general and administration	40,586	53,846	121,916	149,854
Depreciation and amortization	10,442	10,560	30,245	31,051
OPERATING INCOME (LOSS)	23,949	(4,726)	59,151	9,571
INTEREST INCOME	3,438	2,515	9,993	8,195
INTEREST EXPENSE	1,734	2,023	5,712	6,117
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	25,653	(4,234)	63,432	11,649
INCOME TAX EXPENSE (note 16)	8,535	472	22,119	7,172
NET INCOME (LOSS) BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	17,118	(4,706)	41,313	4,477
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	52	22	202	204
NET INCOME (LOSS)	17,170	(4,684)	41,515	4,681
ADD NET LOSS ATTRIBUTABLE TO NON- CONTROLLING INTEREST	(12)	(3)	(12)	(11)
NET INCOME (LOSS) ATTRIBUTABLE TO NET1	\$ 17,182	\$ (4,681)	\$ 41,527	\$ 4,692
<b>Net income (loss) per share, in United States dollars (note 13)</b>				
Basic earnings (loss) attributable to Net1 shareholders	\$ 0.38	\$ (0.10)	\$ 0.91	\$ 0.10

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Diluted earnings (loss) attributable to Net1 shareholders	\$	0.37	\$	(0.10)	\$	0.90	\$	0.10
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See Notes to Unaudited Condensed Consolidated Financial Statements



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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	(In thousands)		(In thousands)	
Net income (loss)	\$ 17,170	\$ (4,684)	\$ 41,515	\$ 4,681
Other comprehensive (loss) income				
Net unrealized income on asset available for sale,				
net of tax	327	-	288	258
Movement in foreign currency translation reserve	(2,134)	(22,993)	2,838	(12,811)
Total other comprehensive (loss) income, net				
of taxes	(1,807)	(22,993)	3,126	(12,553)
Comprehensive income (loss)	15,363	(27,677)	44,641	(7,872)
Add comprehensive loss attributable to				
non-controlling interest	12	3	12	11
Comprehensive income (loss) attributable				
to Net1	\$ 15,375	\$ (27,674)	\$ 44,653	\$ (7,861)

See Notes to Unaudited Condensed Consolidated Financial Statements

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

**Net 1 UEPS Technologies, Inc. Shareholder**

			Number of		Number	Additional		Accumulated
	Number	Amount	Treasury	Treasury	of	Paid-In	Retained	other
	of		Shares	Shares	shares, net	Capital	Earnings	comprehensive
	Shares				of			(loss) income
					treasury			
Balance July 1, 2013	59,047,640	\$ 59	(13,455,090)	\$ (175,823)	45,592,550	\$ 160,670	\$ 452,618	\$ (100,858)
Restricted stock granted	187,963				187,963			
Exercise of stock option	10,000				10,000	88		
Stock-based compensation charge						2,826		
Reversal of stock-based compensation charge	(7,171)				(7,171)	(6)		
Income tax benefit from vested stock awards						6		
Acquisition of KSNET non-controlling interest (Note 10)						1,492		(178)
Net income							41,527	
Other comprehensive income								3,126
Balance March 31, 2014	59,238,432	\$ 59	(13,455,090)	\$ (175,823)	45,783,342	\$ 165,076	\$ 494,145	\$ (97,910)

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended March 31,		Nine months ended March 31,	
	2014	2013	2014	2013
	(In thousands)		(In thousands)	
<b>Cash flows from operating activities</b>				
Net income (loss)	\$ 17,170	\$ (4,684)	\$ 41,515	\$ 4,681
Depreciation and amortization	10,442	10,560	30,245	31,051
Earnings from equity-accounted investments	(52)	(22)	(202)	(204)
Fair value adjustments	110	(299)	49	