

NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
May 08, 2008

**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, 2008**

OR

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

For the transition period from _____ To _____

Commission file number: **000-31203**

NET 1 UEPS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction
of incorporation or organization)

98-0171860
(IRS Employer
Identification No.)

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

(Address of principal executive offices, including zip code)

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

Not Applicable

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

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

Form 10-Q**NET 1 UEPS TECHNOLOGIES, INC.****Table of Contents**

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Condensed Consolidated Balance Sheets at March 31, 2008 (Unaudited) and June 30, 2007</u>
	<u>2</u>
	<u>Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2008 and 2007</u>
	<u>3</u>
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three and Nine Months Ended March 31, 2008 and 2007</u>
	<u>4</u>
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>
	<u>5</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>18</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	<u>50</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
	<u>52</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1A.</u>	<u>Risk Factors</u>
	<u>53</u>
<u>Item 6.</u>	<u>Exhibits</u>
	<u>55</u>
	<u>Signatures</u>
	<u>55</u>
	EXHIBIT 10.41
	EXHIBIT 10.42
	EXHIBIT 31.1
	EXHIBIT 31.2
	EXHIBIT 32

Part I. Financial Information

Item 1. Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Condensed Consolidated Balance Sheets

	Unaudited March 31, 2008	(A) June 30, 2007
(In thousands, except share data)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 235,630	\$ 171,727
Pre-funded social welfare grants receivable	24,348	26,817
Accounts receivable, net of allowances of March: \$345; June: \$555	24,767	30,503
Finance loans receivable, net of allowances of March: \$2,667; June: \$2,773	4,930	5,755
Deferred expenditure on smart cards	-	507
Inventory	5,106	5,645
Deferred income taxes	4,049	7,028
Total current assets	298,830	247,982
LONG-TERM RECEIVABLE	1	54
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION OF March: \$23,728; June: \$24,406	6,426	7,582
EQUITY-ACCOUNTED INVESTMENTS	2,521	2,992
GOODWILL	74,945	85,871
INTANGIBLE ASSETS, NET OF ACCUMULATED AMORTIZATION OF March: \$16,650; June: \$13,745	23,146	31,609
TOTAL ASSETS	405,869	376,090
LIABILITIES		
CURRENT LIABILITIES		
Bank overdraft	-	16
Accounts payable	5,320	5,879
Other payables	44,779	34,457
Income taxes payable	13,581	14,346
Total current liabilities	63,680	54,698
DEFERRED INCOME TAXES	29,955	36,219
INTEREST BEARING LIABILITIES minority interest loans	4,276	4,100
COMMITMENTS AND CONTINGENCIES	-	-
TOTAL LIABILITIES	97,911	95,017
SHAREHOLDERS EQUITY		
COMMON STOCK		
Authorized: 83,333,333 with \$0.001 par value;		
Issued shares - March: 52,950,885; June: 51,730,547	52	52
SPECIAL CONVERTIBLE PREFERRED STOCK		
Authorized: 50,000,000 with \$0.001 par value;		
Issued and outstanding shares - March: 5,088,885; June: 5,656,110	5	5
B CLASS PREFERENCE SHARES		
Authorized: 330,000,000 with \$0.001 par value;		

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

Issued and outstanding shares (net of shares held by Net1) - March:			
37,497,073;			
June: 41,676,625		6	7
ADDITIONAL PAID-IN-CAPITAL		115,203	112,167
TREASURY SHARES, AT COST: March: 299,821; June: 299,821		(7,795)	(7,795)
ACCUMULATED OTHER COMPREHENSIVE LOSS		(44,783)	(3,915)
RETAINED EARNINGS		245,270	180,552
TOTAL SHAREHOLDERS EQUITY		307,958	281,073
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$	405,869	\$ 376,090
(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		Nine months ended	
	March 31,		March 31,	
	2008	2007	2008	2007
	(In thousands, except per share data)		(In thousands, except per share data)	
REVENUE	\$ 63,066	\$ 61,275	\$ 191,825	\$ 163,772
EXPENSE				
COST OF GOODS SOLD, IT PROCESSING, SERVICING AND SUPPORT	16,515	13,940	51,833	38,185
SELLING, GENERAL AND ADMINISTRATION	15,185	15,515	48,915	44,690
DEPRECIATION AND AMORTIZATION	2,716	2,752	8,295	8,512
OPERATING INCOME	28,650	29,068	82,782	72,385
INTEREST INCOME, net	3,754	735	10,852	2,793
INCOME BEFORE INCOME TAXES	32,404	29,803	93,634	75,178
INCOME TAX EXPENSE	5,156	11,397	27,816	28,927
NET INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND (LOSS)				
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	27,248	18,406	65,818	46,251
MINORITY INTEREST	-	-	(196)	205
(LOSS) EARNINGS FROM EQUITY ACCOUNTED INVESTMENTS	(281)	(153)	(801)	102
NET INCOME	\$ 26,967	\$ 18,253	\$ 65,213	\$ 46,148
Net income per share				
Basic earnings, in cents common stock and linked				
units	47.2	32.1	114.1	81.1

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

Diluted earnings, in cents	common stock				
and					
linked units		46.7	31.8	113.1	80.3
See Notes to Unaudited Condensed Consolidated Financial Statements					

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

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Cash flows from operating activities				
Net income	\$ 26,967	\$ 18,253	\$ 65,213	\$ 46,148
Depreciation and amortization	2,716	2,752	8,295	8,512
Loss (Earnings) from equity-accounted investments	281	153	801	(102)
Fair value adjustment related to financial liabilities	(14)	25	(256)	178
Fair value of FAS 133 derivative adjustments	(11)	(58)	(21)	19
Interest payable	126	110	367	110
Profit on disposal of property, plant and equipment	(23)	(58)	(109)	(125)
Minority interest	-	-	(196)	205
Stock-based compensation charge	1,108	190	2,860	686
Decrease (Increase) in accounts receivable, pre-funded				
social welfare grants receivable and finance loans receivable	15,842	(32,566)	(2,406)	(35,118)
Decrease (Increase) in deferred expenditure on smart cards	236	(61)	496	133
Decrease (Increase) in inventory	1,286	210	(293)	(2,543)
Increase in accounts payable and other payables	13,177	11,436	13,490	490
Decrease in taxes payable	7,666	5,649	1,034	2,271
(Decrease) Increase in deferred taxes	(4,182)	(1,898)	574	(1,745)
Net cash provided by operating activities	65,175	4,137	89,849	19,119
Cash flows from investing activities				
Capital expenditures	(1,004)	(943)	(2,880)	(2,646)
Proceeds from disposal of property, plant and equipment	24	116	142	262
Acquisition of Prism Holdings Limited, net of cash acquired	-	(9,713)	-	(92,043)
Advance of loans to equity accounted investment	-	(310)	-	(310)
Net cash used in investing activities	(980)	(10,850)	(2,738)	(94,737)
Cash flows from financing activities				
Proceeds from issue of share capital, net of share issue expenses	25	-	175	50
Proceeds from bank overdrafts	-	148	1,462	61,731
Repayment of bank overdraft	(1)	-	(1,443)	(62,272)

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

Proceeds from interest bearing liabilities	-	-	-	3,513
Net cash provided by financing activities	24	148	194	3,022
Effect of exchange rate changes on cash	(29,330)	(2,447)	(23,402)	1,751
Net increase (decrease) in cash and cash equivalents	34,889	(9,012)	63,903	(70,845)
Cash and cash equivalents beginning of period	200,741	127,902	171,727	189,735
Cash and cash equivalents end of period	\$ 235,630	\$ 118,890	\$ 235,630	\$ 118,890

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the Unaudited Condensed Consolidated Financial Statements
for the three and nine months ended March 31, 2008 and 2007**

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

1. Basis of Presentation and Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three and nine months ended March 31, 2008 and 2007 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, 2007. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

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

Translation of foreign currencies

The functional currency of the Company is the South African Rand (ZAR) and its reporting currency is the U.S. dollar. The current rate method is used to translate the financial statements of the Company to U.S. dollars. Under the current rate method, assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the period. Translation gains and losses are reported in accumulated other comprehensive income in shareholders' equity.

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

Recent accounting pronouncements adopted

On July 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. The evaluation of a tax position under FIN 48 is a two-step process. The first step is recognition: Tax positions taken or expected to be taken in a tax return should be recognized only if those positions are more likely-than-not of being sustained upon examination, based on the technical merits of the position. In evaluating whether a tax position has met the more likely than not recognition threshold, it should be presumed that the position will be examined by the relevant taxing authority that would have full knowledge of all relevant information. The second step is measurement: Tax positions that meet the recognition criteria are measured at the largest amount of benefit that is greater than 50 percent likely of being recognized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. See note 13 - Income tax in interim periods for a discussion of the impact that the adoption

of FIN 48 has had on the Company's financial position and results of operations.

The Company's policy is to include interest related to unrecognized tax benefits in interest income, net and penalties in selling, general and administration in the condensed consolidated statements of operations.

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

Recent accounting pronouncements not yet adopted as of March 31, 2008

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier adoption is permitted. The Company is currently assessing FAS 157 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* (FAS 159). FAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. The unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. FAS 159 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. The Company is currently assessing FAS 159 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(revised 2007), *Business Combinations* (FAS 141R). FAS 141R replaces SFAS No. 141, *Business Combinations* (FAS 141). FAS 141R retains the fundamental requirements in FAS 141 that the acquisition method of accounting (defined in FAS 141 as the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. FAS 141R requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed at the acquisition date. FAS 141R also requires acquisition-related costs to be recognized separately from the business combination. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently assessing FAS 141R and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). FAS 160 establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that does not result in deconsolidation. FAS 160 clarifies that all of those transactions are equity transactions if the parent retains its controlling financial interest in the subsidiary. FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. However, FAS 160 shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is currently assessing FAS 160 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In February 2008, the FASB issued FASB Statement of Position (FSP) FAS 157-2 (FSP FAS 157-2) which delays the effective date of FAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. Entities are encouraged to adopt FAS 157 for measurements of nonfinancial assets and nonfinancial liabilities in its entirety as long as they have not yet issued financial statements during that year. An entity that chooses to adopt FAS 157 in its entirety must do so for all nonfinancial assets and nonfinancial liabilities within its scope. The Company is currently assessing FSP FAS 157-2

and has not yet determined the impact that its adoption will have on the Company's financial position or results of operations.

2. Pre-funded social welfare grants receivable

The pre-funded social welfare grants receivable represents the amounts due from provincial governments, as the Company pre-funds social welfare grant payments on behalf of the government in these provinces and pre-funding provided to certain merchants participating in our merchant acquiring system. The pre-funded amounts are typically reimbursed to the Company within two weeks after the disbursement of the grants. The grant payment service normally commences during the week before the start of a calendar month at government pay points and merchant locations. The April 2008 payment service commenced during the last few days of March 2008 and was offered at merchant locations.

3. Deferred expenditure on smart cards

The deferred expenditure on smart cards represents amounts paid for smart cards used in the administration and distribution of grants to beneficiaries. These expenditures are deferred and written off over the period of the contract with the provincial government.

4. Inventory

The Company's inventory comprised the following categories as of March 31, 2008 and June 30, 2007.

	March 31, 2008	June 30, 2007
Raw materials	\$ 399	\$ 588
Finished goods	4,707	5,057
	\$ 5,106	\$ 5,645

5. Equity-accounted investments

The percentage ownership and functional currency of the Company's equity-accounted investments is presented in the table below:

Equity-accounted investment	% Owned by Net1	Functional currency of the equity-accounted investment
SmartSwitch Namibia (Pty) Ltd (SmartSwitch Namibia)	50%	Namibia Dollar
SmartSwitch Botswana (Pty) Ltd (SmartSwitch Botswana)	50%	Botswana Pula
VTU De Colombia S.A. (VTU Colombia)	50%	Colombian Peso
Vietnam Payment Technologies Joint Stock Company (VinaPay ⁽¹⁾)	30%	Vietnamese Dong

(1) acquired during the first quarter of fiscal 2008.

In April 2008, VTU Colombia's shareholders each agreed to contribute \$0.5 million to acquire additional shares in VTU Colombia. The Company's shareholding after the acquisition of additional shares will remain at 50%. These funds will be paid during the fourth quarter of fiscal 2008 and will be used to fund operating activities.

The functional currency of the Company's equity-accounted investments is not the U.S. dollar and thus the equity-accounted investments are restated at the period end U.S. dollar/foreign currency exchange rate with an entry against accumulated other comprehensive income.

Summarized below is the Company's interest in equity-accounted investments as of June 30, 2007 and March 31, 2008:

	Equity	Loans	Loss	Elimination	Total
Balance as of June 30, 2007	\$ 1,189	\$ 3,577	\$ (791)	\$ (983)	\$ 2,992
Share capital acquired/ loans extended	428	-	-	-	428
(Loss) Earnings from equity- accounted investments	-	-	(1,249)	448	(801)
(Loss) Earnings from equity- accounted investment					
SmartSwitch Namibia ⁽¹⁾	-	-	(225)	229	4
(Loss) Earnings from equity- accounted investment					
SmartSwitch Botswana ⁽¹⁾	-	-	(413)	219	(194)
Loss from equity-accounted investment VTU Colombia	-	-	(491)	-	(491)
Loss from equity-accounted					

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

investment	VinaPay	-	-	(120)	-	(120)				
Foreign currency adjustment ⁽²⁾		(100)	(184)	56	130	(98)				
Balance as of March 31, 2008	\$	1,517	\$	3,393	\$	(1,984)	\$	(405)	\$	2,521

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

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

5. Equity-accounted investments (continued)

Summarized below is the Company's equity-accounted (loss) earnings for the three months ended March 31, 2008:

	Loss	Elimination	Total
(Loss) Earnings from equity-accounted investments	\$ (427)	\$ 146	\$ (281)
SmartSwitch Namibia	(60)	76	16
SmartSwitch Botswana	(141)	\$ 70	(71)
VTU Colombia	(164)	-	(164)
VinaPay	\$ (62)	-	\$ (62)

The Company is required to eliminate its percentage of the net income generated from sales to its equity-accounted investments. The revenue generated and associated costs related to these sales are included in the line item captions above net income from continuing operations before minority interest and earnings (loss) from equity-accounted investments in the unaudited condensed consolidated statement of operations for the three and nine months ended March 31, 2008 and 2007. The realized amount related to the elimination is included in the earnings (loss) from equity-accounted investments line in the consolidated statement of operations for the three and nine months ended March 31, 2008 and 2007. The Company will recognize this net income from these sales during the period in which the hardware and software it has sold to its equity-accounted investments are utilized in its operations, or has been sold to third party customers, as the case may be.

6. Goodwill and intangible assets Goodwill

Summarized below is the movement in carrying value of goodwill for the nine months ended March 31, 2008.

	Carrying value
Balance as of July 1, 2007	\$ 85,871
Foreign currency adjustment ⁽¹⁾	(10,926)
Balance as of March 31, 2008	\$ 74,945

(1) the foreign currency adjustment represents the effects of the fluctuations between the South African rand and the U.S. dollar on the carrying value.

The carrying value of goodwill has been allocated to the Company's reportable segments as follows:

	As of March 31, 2008	As of June 30, 2007
Transaction-based activities	\$ 34,017	\$ 39,391
Smart card accounts	-	-
Financial services	4,329	5,014
Hardware, software and related technology sales	36,599	41,466
Total	\$ 74,945	\$ 85,871

6. Goodwill and intangible assets (continued) Intangible assets

Summarized below is the carrying value and accumulated amortization of the intangible assets as of March 31, 2008 and June 30, 2007:

	As of March 31, 2008			As of June 30, 2007		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:						
Customer relationships	\$ 15,240	\$ (2,188)	\$ 13,052	\$ 17,649	\$ (1,419)	\$ 16,230
Software and unpatented technology	9,695	(5,642)	4,053	11,227	(3,717)	7,510
FTS patent	4,676	(3,625)	1,051	5,415	(3,792)	1,623
Exclusive licenses	4,506	(2,483)	2,023	4,506	(1,997)	2,509
Trademarks	3,517	(572)	2,945	4,072	(375)	3,697
Contract rights	2,048	(2,048)	-	2,371	(2,371)	-
Customer contracts	114	(92)	22	114	(74)	40
Total finite-lived intangible assets	\$ 39,796	\$ (16,650)	\$ 23,146	\$ 45,354	\$ (13,745)	\$ 31,609

Aggregate amortization expense on the finite-lived intangible assets for the three and nine months ended March 31, 2008 was approximately \$1.7 million and \$5.1 million, respectively (three and nine months ended March 31, 2007 was approximately \$1.7 million and \$5.2 million, respectively). Future annual amortization expense is estimated at approximately \$6.7 million, however, this amount could differ from the actual amortization as a result of changes in useful lives, exchange rate fluctuations and other relevant factors.

7. Short-term facilities

As of March 31, 2008, the Company had short-term facilities of approximately \$70.2 million, translated at exchange rates applicable as of March 31, 2008. The interest rates applicable to these short-term facilities range from the South African prime overdraft rate (14.50% per annum at March 31, 2008) to the South African prime overdraft rate less 225 basis points. As of March 31, 2008, the Company had not utilized its short-term facilities. The Company's management believes its current short-term facilities are adequate in order to meet its future obligations to distribute social welfare grants.

On April 10, 2008, the South African Reserve Bank announced an increase in the repurchase rate from 11.00% to 11.50% per annum which resulted in the Company's bankers increasing the South African prime overdraft rate to 15.00% per annum.

8. Capital structure and creditor rights attached to the B Class Loans

As described in Note 12 to the Company's audited consolidated financial statements included within the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007, the Company's balance sheet reflects two classes of equity - common stock and linked units.

During the three and nine months ended March 31, 2008, 119,870 and 567,225 shares of special convertible preferred stock were converted to common stock. The trigger events that gave rise to these conversions were requests by linked unit-holders to sell and/or convert 883,253 and 4,179,552 linked units during the three and nine months

ended March 31, 2008. The net result of these conversions was that 883,253 and 4,179,552 B class preference shares and B class loans were ceded to Net1 during the three and nine months ended March 31, 2008, which converted 119,870 and 567,225 shares of special convertible preferred stock to 119,870 and 567,225 common stock in return for the ownership of 883,253 and 4,179,552 B class preferred shares and B class loans. As a result of the conversion, the number of outstanding shares of common stock has increased by 567,225 and the number of outstanding shares of special convertible preferred stock has decreased by 567,225. In addition, as a consequence of the conversion, Net1 now owns 199,480,114 B class preferred shares and B class loans. The reduction in the B class preference shares from \$0.007 million to \$0.006 million is due to the cession to Net1 of the B class preference shares as a result of the trigger events.

9. Earnings per share

The entire consolidated net income of the Company is attributable to the shareholders of the Company comprising both the holders of Net1 common stock and the holders of linked units. As described in Note 12 to the Company's audited consolidated financial statements included within the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007, the linked units have the same rights and entitlements as those attached to common shares.

As the linked units owned by holders, other than the Company, are exchangeable for special convertible preferred stock at the ratio of 7.37:1, which is then converted to common stock at the ratio of 1:1, the basic earnings per share for the three and nine months ended March 31, 2008, for the common stock and linked units are the same and is calculated by dividing the net income by the combined weighted average number (57.1 million) of common stock (51.5 million) and special convertible preferred stock (5.6 million) in issue. Diluted earnings per share have been calculated to give effect to the number of additional shares of common stock that would have been outstanding if the potential dilutive instruments had been issued in each period. The calculation of diluted earnings per share for the three months ended March 31, 2008, includes the dilutive effect of a portion of the restricted stock awards granted to employees in August 2007 as these restricted stock awards are considered contingently issuable shares for the purposes of the diluted earnings per share calculation and as of March 31, 2008, the vesting conditions in respect of a portion of the awards had been satisfied. The vesting conditions are discussed in note 11 - Stock-based compensation.

The basic earnings per share for the three and nine months ended March 31, 2007, for the common stock and linked units is the same and is calculated by dividing the net income by the combined number (56.9 million) of common stock (50.8 million) and special convertible preferred stock (6.1 million) in issue.

The following tables detail the weighted average number of outstanding shares used for the calculation of earnings per share for the three and nine months ended March 31, 2008 and 2007.

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2008	2007	2008	2007
	000	000	000	000
Weighted average number of outstanding shares of				
common stock - basic	51,486	50,878	51,473	50,872
Weighted average effect of dilutive securities:				
employee stock options	489	500	463	489
Weighted average number of outstanding shares of				
common stock - diluted	51,975	51,378	51,936	51,361
	Three months ended		Nine months ended	
	March 31,		March 31,	
	2008	2007	2008	2007
	000	000	000	000
Weighted average number of outstanding linked units				
basic	5,656	6,051	5,656	6,051
Weighted average effect of dilutive securities:				
employee stock options	54	60	51	58
Weighted average number of outstanding linked units				
diluted	5,710	6,111	5,707	6,109

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2008	2007	2008	2007
	000	000	000	000
Total weighted average number of outstanding shares				
used to calculate earnings per share basic	57,142	56,929	57,129	56,923
Total weighted average number of outstanding shares				
used to calculate earnings per share diluted	57,685	57,489	57,643	57,470

10. Comprehensive income

The Company's comprehensive income consists of net income and foreign currency translation gains and losses which, under GAAP, are excluded from net income. Total comprehensive income for the three and nine months ended March 31, 2008 and 2007 was:

	Three months ended March 31,		Nine months ended March 31,	
	2008	2007	2008	2007
Net income	\$ 26,967	\$ 18,253	\$ 65,213	\$ 46,148
Foreign currency translation adjustments	(49,005)	(5,206)	(40,868)	771
	\$ (22,038)	\$ 13,047	\$ 24,345	\$ 46,919

11. Stock-based compensation

Amended and Restated 2004 Stock Incentive Plan

In August 2007, the Remuneration Committee of the Board of Directors of the Company approved an award of 591,500 restricted shares of the Company's common stock to executive officers and other employees of the Company. These restricted shares are referred to as non-vested equity shares in terms of SFAS No. 123R, *Share-based Payment* (FAS 123R) and the Company has accounted for the restricted shares awarded in terms of the guidance provided in FAS 123R.

One-third of the award shares will vest on each of September 1, 2009, 2010 and 2011. Vesting of the award shares is conditioned upon each recipient's continuous service through the applicable vesting date and the Company achieving the financial performance target set for that vesting date. Specifically, the financial performance targets shall be set based on a 20% increase, compounded annually, in fundamental diluted earnings per share (expressed in South African rand) (Fundamental EPS) above the Fundamental EPS for the fiscal year ended June 30, 2007; provided, however, that in the case of Dr. Belamant and Mr. Kotze, the annual required increase shall be 25% rather than 20%. For this purpose, Fundamental EPS are calculated by adjusting GAAP diluted earnings per share (as reflected in the Company's audited consolidated financial statements) to exclude the effects related to the amortization of intangible assets, stock-based compensation charges, one-time, large, unusual expenses as determined in the discretion of the Remuneration Committee, and assuming a constant tax rate of 30%. If the Fundamental EPS for the specified fiscal year do not equal or exceed the Fundamental EPS target for such year, no award shares will become vested or nonforfeitable on the corresponding vesting date. Any award shares that do not become vested and nonforfeitable because the Fundamental EPS target is not met for the specified fiscal year remain outstanding and 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 September 1, 2011, will be forfeited by the recipient on September 1, 2011 and transferred to the Company for no consideration.

The grant date fair value of the 591,500 restricted shares was based on the closing price of the Company's stock quoted on the Nasdaq Global Select Market on the date of grant. The stock-based compensation charge for this award is recognized over the service period of four years. There are no tax consequences related to restricted shares granted to employees of Company subsidiaries incorporated in South Africa.

On February 6, 2008, the Remuneration Committee approved an award of 3,282 restricted shares of the Company's common stock to two directors of the Company. One-third of the restricted shares will vest on each of February 6, 2009, 2010 and 2011. Vesting of the restricted shares is conditioned upon each recipient's continuous service with the Company as a member of its Board of Directors through the applicable vesting dates. If either recipient ceases to be a member of the Board of Directors for any reason, all of his restricted shares that are not then vested and nonforfeitable

will be immediately forfeited and transferred to the Company upon such cessation for no consideration. Until 11 months after the restricted shares becomes vested and nonforfeitable, it may not be sold, assigned, transferred, pledged, hypothecated, exchanged, or disposed of in any way (whether by operation of law or otherwise).

The grant date fair value of the 3,282 restricted shares was based on the closing price of the Company's stock quoted on the Nasdaq Global Select Market on the date of grant. The stock-based compensation charge for this award is recognized over the service period of three years. Once vested a tax deduction for the 3,282 restricted shares granted is allowed.

11. Stock-based compensation (continued)**Activity under the 2004 Stock Incentive Plan, other stock options and options granted to employees of Prism**

Activity under the Plan, the options granted to the new employee in January 2006 and options granted to Prism employees for the three and nine months ended March 31, 2008 and 2007, is summarized as follows:

		Number of shares	Weighted average exercise price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$ 000)
Balance outstanding	July 1, 2006	832,727	\$ 9.66	8.36	\$ 22,775
Options granted to Prism employees		904,674	22.51	10.00	-
Exercised		(16,666)	-	-	339
Forfeitures		(200,000)	-	-	-
Balance outstanding	September 30, 2006	1,520,735	\$ 7.54	8.67	\$ 16,524
Options granted under Plan on August 24, 2006		569,120	22.51	10.00	-
Forfeitures		(124,082)	-	-	-
Balance outstanding	December 31, 2006	1,965,773	\$ 16.40	8.70	\$ 25,878
Forfeitures		(113,872)	-	-	-
Balance outstanding	March 31, 2007	1,851,901	\$ 16.00	8.40	\$ 16,575
Balance outstanding	July 1, 2007	1,374,543	\$ 16.30	8.20	\$ 10,840
Exercised		(49,998)	-	-	1,172
Balance outstanding	September 30, 2007	1,324,545	\$ 16.80	8.00	\$ 13,782
Forfeitures		(96,623)	-	-	-
Balance outstanding	December 31, 2007	1,227,922	\$ 16.31	7.70	\$ 16,021
Exercised		(8,333)	-	-	237
Balance outstanding	March 31, 2008	1,219,589	\$ 16.40	7.50	\$ 7,496

During the three and nine months ended March 31, 2008, Prism employee resignations and terminations resulted in forfeitures of 0 and 96,623 options, respectively, granted to employees of Prism (three and nine months ended March 31, 2007: 113,872 and 237,954 options, respectively).

	Number of shares	Weighted average exercise price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$ 000)
Exercisable	186,809	\$ 14.68	7.30	\$ 1,471

No stock options became exercisable during the three and nine months ended March 31, 2008 and 2007.

During the three months ended March 31, 2008 the Company received approximately \$0.1 million from directors exercising stock options. No stock options were exercised during the three months ended March 31, 2007. During the nine months ended March 31, 2008 and 2007, respectively, the Company received approximately \$0.2 million and \$0.1 million from employees and directors exercising stock options. The Company issues new shares to satisfy stock option exercises.

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

The Company has recorded a stock compensation charge of \$1.1 million and \$0.2 million for the three months ended March 31, 2008 and 2007, respectively, which comprised:

	Total charge (reversal)	Allocated to cost of goods sold, IT processing, servicing and support	Allocated to selling, general and administration
Three months ended March 31, 2008			
Stock-based compensation charge	\$ 1,108	\$ 60	\$ 1,048
Total Three months ended March 31, 2008	\$ 1,108	\$ 60	\$ 1,048
Three months ended March 31, 2007			
Stock-based compensation charge	\$ 190	\$ 19	\$ 171
Total Three months ended March 31, 2007	\$ 190	\$ 19	\$ 171

The Company has recorded a net stock compensation charge of \$2.9 million and \$0.7 million for the nine months ended March 31, 2008 and 2007, respectively, which comprised:

	Total charge (reversal)	Allocated to cost of goods sold, IT processing, servicing and support	Allocated to selling, general and administration
Nine months ended March 31, 2008			
Stock-based compensation charge	\$ 3,146	\$ 259	\$ 2,887
Reversal of stock compensation charge related to options forfeited	(286)	(147)	(139)
Total nine months ended March 31, 2008	\$ 2,860	\$ 112	\$ 2,748
Nine months ended March 31, 2007			
Stock-based compensation charge	\$ 902	\$ 237	\$ 665
Reversal of stock compensation charge related to options granted in January 2006	(216)	-	(216)
Total - nine months ended March 31, 2007	\$ 686	\$ 237	\$ 449

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

As of March 31, 2008, the total unrecognized compensation cost related to stock options was approximately \$3.4 million, which the Company expects to recognize over approximately four years. As of March 31, 2008, the total unrecognized compensation cost related to restricted stock awards was approximately \$11.4 million, which the Company expects to recognize over approximately three years. As of March 31, 2008, interest due from employees

related to loans extended to fund stock option exercises was approximately \$0.04 million.

As of March 31, 2008, the Company has recorded a deferred tax asset of approximately \$0.3 million related to the stock-based compensation charge recognized related to employees of Net1 as it is able to deduct the grant date fair value for taxation purposes in the United States.

12. Operating segments

The Company discloses segment information in accordance with FAS 131, *Disclosures about Segments of an Enterprise and Related Information*, which requires companies to determine and review their segments as reflected in the management information systems reports that their managers use in making decisions and to report certain entity-wide disclosures about products and services, major customers, and the material countries in which the entity holds assets and reports revenues.

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

The Transaction-based activities segment currently consists mainly of a state pension and welfare benefit distribution service provided to provincial governments in South Africa and transaction processing for retailers, utilities and banks. Fee income is earned based on the number of beneficiaries included in the government pay-file as well as from merchants and card holders using the Company's merchant retail application. In addition, utility providers and bankers are charged a fee for transaction processing services performed on their behalf at retailers. This segment has individually significant customers that each provides more than 10% of the total revenue of the Company. For each of the three and nine months ended March 31, 2008, there were three such customers, providing 30%, 16% and 10%, and 31%, 16% and 10%, respectively, of total revenue (each of the three and nine months ended March 31, 2007: three such customers, providing 29%, 21% and 16%, and 33%, 16% and 14%, respectively, of total revenue).

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

The Financial services segment provides short-term loans and life insurance products and generates interest income and initiation and services fees. Interest income is recognized in the income statement as it falls due, using the interest method by reference to the constant interest rate stated in each loan agreement.

The Hardware, software-related and technology sales segment markets, sells and implements the Universal Electronic Payment System (UEPS) as well as develops and provides Prism secure transaction technology, solutions and services. 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, and SIM card 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.

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

12. Operating segments (continued)

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

	Three months ended March 31,		Nine months ended March 31,	
	2008	2007	2008	2007
Revenues to external customers				
Transaction-based activities	\$ 37,254	\$ 40,962	\$ 115,409	\$ 103,172
Smart card accounts	8,696	8,655	27,469	25,722
Financial services	1,999	2,858	6,317	8,636
Hardware, software and related technology sales	15,117	8,800	42,630	26,242
Total	63,066	61,275	191,825	163,772
Inter-company revenues				
Transaction-based activities	1,026	1,030	3,247	3,042
Smart card accounts	-	-	-	-
Financial services	-	-	-	-
Hardware, software and related technology sales	468	62	206	11,513
Total	1,494	1,092	3,453	14,555
Operating income				
Transaction-based activities	20,347	24,869	62,317	60,799
Smart card accounts	3,953	3,934	12,485	11,692
Financial services	507	930	1,411	2,758
Hardware, software and related technology sales	5,380	991	9,585	2,621
Corporate/Eliminations	(1,537)	(1,656)	(3,016)	(5,485)
Total	28,650	29,068	82,782	72,385
Interest earned				
Transaction-based activities	-	-	-	-
Smart card accounts	-	-	-	-
Financial services	-	-	-	-
Hardware, software and related technology sales	-	-	-	-
Corporate/Eliminations	6,871	4,147	19,137	11,018
Total	6,871	4,147	19,137	11,018
Interest expense				
Transaction-based activities	3,055	3,383	8,196	8,042
Smart card accounts	-	-	-	-
Financial services	-	-	-	1
Hardware, software and related technology sales	56	4	75	10
Corporate/Eliminations	6	25	14	172
Total	3,117	3,412	8,285	8,225
Depreciation and amortization				
Transaction-based activities	1,222	1,206	3,653	3,824
Smart card accounts	-	-	-	-
Financial services	125	101	333	305

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

Hardware, software and related technology sales	1,042	1,145	3,311	3,402
Corporate/Eliminations	327	300	998	981
Total	\$ 2,716	\$ 2,752	\$ 8,295	\$ 8,512

15

12. Operating segments (continued)

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2008	2007	2008	2007
Income taxation expense				
Transaction-based activities	\$ 5,082	\$ 6,331	\$ 15,974	\$ 15,387
Smart card accounts	1,147	1,141	3,622	3,391
Financial services	147	270	408	800
Hardware, software and related technology sales	1,700	307	3,021	760
Corporate/Eliminations	(2,920)	3,348	4,791	8,589
Total	5,156	11,397	27,816	28,927
Net income after taxation				
Transaction-based activities	12,211	15,155	38,342	37,370
Smart card accounts	2,806	2,794	8,866	8,301
Financial services	360	660	1,000	1,957
Hardware, software and related technology sales	3,623	637	6,466	1,805
Corporate/Eliminations	7,967	(993)	10,539	(3,285)
Total	26,967	18,253	65,213	46,148
Segment assets				
Total	405,869	351,339	405,869	351,339
Expenditures for long-lived assets				
Transaction-based activities	809	804	2,269	2,115
Smart card accounts	-	-	-	-
Financial services	133	54	467	155
Hardware, software and related technology sales	62	85	144	376
Corporate/Eliminations	-	-	-	-
Total	\$ 1,004	\$ 943	\$ 2,880	\$ 2,646

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.

13. Income tax in interim periods

For the purposes of interim financial reporting, the Company determines the appropriate income tax provision in accordance with the guidance in APB Opinion 28, *Interim Reporting*, and FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods*. Accordingly, the tax charge is calculated by first applying the effective tax rate expected to be applicable for the full fiscal year to ordinary income. This amount is then adjusted for the tax effect of significant unusual or extraordinary items that are reported separately, and have an impact on the tax charge. The cumulative effect of any change in the enacted tax rate on the opening balance of deferred tax assets and liabilities is also included in the tax charge as a discrete event in the interim period in which the enactment date occurs.

For the three and nine months ended March 31, 2008, the tax charge was calculated using the expected effective tax rate for the year (35.45%) . Our effective tax rate for the three and nine months ended March 31, 2008 includes the effect of the change in the fully distributed tax rate from 36.89% to 35.45% and was 15.9% and 29.7%, respectively. The change in the fully distributed tax rate from 36.89% to 35.45% is discussed below.

13. Income tax in interim periods (continued)

On January 8, 2008, the Revenue Laws Second Amendment Act (Act 36 of 2007) (Revenue Laws Act), was promulgated in South Africa. The Revenue Laws Act included the legislation to reduce the rate of Secondary Tax on Companies (STC) from 12.50% to 10.00%, effective October 1, 2007. The fully distributed tax rate was reduced to 35.45% from 36.89% during the third quarter of fiscal 2008 and has resulted in an income tax benefit included in the Company's income tax expense line on its unaudited condensed consolidated statements of operations for the three and nine months ended March 31, 2008. The income tax expense of approximately \$5.2 million for the three months ended March 31, 2008, includes an income tax benefit of approximately \$5.9 million resulting from the reversal of a portion of the deferred tax assets and liabilities recognized as of December 31, 2007. The income tax expense of approximately \$27.8 million for the nine months ended March 31, 2008, includes an income tax benefit of approximately \$5.4 million resulting from the reversal of a portion of the deferred tax assets and liabilities recognized as of June 30, 2007.

On February 20, 2008, the Finance Minister of South Africa confirmed in his annual budget speech for the 2008/2009 tax year that the replacement of STC with a dividends tax should be completed in fiscal 2009. In addition, he announced the decrease in statutory rate of taxation for South African domiciled companies from 29% to 28% for all fiscal years ending on or after April 1, 2008. As of March 31, 2008, the change in the rate had not been promulgated by parliament in South Africa and thus is not the enacted rate as described in SFAS 109, *Accounting for Income Taxes*. Accordingly, the Company has used the fully distributed tax rate of 35.45% for the three and nine months ended March 31, 2008.

Adoption of FIN 48

The adoption of FIN 48 on July 1, 2007, has resulted in the recognition of gross unrecognized tax benefits for uncertain tax positions of \$0.2 million and a reduction in deferred tax assets of \$0.3 million. On adoption, the amount of unrecognized tax benefits that, if recognized, would impact the Company's effective tax rate was \$0.5 million, which was included as a reduction to the beginning balance of retained earnings on the balance sheet. As of July 1, 2007, the Company had accrued interest related to uncertain tax positions of approximately \$0.01 million on its balance sheet.

The Company increased its unrecognized tax benefits by \$0.1 million and reduced its deferred tax assets by approximately \$0.1 million during the three months ended March 31, 2008. As of March 31, 2008, the Company had accrued interest related to uncertain tax positions of approximately \$0.1 million on its balance sheet.

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

The Company files income tax returns mainly in South Africa and in the U.S. federal jurisdiction. As of July 1, 2007, the Company is no longer subject to income tax examination by the South African Revenue Service for years before July 1, 2003. As of March 31, 2008, the Company is no longer subject to income tax examination by the South African Revenue Service for years before March 31, 2004. The Company is subject to income tax in other jurisdictions outside South Africa, none of which are individually material to its financial position, statement of cash flows, or results of operations.

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

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

Forward-looking statements

Some of the statements in this Quarterly Report on Form 10-Q constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. Such factors include, among other things, those listed under "Risk Factors" and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2007. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "we expect," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative and other comparable terminology.

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

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

Trends and Material Developments Affecting our Business

South African Provincial Contracts

The South African Social Security Agency, or SASSA, is in the process of conducting a national tender for the distribution of welfare grants in which bidders had the opportunity to bid for all of South Africa or on a province-by-province basis. On May 4, 2007, we filed proposals for each of South Africa's nine provinces, as well as a proposal for the entire country. SASSA provided an indicative time-frame for the evaluation of the tender proposals and the award of the contract to successful bidders, but all of the key dates have already been missed. As part of the evaluation process for the tender, all bidders were requested to demonstrate their proposed payment solution to SASSA. Our response to the request for proposal was demonstrated to the SASSA evaluation committee on October 25, 2007. In December 2007, we received a notice to bidders from SASSA requesting further details of our financial proposals in a standard format provided in the notice to bidders by no later than December 28, 2007. We provided our response to the notice to bidders to SASSA on December 28, 2007.

On January 31, 2008 we received a further notice to bidders from SASSA advising bidders that, due to unforeseen circumstances, the tender evaluation process had not been completed and, as a result, SASSA was requesting tenderers to extend the validity period of their tender responses from February 9, 2008 to March 31, 2008. SASSA has extended our five existing contracts to provide welfare administration and distribution services by 12 months to March 31, 2009. SASSA reserves the right to terminate any of the five existing contracts on 30 days written notice, but only after an initial period of six months which ends on September 30, 2008.

On March 27, 2008 we received a further notice to bidders from SASSA advising bidders that, due to unforeseen circumstances, the tender evaluation process had still not been completed and, as a result, SASSA was requesting tenderers to extend the validity period of their tender responses by a further three months to June 30, 2008. We responded to SASSA in writing stating that we would extend the validity of our proposal as requested. On April 21, 2008, SASSA announced an update on the progress of the social grants tender process. It stated that the evaluation committee that has been processing the nine provincial tenders has completed its work, and that at this time, there is being constituted an adjudication committee which will deliberate on the tender and make a final recommendation on the award per province to the accountable authority. SASSA stated that the process is on track and that the outcome will be announced as soon as the process is finalized. SASSA did not provide any additional indication of when there would be further announcements or when the process would be completed. It also did not indicate how the process it described would adjudicate proposals, as in the case of one of the proposals that we submitted, that covered the entire country rather than just certain provinces. Because of the extensive delays in the tender award process, we cannot predict whether or not contracts will ultimately be awarded on the basis of the current proposals, whether SASSA will seek further extensions of proposals or whether a new process might be initiated by SASSA.

We believe that our successful record with our provincial government contracts will provide us with a good opportunity to benefit from the transition to national administration of social welfare grants because we may be able to obtain contracts to distribute grants in provinces with which we do not currently have a contractual relationship. However, there is a chance that a national tender could lead to our losing one or more of our current contracts if SASSA decides to appoint a single (or other) contractor to provide social welfare grant distribution and we are not chosen. During this transition period our existing provincial government contracts will continue to be governed by their respective terms.

International Expansion

Iraq

During the third quarter of fiscal 2008 we signed a contract with a consortium comprising the Iraqi government and local Iraqi banks for the use of our UEPS technology in Iraq. Under the contract, we will provide a customized UEPS banking and payment system to the consortium.

The consortium selected us as its partner to assist with the challenges currently encountered with the payment and distribution of cash disbursements in Iraq. It is expected that the UEPS technology will also be utilized by Iraqi citizens living abroad, via bank branches in other countries.

The deployment of the UEPS will provide a ubiquitous platform for retail payment transactions in Iraq by providing interoperability between automatic teller machines, point of sale devices and bank branches. The UEPS technology will provide offline and online transaction processing solutions to enable affordable products and services to be offered to Iraqi citizens irrespective of where they reside. Projects identified include the payment of social grants to war victims, employee salary/wage payments, banking products and financial services. The first project will pilot the solution for the distribution of social grant payments to war victims.

We expect to commence the pilot in the fourth quarter of fiscal 2008 and we expect to generate revenue in the first quarter of fiscal 2009. Under the agreement, we will receive ongoing transaction and license fees, as well as payments for the provision of outsourcing services and the sale of hardware.

Ghana

We continue software development and customization activities related to the Ghanaian National Switch and Smart Card Payment System. In addition, hardware required in terms of the tender specifications was delivered to Ghana during our second and third quarters of fiscal 2008. During the first quarter of fiscal 2008, we commenced the process of integrating the Ghanaian participating banks with the National Switch and Smart Card Payment System.

It is expected that the Ghanaian National Switch and Smart Card Payment System will be officially launched during the fourth quarter of fiscal 2008. The data room in Ghana is complete and we expect to conclude software development and hardware delivery in the fourth quarter of fiscal 2008.

During January 2008, the Central Bank of Ghana announced that it is mandatory for all financial institutions, including banks, community banks and credit unions to participate in the UEPS national switch. As a result, we anticipate that 169 different financial institutions will join the payment system. The Central Bank of Ghana has also ordered a further 2.5 million smart cards, 5,483 terminals, 1,338 registration workstations, 324 wage payment workstations and have asked us to upgrade all existing ATMs in Ghana to be UEPS-compatible. We anticipate delivery of these additional requirements during the first two quarters of fiscal 2009.

Namibia

We own 50% of SmartSwitch Namibia (Proprietary) Limited, or SmartSwitch Namibia, and the other 50% is owned by Namibia Post Limited, or NamPost, a government entity which provides post office and banking services across Namibia. SmartSwitch Namibia operates a national UEPS smart card-based switching and settlement system in Namibia and provided NamPost with a UEPS banking platform. The UEPS system will also be offered to employers, retailers, medical insurance companies and other government institutions.

As of March 31, 2008, SmartSwitch Namibia has activated 219,966 UEPS smart cards and has signed up 159 merchants to accept the UEPS smart cards. SmartSwitch Namibia utilizes the UEPS system to facilitate the sale of prepaid electricity and mobile airtime to UEPS smart card holders. This solution facilitates the sale of prepaid electricity and mobile airtime in rural and urban areas using the UEPS system to secure, authenticate and collect payments on behalf of the participating municipalities and the mobile airtime service providers.

The Payment Association of Namibia authorized SmartSwitch Namibia as a payment system service provider in Namibia in July 2007. SmartSwitch Namibia's projects with merchants, NamPost and Payzone are currently operational. In addition, SmartSwitch Namibia continues various UEPS-based pilot projects with employers which include the identification of employers interested in utilizing the UEPS-based system to pay employees. These employees will be able to use their UEPS smart cards at the 159 merchants accepting UEPS smart cards in Namibia.

Botswana

We own 50% of Smartswitch Botswana (Proprietary) Limited, or Smartswitch Botswana, and the other 50% is owned by Capricorn Investment Holdings (Botswana) Proprietary Limited, or Capricorn, which owns 100% of Botswana-based Bank Gaborone Limited and the majority holding in a number of financial services companies operating in Botswana.

During the first quarter of fiscal 2008, SmartSwitch Botswana commenced pilot UEPS-based transactions with merchants, employers and card holders, and these transactions are underwritten by Bank Gaborone. The preliminary phases of the pilot were completed successfully during the second quarter of fiscal 2008 and SmartSwitch Botswana management is in the process of presenting the results to mining and construction employers for payment of wages to their employees. SmartSwitch Botswana currently uses the UEPS-based technology to perform the deduction of loan repayments from borrower's salaries on behalf of microlenders in Botswana.

Nigeria

We consolidate SmartSwitch Nigeria Limited, or SmartSwitch Nigeria, for financial accounting purposes. This differs from the equity accounting treatment of our investments in SmartSwitch Namibia and SmartSwitch Botswana.

In August 2007, the Central Bank of Nigeria formally approved the SmartSwitch Nigeria banking license application to provide payment solutions and products in the Nigerian financial markets. During the third quarter of fiscal 2008, SmartSwitch Nigeria commenced its pilot for the UEPS service offering in Nigeria and delivered 50,000 smart cards to Diamond Bank Limited, SmartSwitch Nigeria's 15% shareholder.

Colombia

We own 50% of VTU De Colombia SA, or VTU Colombia, and have fully installed and integrated the VTU system in Colombia. The VTU system in Colombia is now active with Colombia's first and third largest mobile operators. VTU Colombia currently operates exclusively in Bogotá and VTU Colombia is expected to expand the VTU system nationally in the next four quarters. In addition, agreements have been entered into with VTU Colombia's initial and primary distribution partner to deploy VTU enabled handsets through its national distribution and sales force.

VTU Colombia commenced VTU operations in August 2007. The following chart presents the growth in VTU Colombia revenue, in Colombia Pesos, or COP, and the number of transactions during the eight month period ended March 31, 2008:

The average exchange rate during the eight months ended March 31, 2008 was US\$ 1: COP 2,022.

Vietnam

We own 30% of Vietnam Payment Technologies, or VinaPay, which was authorized and licensed to commence business activities at the end of May 2007. The VTU system became fully operational and the first commercial transactions were performed by customers in late December 2007. VinaPay experienced strong revenue growth during the third quarter of fiscal 2008. In addition, we continue preliminary discussions with two of Vietnam's other mobile operators to utilize the VTU system.

Other Countries

We have also implemented UEPS systems in Rwanda, Burundi, Malawi and Mozambique, some of which are considered among the poorest countries in the world. In Malawi, our system has been implemented by the Reserve Bank of Malawi as a national payment system.

In addition, our relationship with MTN Group (Africa/Middle East's largest mobile operator group) regarding VTU continues to progress. Both MTN Ivory Coast and MTN Rwanda have purchased VTU systems, bringing the number

of MTN operators using VTU for electronic pre-paid airtime top-up to six.

Progress of wage payment implementation

In January 2007, we signed a co-operation agreement with Grindrod Bank, a fully registered bank in South Africa, for the establishment of a retail banking division within Grindrod Bank that will focus on deploying our wage payment solution in South Africa. The target markets for the wage payment system are the un-banked and under-banked wage earners in South Africa, estimated at five million people. These wage earners are typically paid in cash on a weekly, bi-weekly or monthly basis and have all the risks associated with cash payments, but none of the benefits associated with having a formal bank account. Net1 and Grindrod Bank plan to offer these wage earners a UEPS smart card that will allow the card holder to receive payment, transact and access other financial services in a secure, cost-effective way.

Since the establishment of the division during the third quarter of fiscal 2007, all the relevant technological platforms have been installed, where required, or integrated between Net1 and Grindrod. Grindrod Bank, with Net1's assistance, has joined the South African National Payment System and the various payment clearing houses in South Africa.

In parallel, Net1 and Grindrod Bank have defined the products, pricing and marketing strategy for the wage payment system. Net1 and Grindrod Bank have commenced pilot operations of the wage payment system mainly in the agricultural sector. We are still in discussion with several trade unions, payroll processors, financial services providers, large retailers and large employer groups who have the desire, and ability, to market and distribute our wage payment solution on a national basis. We have concluded agreements with the relevant financial services providers to ensure that we offer our customer base a complete suite of financial solutions. We expect to officially launch the wage payment system in the KwaZulu-Natal province on May 12, 2008.

Proposed abolishment of Secondary Taxation on Companies

On February 21, 2007, the South African Minister of Finance announced in his National Budget speech that the National Government intends to phase out Secondary Taxation on Companies, or STC, and introduce a dividend tax at a shareholder level. Currently, South African companies are required to pay STC at a rate of 10.00% on dividends distributed, subject to certain exemptions. If a dividend tax is introduced South African companies will no longer be liable to pay STC and the shareholder will be liable to pay the dividend tax. Treaty relief would be available for foreign shareholders.

The reform is being implemented in two phases. The first phase entailed a reduction of the STC rate, effective October 1, 2007, to 10% and the second phase, expected in calendar 2008 will result in a total conversion to a dividend tax. It is likely that South African companies will be required to withhold the dividend tax on all dividends paid. On January 8, 2008, the Revenue Laws Second Amendment Act (Act 36 of 2007), or the Revenue Laws Act, was promulgated. The Revenue Laws Act included the legislation to reduce the rate of STC from 12.50% to 10.00%, effective October 1, 2007. As a result our fully distributed tax rate was reduced to 35.45% from 36.89% during the third quarter of fiscal 2008.

We can not reasonably determine whether the second phase will be enacted as proposed and we will comply with that new tax legislation once it has been enacted. If the announcements made by the South African Minister of Finance in his National Budget speeches regarding the second phase are enacted, under current enacted tax legislation, we expect the proposed replacement of STC with a dividend tax to reduce our current fully distributed rate of 35.45% to 29%. Under GAAP we apply the fully distributed tax rate of 35.45% to our deferred taxation assets and liabilities. We have not yet determined whether we would qualify for the treaty relief available to foreign shareholders.

Included in our earnings for the three and nine months ended March 31, 2008, is deferred income tax expense of approximately \$1.9 million and \$6.4 million (ZAR 14.1 million and ZAR 45.6 million), respectively, related to the application of the fully distributed rate of 35.45% compared with the South African statutory rate of 29% to our Income before income taxes. The following table illustrates the effect on our March 31, 2008, income tax expense, earnings per share and net deferred tax liability as if the second phase described above had been enacted on July 1, 2007:

Table 1	Three months ended March 31, 2008	
	Actual	Illustrative effect ⁽¹⁾
Fully distributed tax rate	35.45%	29.00%
Income tax expense before change in fully distributed tax rate	\$ 11,075	\$ 9,132
Reduction in income tax expense resulting from change in fully distributed rate during the third quarter of fiscal 2008	(5,919)	-
Income tax expense	\$ 5,156	\$ 9,132
Earnings per share, in U.S. cents	47	50
Net deferred tax liability as at March 31	\$ 29,191	\$ 5,153
	Nine months ended March 31, 2008	
	Actual	Illustrative effect ⁽¹⁾
Fully distributed tax rate	35.45%	29.00%
Income tax expense before change in fully distributed tax rate	\$ 33,213	\$ 26,830
Reduction in income tax expense resulting from change in fully distributed rate during the third quarter of fiscal 2008	(5,397)	-
Income tax expense	\$ 27,816	\$ 26,830
Net deferred tax liability reversal to net income ⁽²⁾	-	\$ 28,034
Earnings per share, in U.S. cents	114	125
Net deferred tax liability as at March 31	\$ 29,191	\$ 5,153

(1) Illustrates the abolishment of STC had this been enacted on July 1, 2007. Accordingly, the fully distributed rate decreases from 36.89% (effective as at July 1, 2007) to 29%. All South African deferred tax assets and liabilities would then be measured at 29% which would result in a reversal of a portion of the net deferred tax liabilities recognized.

(2) The net deferred tax liability reversal to net income represents the portion of the net deferred tax liability rate adjustment as of June 30, 2007 translated at rates applicable as of June 30, 2007 assuming the fully distributed tax rate is 29%.

As discussed above, we can not reasonably determine whether, or when, the phase two amendments will be enacted as proposed and what the ultimate effect on our reported earnings will be.

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, 2007.

- Deferred taxation;
- Stock-based compensation;
- Intangible assets acquired through the acquisition of Prism;
- Accounts receivable and allowance for doubtful debts; and
- Research and development.

Recent accounting pronouncements adopted

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

Recent accounting pronouncements not yet adopted as of March 31, 2008

Refer to Note 1 of the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of March 31, 2008, including the expected dates of adoption and effects on financial condition, results of operations and cash flows.

Currency Exchange Rate Information*Actual exchange rates*

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

Table 2	Three months ended		Nine months ended		Year
	March 31,		March 31,		ended
	2008	2007	2008	2007	June 30,
ZAR : \$ average exchange rate	7.5459	7.2546	7.1516	7.2537	7.2188
Highest ZAR : \$ rate during period	8.2440	7.5375	8.2440	7.9748	7.9748
Lowest ZAR : \$ rate during period	6.6810	6.8715	6.4262	6.7193	6.7193
Rate at end of period	8.1940	7.2781	8.1940	7.2781	7.0760

Translation exchange rates

We are required to translate our results of operations from ZAR to U.S. dollars on a monthly basis. Thus, the average rates used to translate this data for the three and nine months ended March 31, 2008 and 2007, vary slightly from the averages shown in the table above. The translation rates we use in presenting our results of operations are the rates shown in the following table:

Table 3	Three months ended		Nine months ended		Year
	March 31,		March 31,		ended
	2008	2007	2008	2007	June 30,
Income and expense items: \$1 = ZAR .	7.4118	7.2090	7.1306	7.2431	7.2100
Balance sheet items: \$1 = ZAR	8.1940	7.2781	8.1940	7.2781	7.0760

Results of operations

The discussion of our consolidated overall results of operations is based on amounts as reflected in Item 1 Financial Statements which are reported in U.S. dollars and are prepared in accordance with US GAAP. Our discussion analyzes our results of operations both in U.S. dollars and ZAR, because ZAR is the functional currency of the entities which contribute the majority of our profits and is the currency in which the majority of our transactions are initially incurred and measured. Due to the significant impact of currency fluctuations between the U.S. dollar and ZAR on our reported results and because we use the U.S. dollar as our reporting currency, we believe that the supplemental presentation of our results of operations in ZAR is useful to investors to understand the changes in the underlying trends of our business.

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

Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007

The following factors had a significant influence on our results of operations during the three months ended March 31, 2008 as compared with the same period in the prior year:

- significant weakening of the South African rand, our functional currency, against the U.S. dollar, our reporting currency, which had a negative impact on our revenues and net income in U.S. dollars;
- settlement payment received from SASSA during the third quarter of fiscal 2007 which affects the comparability of revenue and net income between the periods due to the non-recurring nature of a substantial portion of that payment;
- increased revenues from price increases, effective from July 1, 2007 from the KwaZulu-Natal provincial government for welfare distribution and administration services;
- increased number of grants paid in the North West province;
- continuation of the contract to provide the Central Bank of Ghana with a National Switch and Smart Card Payment System utilizing our UEPS technology;
- increased revenues from continued adoption of our merchant acquiring system by cardholders;
- stock-based compensation charges related to grants of restricted stock in August 2007 and February 2008 under the 2004 Amended and Restated Stock Incentive Plan; and
- change in our fully distributed tax rate from 36.89% to 35.45%, which had a positive impact on net income.

Consolidated overall results of operations

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

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

	In United States Dollars (US GAAP)		
	Three months ended March 31,		
	2008 \$ 000	2007 \$ 000	\$% change
Revenue	63,066	61,275	3%
Cost of goods sold, IT processing, servicing and support .	16,515	13,940	18%

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

Selling, general and administration	15,185	15,515	(2)%
Depreciation and amortization	2,716	2,752	(1)%
Operating income	28,650	29,068	(1)%
Interest income, net	3,754	735	411%
Income before income taxes	32,404	29,803	9%
Income tax expense	5,156	11,397	(55)%
Income before minority interest and earnings from			
equity-accounted investments	27,248	18,406	48%
(Loss) from equity-accounted investments	(281)	(153)	84%
Net income	26,967	18,253	48%
	26		

Table 5

	In South African Rand (US GAAP)		
	Three months ended March 31,		
			ZAR
	2008	2007	%
	ZAR 000	ZAR 000	change
Revenue	467,432	441,731	6%
Cost of goods sold, IT processing, servicing and support .	122,405	100,494	22%
Selling, general and administration	112,548	111,847	1%
Depreciation and amortization	20,131	19,839	1%
Operating income	212,348	209,551	1%
Interest income, net	27,824	5,299	425%
Income before income taxes	240,172	214,850	12%
Income tax expense	38,215	82,161	(53)%
Income before minority interest and earnings from equity-accounted investments	201,957	132,689	52%
(Loss) from equity-accounted investments	(2,083)	(1,103)	89%
Net income	199,874	131,586	52%

Analyzed in ZAR and ignoring the effects of the third quarter 2007 settlement payment received from SASSA of \$5.9 million (ZAR 43.0 million), the increase in revenue and cost of goods sold, IT processing, servicing and support for the three months ended March 31, 2008, was primarily due to the higher volumes in our transaction-based activities, a greater number of UEPS-based smart card holders and the sale of hardware and software development and customization to the Bank of Ghana.

Our operating income margin for the three months ended March 31, 2008, decreased to 45% compared with 47% for the three months ended March 31, 2007, primarily as a result of the SASSA settlement payment.

Selling, general and administration expenses increased during the third quarter of fiscal 2008 from the comparable quarter in fiscal 2007 primarily due to the stock-based compensation charge related to the restricted stock grants awarded in the first and third quarters of fiscal 2008 and increases in goods and services purchased from third parties, including the effects of the increase in inflation in South Africa.

Our direct costs of maintaining a listing on Nasdaq as well as compliance with the Sarbanes-Oxley Act of 2002, or Sarbanes, particularly Section 404 of Sarbanes, includes independent directors' fees, legal fees, fees paid to Nasdaq, our compliance officer's salary, fees paid to consultants who assist with Sarbanes compliance and fees paid to our independent accountants related to the audit and review process. This has resulted in expenditures of \$0.4 million (ZAR 3.2 million) and \$0.4 million (ZAR 2.6 million) during the three months ended March 31, 2008 and 2007, respectively.

Depreciation and amortization includes the amortization charge related to the acquisition of Prism of \$1.3 million (ZAR 10.0 million) and \$1.4 million (ZAR 10.0 million), respectively, for the three months ended March 31, 2008 and 2007. The deferred tax benefit included in our statement of operations related to the intangible amortization charge for the three months ended March 31, 2008 and 2007, respectively was \$0.5 million (ZAR 3.6 million). Property, plant and equipment acquired to provide administration and distribution services to our customers is depreciated over the shorter of expected useful life and the contract period with the provincial government. We are currently in an extension phase with all our contracts and the majority of our property, plant and equipment related to the administration and distribution of social welfare grants has been written off. Accordingly, depreciation expense related to these activities has decreased during the three months ended March 31, 2008 compared with the three months ended March 31, 2007. This reduction in depreciation was partially offset by the increase in depreciation of

our participating merchant POS terminals.

Interest on surplus cash for the three months ended March 31, 2008 increased to \$6.9 million (ZAR 51.1 million) from \$4.1 million (ZAR 29.6 million) for the three months ended March 31, 2007. The increase in interest on surplus cash held in South Africa was due to a higher average daily ZAR cash balance during the three months ended March 31, 2008 compared with the three months ended March 31, 2007 and higher deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 12.50% per annum for the three months ended March 31, 2007, to 14.50% per annum for the three months ended March 31, 2008.

During the three months ended March 31, 2008, our finance costs decreased due to an increase in available cash for our pre-funding obligation which resulted in less utilization of our short-term facilities which was offset by the increase in the average rates of interest on short-term facilities. Finance costs decreased to \$3.1 million (ZAR 22.9 million) for the three months ended March 31, 2008, from \$3.4 million (ZAR 24.5 million) for the three months ended March 31, 2007.

Total tax expense for the three months ended March 31, 2008 was \$5.2 million (ZAR 38.2 million) compared with \$11.4 million (ZAR 82.2 million) during the same period in the comparable quarter of the prior fiscal year. Deferred tax assets and liabilities are measured utilizing the enacted fully distributed tax rate. Accordingly, a reduction in the fully distributed tax rate from 36.89% to 35.45% results in lower deferred tax assets and liabilities and the net change of \$5.9 million (ZAR 43.9 million) is included in our income tax expense in our unaudited condensed consolidated statement of operations for the third quarter of fiscal 2008. In ZAR, if the effect of the change in our fully distributed tax rate is ignored the increase in our total tax expense was primarily due to our increased profitability in our transaction-based and hardware, software and related technology sales activities. Our effective tax rate for the three months ended March 31, 2008 was 15.9%, compared to 38.2% for the three months ended March 31, 2007. The change in our effective tax rate was primarily due to reduction in our fully distributed tax rate to 35.45% and fewer non-deductible expenses during the three months ended March 31, 2008 compared to the three months ended March 31, 2007. The adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB 109*, or FIN 48, did not have a significant impact on our effective tax rate during the three months ended March 31, 2008.

Loss from equity-accounted investments for the three months ended March 31, 2008, of \$0.3 million (ZAR 2.1 million) does not include equity-accounted earnings attributable to Permit Group 2 (Pty) Ltd (Permit) because Permit was sold in the fourth quarter of fiscal year 2007. Loss from equity-accounted investments for the three months ended March 31, 2007 of \$0.2 million (ZAR 1.1 million) does not include equity-accounted losses attributable to VinaPay because we had not invested in this entity as of March 31, 2007. During the three months ended March 31, 2008, we recognized income from license fees, software and hardware sales made to equity-accounted investees in prior periods of approximately \$0.2 million (ZAR 1.1 million). Eliminations of hardware sales and other services and income from license fees, software and hardware sales made in prior periods have been included in (loss) earnings from equity-accounted investments.

Results of operations by operating segment

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

Table 6

In United States Dollars (US GAAP)

Operating Segment	Three months ended March 31,				
	2008 \$ 000	% of total	2007 \$ 000	% of total	% change
Consolidated revenue:					
Transaction-based activities	37,254	59%	40,962	67%	(9)%
Smart card accounts	8,696	14%	8,655	14%	-%
Financial services	1,999	3%	2,858	5%	(30)%

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

Hardware, software and related technology sales	15,117	24%	8,800	14%	72%
Total consolidated revenue	63,066	100%	61,275	100%	3%
Consolidated operating income (loss):					
Transaction-based activities	20,347	71%	24,869	86%	(18)%
Smart card accounts	3,953	14%	3,934	14%	-%
Financial services	507	2%	930	3%	(45)%
Hardware, software and related technology sales	5,380	19%	991	3%	443%
Corporate/eliminations	(1,537)	(6)%	(1,656)	(6)%	(7)%
Total consolidated operating income	28,650	100%	29,068	100%	(1)%

28

Table 7*In South African Rand (US GAAP)*
Three months ended March 31,

Operating Segment	2008	% of total	2007	% of total	% change
	ZAR 000		ZAR 000		
Consolidated revenue:					
Transaction-based activities	276,119	59%	295,295	67%	(6)%
Smart card accounts	64,453	14%	62,394	14%	3%
Financial services	14,816	3%	20,603	5%	(28)%
Hardware, software and related technology sales	112,044	24%	63,439	14%	77%
Total consolidated revenue	467,432	100%	441,731	100%	6%
Consolidated operating income (loss):					
Transaction-based activities	150,808	71%	179,281	86%	(16)%
Smart card accounts	29,299	14%	28,360	14%	3%
Financial services	3,758	2%	6,704	3%	(44)%
Hardware, software and related technology sales	39,875	19%	7,144	3%	458%
Corporate/eliminations	(11,392)	(6)%	(11,938)	(6)%	(5)%
Total consolidated operating income	212,348	100%	209,551	100%	1%
Transaction-based activities					

In U.S. dollars, revenues decreased by 9% for the three months ended March 31, 2008, from the three months ended March 31, 2007. Operating income decreased by 18% for the three months ended March 31, 2008 from the three months ended March 31, 2007.

In ZAR, revenues decreased by 6% for the three months ended March 31, 2008, from the three months ended March 31, 2007. Operating income decreased by 16% for the three months ended March 31, 2008 from the three months ended March 31, 2007.

These decreases in revenues and operating income were due primarily to the settlement payment received from SASSA during the third quarter of fiscal 2007 as set out in the tables below:

Table 8*In United States Dollars (US GAAP)*
Three months ended March 31,

	2008	2007	%
	\$ 000	\$ 000	change
Reported revenue	37,254	40,962	(9)%
Consisting of:			
Recurring transaction-based activities ⁽¹⁾	37,254	35,037	6%
Non-recurring portion of settlement payment received from SASSA	-	5,925	
Reported operating income	20,347	24,869	(18)%
Consisting of:			
Recurring transaction-based activities ⁽¹⁾	20,347	20,900	(3)%
Non-recurring portion of settlement payment received from SASSA	-	3,969	
Operating income margin as reported	55%	61%	(10)%

Consisting of:

Recurring transaction-based activities ⁽¹⁾	55%	60%	(8)%
Non-recurring portion of settlement payment received from SASSA	-	67%	
	29		

Table 9***In South African Rand (US GAAP)***
Three months ended March 31,

	2008	2007	
	ZAR	ZAR	%
	000	000	change
Reported revenue	276,119	295,295	(6)%
Consisting of:			
Recurring transaction-based activities ⁽¹⁾	276,119	252,341	9%
Non-recurring portion of settlement payment received from SASSA	-	42,954	
Reported operating income	150,808	179,281	(16)%
Consisting of:			
Recurring transaction-based activities ⁽¹⁾	150,808	150,505	-%
Non-recurring portion of settlement payment received from SASSA	-	28,776	
Operating income margin as reported	55%	61%	(10)%
Consisting of:			
Recurring transaction-based activities ⁽²⁾	55%	60%	(8)%
Non-recurring portion of settlement payment received from SASSA	-	67%	

(1) The increase in revenues and operating income were primarily due to the price increases in the Eastern Cape, NorthWest and Limpopo provinces, higher volumes from three of our provincial contracts, continued adoption of our merchant acquiring system in the provinces where we distribute welfare grants and increased transacting ability at participating retailers POS devices in these provinces. We discuss these factors in more detail below.

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

(2) Operating income margin of our recurring transaction-based activities for the three months ended March 31, 2008 decreased to 55% from 60% for the three months ended March 31, 2007. These profit margin decreases were mainly due to:

- inflationary increases in our cost components that were higher than the increases we negotiated with our customers;
- lower revenues earned during the third quarter of fiscal 2008 compared with the third quarter of fiscal 2007 which resulted from the opening in March 2008 of the April 2008 payfile in all provinces except KwaZulu-Natal, whereas in March 2007, the April 2007 payfile was opened in all provinces. On a calendar (as opposed to pay cycle) basis, 5,051,819 grants were paid during the third quarter of fiscal 2008 compared to 5,125,102 grants during the third quarter of fiscal 2007; and
- lower margins at EasyPay which are discussed further below.

These operating income margin decreases were partially offset by the increased revenues from price increases from all the provincial governments where we provide a welfare distribution and administration services.

Settlement payment received from SASSA

During the three months ended March 31, 2007, we received approximately \$6.9 million (ZAR 49.5 million) from SASSA as a result of the settlement of contract deviations that occurred during the implementation phases in the

Eastern Cape province and for annual inflation price increases over the last three years which were not forthcoming. During the third quarter of fiscal 2007, the price charged per beneficiary in the Eastern Cape province was increased as a result of the settlement reached. The settlement amount of approximately \$6.9 million (ZAR 49.5 million) contained elements of a recurring and non-recurring nature. The recurring amount was due to price increases that relate to our third quarter of fiscal 2007 and continued to have a beneficial impact on our operating income until the end of the contract period and amounted to approximately \$0.9 million (ZAR 6.5 million). The non-recurring amount included in our operating income amounted to approximately \$4.0 million (ZAR 28.8 million).

Continued adoption of our merchant acquiring system:

The key statistics and indicators of our merchant acquiring system during the three months ended March 31, 2008 and 2007, in each of the South African provinces where we distribute social welfare grants are summarized in the table below:

Table 10	Three months ended	
	March 31,	
	2008	2007
	NC, EC, KZN, L and NW	NC, EC, KZN, L and NW
Province included (1)		
Total POS devices installed	4,222	4,179
Number of participating UEPS retail locations	2,468	2,511
Value of transactions processed through POS devices during the quarter (2) (in \$ 000)	264,525	237,993
Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in \$ 000)	268,085	225,294
Value of transactions processed through POS devices during the quarter (2) (in ZAR 000)	1,996,072	1,726,532
Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in ZAR 000)	2,022,938	1,634,410
Number of grants paid through POS devices during the quarter (2)	3,910,667	3,517,338
Number of grants paid through POS devices during the completed pay cycles for the quarter (3)	3,979,363	3,359,772
Average number of grants processed per terminal during the quarter (2)	917	845
Average number of grants processed per terminal during the completed pay cycles for the quarter (3)	933	807

(1) NC = Northern Cape, EC = Eastern Cape, KZN = KwaZulu-Natal, L = Limpopo, NW = North West.

(2) Refers to events occurring during the quarter (i.e., based on three calendar months).

(3) Refers to events occurring during the completed pay cycle.

The increase in the number of POS devices installed is mainly attributable to the growth of our merchant acquiring system in the North West as a result of the increased number of beneficiaries paid in that province.

The following chart presents the number of POS devices installed and the average spend per POS device, *per pay cycle and calendar month*, during the 21 month period ended March 31, 2008:

The following chart presents the growth in the value of loads at merchant locations processed through our installed base of POS devices, *per pay cycle and calendar month*, during the 21 month period ended March 31, 2008:

The following graph presents the number of social welfare grants loaded at merchant locations, *per pay cycle and calendar month*, for the 21 month period ended March 31, 2008:

Higher overall volumes from our provincial contracts:

During the three months ended March 31, 2008, we experienced growth in three of the provinces where we administer payments of social welfare grants. This growth was mainly due to an increase in the number of child support grants and disability grants approved by the various provincial governments. During this period, there was a decrease in the number of grants paid in the KwaZulu-Natal and Eastern Cape provinces, due to the removal of beneficiaries from the payfile by SASSA, following investigations into the eligibility of beneficiaries in these provinces. On a national basis, SASSA reported removing 288,682 beneficiaries from the social grant system. In total, the volume of payments processed during the three months ended March 31, 2008 increased 4% to 11,892,573 from the three months ended March 31, 2007.

The higher volumes under existing provincial contracts during the three months ended March 31, 2008, as well as average revenue per grant paid, are detailed below:

Province	Number of Grants Paid		Average Revenue per Grant Paid			
	2008	2007	2008 \$(1)	2007 \$(2)	2008 ZAR(1)	2007 ZAR(2)
KwaZulu-Natal (A) .	5,051,827	5,079,328	2.88	2.67	21.76	19.35
Limpopo (B)	2,949,459	2,925,621	2.43	2.23	18.32	16.19
North West (C)	1,245,238	833,683	2.94	2.92	22.19	21.19
Northern Cape (D)	494,664	417,990	2.69	2.57	20.26	18.62
Eastern Cape (E)	2,151,385	2,153,674	2.19	1.78	16.56	12.89
Total	11,892,573	11,410,296				

(1) Average Revenue per Grant Paid excludes \$ 0.73 (ZAR 5.50) related to the provision of smart card accounts.

(2) Average Revenue per Grant Paid excludes \$ 0.76 (ZAR 5.50) related to the provision of smart card accounts.

(A) - in ZAR, the increase in the Average Revenue per Grant Paid in KwaZulu-Natal was due to price adjustment effective from July 2007.

(B) - in ZAR, the increase in the Average Revenue per Grant Paid in Limpopo was due to the negotiated annual price adjustment effective from January 2008.

(C) - in ZAR, the increase in the Average Revenue per Grant Paid in North West was due to the negotiated annual price adjustment approved by the provincial government in September 2007.

(D) - in ZAR, the increase in the Average Revenue per Grant Paid in Northern Cape was due to the negotiated annual price adjustment effective from January 2008.

(E) - in ZAR, the increase in the Average Revenue per Grant Paid in Eastern Cape was due to negotiated price increases effective from January 2008.

EasyPay transaction fees:

During the three months ended March 31, 2008 and 2007, EasyPay processed 129 million and 109 million transactions with an approximate value of \$3.7 billion (ZAR 28.1 billion) and \$3.4 billion (ZAR 24.3 billion), respectively. The average fee per transaction during the three months ended March 31, 2008 and 2007, was \$0.03 (ZAR 0.20) and \$0.03 (ZAR 0.21), respectively. In 2008, the Easter public holidays in South Africa, which typically results in increase consumer spending, occurred during the third quarter compared with the prior fiscal year. This resulted in an increase in the number of transactions processed through retailers during the third quarter of fiscal 2008 compared with the third quarter of fiscal 2007. Accordingly, due to this year's timing of Easter, we expect the number of transactions processed during the fourth quarter of fiscal 2008 to be lower than those during the third quarter of fiscal 2008. We do not expect a significant fluctuation, in ZAR, in the average fee per transaction during the fourth quarter of fiscal 2008.

Operating income margins generated by EasyPay during the three months ended March 31, 2008 and 2007, were 21% and 28%, respectively, which is lower than those generated by our pension and welfare business and reduced the operating income margins within our transaction-based activities segment. Our operating income margin at EasyPay has decreased as a result of costs incurred related to the implementation of a new integrated switch which we expect will improve operating efficiencies and reduce costs at EasyPay. Once completed, we expect the new integrated switch to greatly enhance our offering at EasyPay and enable us to take advantage of new business opportunities. We

expect the new integrated switch to be full operating capacity during the first quarter of fiscal 2009.

Amortization of EasyPay intangible assets during the three months ended March 31, 2008 and 2007, respectively of \$0.4 million (ZAR 3.2 million), is included in the calculation of EasyPay operating margins. Operating income margin before amortization of EasyPay intangible assets during the three months ended March 31, 2008 and 2007 was 34% and 45%, respectively.

Smart card accounts

In U.S. dollars, revenues and operating income for the three months ended March 31, 2008, was comparable with the three months ended March 31, 2007.

In ZAR, revenues and operating income increased by 3% for the three months ended March 31, 2008, from the three months ended March 31, 2007.

Operating income margin from providing smart card accounts was constant at 45% for each of the three months ended March 31, 2008 and 2007.

In ZAR, revenue from the provision of smart card-based accounts grew in proportion to the higher number of beneficiaries serviced through our social welfare payment contracts. A total number of 3,956,882 smart card-based accounts were active at March 31, 2008, compared to 3,803,150 active accounts as at March 31, 2007. The increase in the number of active accounts resulted from an increase in the number of beneficiaries in all provinces qualifying for government grants and the transfer of beneficiaries in the North West province from the South African Post Office to our system.

Financial services

In U.S. dollars, revenues decreased by 30% for the three months ended March 31, 2008, from the three months ended March 31, 2007. Operating income decreased by 45% for the three months ended March 31, 2008 from the three months ended March 31, 2007.

In ZAR, revenues decreased by 28% for the three months ended March 31, 2008, from the three months ended March 31, 2007. Operating income decreased by 44% for the three months ended March 31, 2008 from the three months ended March 31, 2007.

Revenues from UEPS-based lending decreased during the three months ended March 31, 2008 compared with the three months ended March 31, 2007 primarily due to the lower number of loans granted. In addition, on average, the return on these UEPS-based loans was lower during the three months ended March 31, 2008 compared with the three months ended March 31, 2007. We offer the UEPS-based loans to our beneficiaries with the primary purpose of assisting them to repay expensive loans with other loan providers and to escape the debt spiral that they are trapped in. Once our UEPS-based loans are repaid, we believe that the beneficiaries have an enhanced ability to remain debt-free, or take loans in amounts smaller than the original refinancing facility we offered to them. We believe that once cardholders escape the debt spiral they will have more disposable income to spend, including through our merchant acquiring base.

Revenues from our traditional microlending business decreased during the quarter due to increased competition, our strategic decision not to grow this business, and an overall lower return on traditional microlending loans as a result of compliance with the National Credit Act, or NCA. The NCA regulates fees and interest charged on micro-lending loans and imposes credit check obligations on lenders prior to granting of credit to individuals. The loan portfolio of the traditional microlending businesses has declined as a result of our strategic decision not to grow this business and compliance with the NCA.

Our current UEPS-based lending portfolio comprises loans made to elderly pensioners in some of the provinces where we distribute social welfare grants. We insure the UEPS-based lending book against default and thus no allowance is required. We consider UEPS-based lending less risky than traditional microfinance loans because the grants are distributed to these lenders by us and these loans are insured. We establish an allowance for doubtful traditional microlending loans in respect of which we consider it likely that all or a portion of the principal amount of the loan or interest thereon will not be repaid by the borrower. We consider default likely after a specified period of

non-payment, which is generally not more than 150 days. We assess this allowance based on a review by management of the aging of outstanding amounts, the payment history in relation to those specific accounts and the overall default history.

Some of the key indicators of these businesses are illustrated below:

Table 12			As at March 31,			
	2008	2007	\$%	2008	2007	ZAR %
	\$ 000	\$ 000	change	ZAR 000	ZAR 000	change
Traditional microlending:						
Finance loans receivable gross	4,611	7,112	(35)%	37,777	51,765	(27)%
Allowance for doubtful finance loans receivable	(2,667)	(4,359)	(39)%	(21,850)	(31,727)	(31)%
Finance loans receivable net	1,944	2,753	(29)%	15,927	20,038	(21)%
UEPS-based lending:						
Finance loans receivable net and gross (i.e., no allowance)	2,986	3,457	(14)%	24,469	25,156	(3)%
Total finance loans receivable, net	4,930	6,210		40,396	45,194	

Operating income margin for the financial services segment decreased to 25% for the three months ended March 31, 2008 from 33% for the three months ended March 31, 2007, primarily due to a lower return on our UEPS-based lending products and continued difficult operating conditions in our traditional micro-lending operations, as well as the effect of implementing the NCA.

Hardware, software and related technology sales

In U.S. dollars, revenues increased by 72% for the three months ended March 31, 2008, from the three months ended March 31, 2007. Operating income increased by 443% for the three months ended March 31, 2008 from the three months ended March 31, 2007.

In ZAR, revenues increased by 77% for the three months ended March 31, 2008, from the three months ended March 31, 2007. Operating income increased by 458% for the three months ended March 31, 2008 from the three months ended March 31, 2007.

The increase in revenues and operating income was primarily due to delivery of hardware to Ghana and software development and customization activities related to the Ghanaian National Switch and Smart card Payment System contract. Our revenues for the fiscal quarter include approximately \$4.3 million (ZAR 31.7 million) from software development and customization activities and hardware related to this contract. Software development and customization are high margin activities for us and contributed to the increase in operating income during the three months ended March 31, 2008. During the fourth quarter of fiscal 2008 we expect to recognize revenues of approximately \$6.6 million related to the Ghana contract for on-going software development and customization and delivery of hardware.

Initially we expected to generate revenues of approximately \$19.0 million, excluding travel related expenditures, from our contract with the Central Bank of Ghana during fiscal 2008, however, we have allowed the bank to procure approximately \$1.6 million of low margin hardware for its data room from local Ghanaian suppliers. We have agreed that the bank will not be required to reimburse us for any loss of margin and believe that this concession will improve

the already strong working relationship we have with the bank. We have received additional hardware orders for point of service terminals and smart cards from the Central Bank of Ghana which we expect will generate revenues of approximately \$4.7 million. We expect this additional hardware to be delivered during the first two quarters of fiscal 2009.

Our revenues for the three months ended March 31, 2008, includes approximately \$0.6 million (ZAR 4.5 million) from sales to Nedbank Limited, or Nedbank. Sales of hardware to Nedbank occur on an ad hoc basis.

Amortization of Prism intangible assets during the three months ended March 31, 2008 and 2007, respectively was approximately \$0.9 million (ZAR 6.7 million) and reduced our operating income.

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

Corporate/eliminations

In U.S. dollars, the operating loss decreased by \$0.1 million for the three months ended March 31, 2008, from the three months ended March 31, 2007.

In ZAR, the operating loss decreased by ZAR 0.5 million for the three months ended March 31, 2008, from the three months ended March 31, 2007.

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

Nine months ended March 31, 2008 Compared to the Nine months ended March 31, 2007

The following factors had a significant influence on our results of operations during the nine months ended March 31, 2008 as compared with the same period in the prior year:

- significant weakening of the ZAR, our functional currency, against the U.S. dollar, our reporting currency, which had a negative impact on our revenues and net income in U.S. dollars;
- settlement payment received from SASSA during the third quarter of fiscal 2007 which affects the comparability of revenue and net income between the periods due to the non-recurring nature of a substantial portion of that payment;
- increased revenues from price increases, effective from July 1, 2007 all provincial governments for welfare distribution and administration services;
- increased number of grants paid in the North West province;
- commencement of the contract to provide the Central Bank of Ghana with a National Switch and Smart Card Payment System utilizing our UEPS technology;
- increased revenues from continued adoption of our merchant acquiring system by cardholders;
- stock-based compensation charges related to grants of restricted stock in August 2007 and February 2008 under the 2004 Amended and Restated Stock Incentive Plan; and
- change in our fully distributed tax rate from 36.89% to 35.45%, which had a positive impact on our net income.

Consolidated overall results of operations

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

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

	In United States Dollars		
	(US GAAP)		
	Nine months ended March 31,		
	2008	2007	\$%
	\$ 000	\$ 000	change
Revenue	191,825	163,772	17%
Cost of goods sold, IT processing, servicing and support .	51,833	38,185	36%
Selling, general and administration	48,915	44,690	9%
Depreciation and amortization	8,295	8,512	(3)%
Operating income	82,782	72,385	14%
Interest income, net	10,852	2,793	289%
Income before income taxes	93,634	75,178	25%
Income tax expense	27,816	28,927	(4)%
Income before minority interest and earnings from equity-accounted investments	65,818	46,251	42%
Minority interest	(196)	205	
(Loss) Earnings from equity-accounted investments	(801)	102	
Net income	65,213	46,148	41%

	In South African Rand		
	(US GAAP)		
	Nine months ended March 31,		
	2008	2007	ZAR
	ZAR 000	ZAR 000	%
			change
Revenue	1,367,825	1,186,218	15%
Cost of goods sold, IT processing, servicing and support .	369,599	276,579	34%
Selling, general and administration	348,793	323,694	8%
Depreciation and amortization	59,149	61,653	(4)%
Operating income	590,284	524,292	13%
Interest income, net	77,381	20,230	283%
Income before income taxes	667,665	544,522	23%
Income tax expense	198,345	209,521	(5)%
Income before minority interest and earnings from equity-accounted investments	469,320	335,001	40%
Minority interest	(1,398)	1,485	
(Loss) Earnings from equity-accounted investments	(5,712)	739	(873)%
Net income	465,006	334,255	39%

Analyzed in ZAR, the increase in revenue and cost of goods sold, IT processing, servicing and support for the nine months ended March 31, 2008, was primarily due to the higher volumes in our transaction-based activities, a greater number of UEPS-based smart card holders and the sale of hardware and software development and customization to the Bank of Ghana.

Our operating income margin for the nine months ended March 31, 2008, decreased to 43% compared with 44% for the nine months ended March 31, 2007, primarily as a result of a settlement payment received from SASSA during the third quarter of fiscal 2007. The decrease in operating income was partially offset by the increased revenues from price increases from all the provinces where we perform welfare distribution and administration services and revenues from our contract with the Central Bank of Ghana.

Selling, general and administration expenses increased during the nine months ended March 31, 2008 from the comparable period in fiscal 2007 primarily due to the stock-based compensation charge related to the restricted stock grants awarded in the first and third quarter of fiscal 2008 and increases in goods and services purchased from third parties, including the effects of the increase in inflation in South Africa.

Our direct costs of maintaining a listing on Nasdaq as well as compliance with Sarbanes includes independent directors fees, legal fees, fees paid to Nasdaq, our compliance officers salary, fees paid to consultants who assist with compliance with Sarbanes and fees paid to our independent accountants related to the audit and review process. This has resulted in expenditures of \$1.5 million (ZAR 10.5 million) and \$1.2 million (ZAR 8.9 million) during the nine months ended March 31, 2008 and 2007, respectively.

Depreciation and amortization includes the amortization charge related to the acquisition of Prism of \$4.2 million (ZAR 29.9 million) and \$4.0 million (ZAR 29.0 million), respectively, for the nine months ended March 31, 2008 and 2007. The deferred tax benefit included in our statement of operations related to the intangible amortization charge for the nine months ended March 31, 2008 and 2007 was \$1.5 million (ZAR 10.8 million) and \$1.5 million (ZAR 10.6 million), respectively. Property, plant and equipment acquired to provide administration and distribution services to our customers is depreciated over the shorter of expected useful life and the contract period with the provincial government. We are currently in an extension phase with all our contracts and the majority of our property, plant and equipment related to the administration and distribution of social welfare grants has been written off. Accordingly, depreciation expense related to these activities has decreased during the nine months ended March 31, 2008 compared with the nine months ended March 31, 2007. This reduction in depreciation was partially offset by the increase in depreciation of our participating merchant POS terminals.

Interest on surplus cash for the nine months ended March 31, 2008 increased to \$19.1 million (ZAR 136.2 million) from \$11.0 million (ZAR 79.8 million) for the nine months ended March 31, 2007. The increase in interest on surplus cash held in South Africa was due to a higher average daily ZAR cash balance during the nine months ended March 31, 2008 compared with the nine months ended March 31, 2007 and the higher deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 11.96% per annum for the nine months ended March 31, 2007, to 13.94% per annum for the nine months ended March 31, 2008.

During the nine months ended March 31, 2008, our finance costs increased due to the increase in the average rates of interest on short-term facilities which was offset by an increase in available cash for our pre-funding obligation which resulted in less utilization of our short-term facilities. Finance costs increased to \$8.3 million (ZAR 59.2 million) for the nine months ended March 31, 2008, from \$8.2 million (ZAR 59.5 million) for the nine months ended March 31, 2007.

Total tax expense for the nine months ended March 31, 2008 was \$27.8 million (ZAR 198.3 million) compared with \$28.9 million (ZAR 209.5 million) during the same period in the comparable quarter of the prior fiscal year. Deferred tax assets and liabilities are measured utilizing the enacted fully distributed tax rate. Accordingly, a reduction in the fully distributed tax rate from 36.89% to 35.45% results in lower deferred tax assets and liabilities and the net change of \$5.4 million (ZAR 38.5 million) is included in our income tax expense in our unaudited condensed consolidated statement of operations for the third quarter of fiscal 2008. If the effect of the change in our fully distributed tax rate is ignored, the increase in total tax expense was primarily due to our increased profitability in our transaction-based and hardware, software and related technology sales activities. Our effective tax rate for the nine months ended March 31, 2008 was 29.7%, compared to 38.5% for the nine months ended March 31, 2007. The change in our effective tax rate was primarily due to reduction in our fully distributed tax rate to 35.45% and fewer non-deductible expenses during the nine months ended March 31, 2008 compared to the nine months ended March 31, 2007. The adoption of FIN 48, has not had significant impact on our effective tax rate during the nine months ended March 31, 2008.

Loss from equity-accounted investments for the nine months ended March 31, 2008, of \$0.8 million (ZAR 5.7 million) does not include equity-accounted earnings attributable to Permit Group 2 (Pty) Ltd (Permit) because Permit was sold in the fourth quarter of fiscal year 2007. Earnings from equity-accounted investments for the nine months ended March 31, 2007 of \$0.1 million (ZAR 0.7 million) does not include equity-accounted losses attributable to VinaPay because we had not invested in this entity as of March 31, 2007. During the nine months ended March 31, 2008, we recognized income from license fees, software and hardware sales made to equity-accounted investees in prior periods of approximately \$0.5 million (ZAR 3.6 million). Eliminations of hardware sales and other services and income from license fees, software and hardware sales made in prior periods have been included in (loss) earnings from equity-accounted investments.

Results of operations by operating segment

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

Table 15*In United States Dollars (US GAAP)***Nine months ended March 31,**

Operating Segment	2008 \$ 000	% of total	2007 \$ 000	% of total	% change
Consolidated revenue:					
Transaction-based activities	115,409	60%	103,172	63%	12%
Smart card accounts	27,469	14%	25,722	16%	7%
Financial services	6,317	3%	8,636	5%	(27)%
Hardware, software and related technology sales	42,630	23%	26,242	16%	62%
Total consolidated revenue	191,825	100%	163,772	100%	17%
Consolidated operating income (loss):					
Transaction-based activities	62,317	75%	60,799	84%	2%
Smart card accounts	12,485	15%	11,692	16%	7%
Financial services	1,411	2%	2,758	4%	(49)%
Hardware, software and related technology sales	9,585	12%	2,621	4%	266%
Corporate/eliminations	(3,016)	(4)%	(5,485)	(8)%	(45)%
Total consolidated operating income	82,782	100%	72,385	100%	14%

Table 16*In South African Rand (US GAAP)***Nine months ended March 31,**

Operating Segment	2008 ZAR 000	% of total	2007 ZAR 000	% of total	% change
Consolidated revenue:					
Transaction-based activities	822,934	60%	747,286	63%	10%
Smart card accounts	195,870	14%	186,307	16%	5%
Financial services	45,044	3%	62,551	5%	(28)%
Hardware, software and related technology sales	303,977	23%	190,074	16%	60%
Total consolidated revenue	1,367,825	100%	1,186,218	100%	15%
Consolidated operating income (loss):					
Transaction-based activities	444,357	75%	440,374	84%	1%
Smart card accounts	89,025	15%	84,686	16%	5%
Financial services	10,061	2%	19,976	4%	(50)%
Hardware, software and related technology sales	68,347	12%	18,984	4%	260%
Corporate/eliminations	(21,506)	(4)%	(39,728)	(8)%	(46)%
Total consolidated operating income	590,284	100%	524,292	100%	13%

Transaction-based activities

In U.S. dollars, revenues increased by 12% for the nine months ended March 31, 2008, from the nine months ended March 31, 2007. Operating income increased by 2% for the nine months ended March 31, 2008 from the nine months ended March 31, 2007.

In ZAR, revenues increased by 10% for the nine months ended March 31, 2008, from the nine months ended March 31, 2007. Operating income increased by 1% for the nine months ended March 31, 2008 from the nine months ended March 31, 2007.

These increases in revenues was due primarily to the price increases in the Eastern Cape, NorthWest and Limpopo provinces, higher volumes from all of our provincial contracts, continued adoption of our merchant acquiring system in the provinces where we distribute welfare grants and increased transacting ability at participating retailers POS devices in these provinces. These increases in revenues and operating income were partially offset by the settlement payments received from SASSA during the third quarter of fiscal 2007. We discuss these factors in more detail below.

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

Operating income margin of our recurring transaction-based activities for the nine months ended March 31, 2008 decreased to 54% from 58% for the nine months ended March 31, 2007. These profit margin decreases were mainly due to:

- inflationary increases in our cost components that were higher than the increases we negotiated with our customers;
- timing differences relating to our annual price increase negotiations, specifically in the Limpopo province where we received a back-dated price increase during the nine months ended March 31, 2007; and
- costs incurred during the nine months ended March 31, 2008 for the registration of 120,000 new beneficiaries in the North West province.

These operating income margin decreases were partially offset by the increased revenues from price increases from all the provinces where we perform welfare distribution and administration services and improved margins from EasyPay.

Settlement payment received from SASSA

Refer to discussion under Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007 Results of operations by operating segment Transaction-based activities Settlement payment received from SASSA.

The tables below present the components of our reported transaction-based activities revenue, operating income and operating income margin during the nine months ended March 31, 2008 and 2007:

Table 17

In United States Dollars (US GAAP)
Nine months ended March 31,
2008 2007 %
\$ 000 \$ 000 change

Reported revenue	115,409	103,172	12%
Consisting of:			
Recurring transaction-based activities	115,409	97,247	19%
Non-recurring portion of settlement payment received from SASSA	-	5,925	
Reported operating income	62,317	60,799	2%
Consisting of:			
Recurring transaction-based activities	62,317	56,830	10%
Non-recurring portion of settlement payment received from SASSA	-	3,969	
Operating income margin as reported	54%	59%	(8)%
Consisting of:			
Recurring transaction-based activities	54%	58%	(8)%
Non-recurring portion of settlement payment received from SASSA	-	67%	

Table 18*In South African Rand (US GAAP)***Nine months ended March 31,**

	2008	2007	
	ZAR	ZAR	%
	000	000	change

Reported revenue	822,934	747,286	10%
Consisting of:			
Recurring transaction-based activities	822,934	704,332	17%
Non-recurring portion of settlement payment received from SASSA	-	42,954	
Reported operating income	444,357	440,374	1%
Consisting of:			
Recurring transaction-based activities	444,357	411,598	8%
Non-recurring portion of settlement payment received from SASSA	-	28,776	
Operating income margin as reported	54%	59%	(8)%
Consisting of:			
Recurring transaction-based activities	54%	58%	(8)%
Non-recurring portion of settlement payment received from SASSA	-	67%	

Continued adoption of our merchant acquiring system:

Refer to discussion under Three Months Ended March 31, 2008 Compared to the Three Months Ended March 31, 2007 Results of operations by operating segment Transaction-based activities Continued adoption of our merchant acquiring system.

Higher volumes from our provincial contracts:

During the nine months ended March 31, 2008, we experienced growth in all of the provinces where we administer payments of social welfare grants. This growth was mainly due to an increase in the number of child support grants and disability grants approved by the various provincial governments. In total, the volume of payments processed during the nine months ended March 31, 2008 increased 5% to 35,617,727 from the nine months ended March 31, 2007.

The higher volumes under existing provincial contracts during the nine months ended March 31, 2008, as well as average revenue per grant paid, are detailed below:

Table 19**Nine months ended March 31,**

Province	Number of Grants Paid		Average Revenue per Grant Paid			
	2008	2007	2008	2007	2008	2007
			\$(1)	\$(2)	ZAR(1)	ZAR(2)
KwaZulu-Natal (A)	15,155,356	15,017,233	3.02	2.74	21.63	19.90
Limpopo (B)	8,833,286	8,724,102	2.45	2.23	17.49	16.16
North West (C)	3,694,651	2,481,696	3.02	2.78	21.58	20.17
Northern Cape (D)	1,489,641	1,247,935	2.69	2.57	19.23	18.67
Eastern Cape (E)	6,444,793	6,426,585	2.22	1.68	15.90	12.19
Total	35,617,727	33,897,551				

(1) Average Revenue per Grant Paid excludes \$ 0.77 (ZAR 5.50) related to the provision of smart card accounts.

(2) Average Revenue per Grant Paid excludes \$ 0.76 (ZAR 5.50) related to the provision of smart card accounts.

(A) - in ZAR, the increase in the Average Revenue per Grant Paid in KwaZulu-Natal was due to price adjustments effective from July 2007.

(B) - in ZAR, the increase in the Average Revenue per Grant Paid in Limpopo was due to the negotiated annual price adjustment effective from January 2008.

(C) - in ZAR, the increase in the Average Revenue per Grant Paid in North West was due to the negotiated annual price adjustment approved by the provincial government in September 2007.

(D) - in ZAR, the increase in the Average Revenue per Grant Paid in Northern Cape was due to the negotiated annual price adjustment effective from January 2008.

(E) - in ZAR, the increase in the Average Revenue per Grant Paid in Eastern Cape was due to negotiated price increases effective from January 2008.

EasyPay transaction fees:

During the nine months ended March 31, 2008 and 2007, EasyPay processed 383 million and 327 million transactions with an approximate value of \$11.8 billion (ZAR 84.5 billion) and \$10.2 billion, (ZAR 74.3 billion), respectively. The average fee per transaction during the nine months ended March 31, 2008 and 2007, was \$0.03 (ZAR0.20) and \$0.03 (ZAR 0.21), respectively. The number of transactions processed during the nine months ended March 31, 2008 increased compared with the nine months ended March 31, 2007, due to the strong economic climate experienced in South Africa during the first half of fiscal 2008 which has resulted in an increase in the number of transactions processed through retailers.

Operating income margins generated by EasyPay during the nine months ended March 31, 2008 and 2007, were 34% and 32.0%, respectively, which is lower than those generated by our pension and welfare business and reduced the operating income margins within our transaction-based activities segment. Amortization of EasyPay intangible assets during the nine months ended March 31, 2008 and 2007, of approximately \$1.4 million (ZAR 9.7 million) and \$1.2 million (ZAR 8.9 million), respectively, is included in the calculation of EasyPay operating margins. Operating income margin before amortization of EasyPay intangible assets during the nine months ended March 31, 2008 and 2007 was 46% and 45%, respectively.

Smart card accounts

In U.S. dollars, revenues and operating income increased by 7% for the nine months ended March 31, 2008, from the nine months ended March 31, 2007.

In ZAR, revenues and operating income increased by 5% for the nine months ended March 31, 2008, from the nine months ended March 31, 2007.

Operating income margin from providing smart card accounts was constant at 45% for each of the nine months ended March 31, 2008 and 2007.

In ZAR, revenue from the provision of smart card-based accounts grew in proportion to the higher number of beneficiaries serviced through our social welfare payment contracts. A total number of 3,956,882 smart card-based accounts were active at March 31, 2008, compared to 3,803,150 active accounts as at March 31, 2007. The increase in the number of active accounts resulted from an increase in the number of beneficiaries in all provinces qualifying for government grants and the transfer of beneficiaries in the North West province from the South African Post Office to our system.

Financial services

In U.S. dollars, revenues decreased by 27% for the nine months ended March 31, 2008, from the nine months ended March 31, 2007. Operating income decreased by 49% for the nine months ended March 31, 2008 from the nine months ended March 31, 2007.

In ZAR, revenues decreased by 28% for the nine months ended March 31, 2008, from the nine months ended March 31, 2007. Operating income decreased by 50% for the nine months ended March 31, 2008 from the nine months ended March 31, 2007.

Revenues from UEPS-based lending decreased during the nine months ended March 31, 2008 compared with the nine months ended March 31, 2007 primarily due to the lower number of loans granted. In addition, on average, the return on these UEPS-based loans was lower during the nine months ended March 31, 2008 compared with the nine months ended March 31, 2007. We offer the UEPS-based loans to our beneficiaries with the primary purpose of assisting them to repay expensive loans with other loan providers and to escape the debt spiral that they are trapped in. Once our UEPS-based loans are repaid, we believe that the beneficiaries have an enhanced ability to remain debt-free, or take loans in amounts smaller than the original refinancing facility we offered to them. We believe that once cardholders escape the debt spiral they will have more disposable income to spend, including through our merchant acquiring base.

Revenues from our traditional microlending business decreased during the quarter due to increased competition, our strategic decision not to grow this business, and an overall lower return on traditional microlending loans as a result of compliance with the National Credit Act, or NCA. The NCA regulates fees and interest charged on micro-lending loans and imposes credit check obligations on lenders prior to granting of credit to individuals. The loan portfolio of the traditional microlending businesses has declined as a result of our strategic decision not to grow this business and compliance with the NCA.

Our current UEPS-based lending portfolio comprises loans made to elderly pensioners in some of the provinces where we distribute social welfare grants. We insure the UEPS-based lending book against default and thus no allowance is required. We consider UEPS-based lending less risky than traditional microfinance loans because the grants are distributed to these lenders by us and these loans are insured. We establish an allowance for doubtful traditional microlending loans in respect of which we consider it likely that all or a portion of the principal amount of the loan or interest thereon will not be repaid by the borrower. We consider default likely after a specified period of

non-payment, which is generally not more than 150 days. We assess this allowance based on a review by management of the aging of outstanding amounts, the payment history in relation to those specific accounts and the overall default history.

Some of the key indicators of these businesses are illustrated below:

Table 20

			As at March 31,			
	2008	2007	\$%	2008	2007	ZAR %
	\$ 000	\$ 000	change	ZAR 000	ZAR 000	change
Traditional microlending:						
Finance loans receivable gross	4,611	7,112	(35)%	37,777	51,765	(27)%
Allowance for doubtful finance loans receivable	(2,667)	(4,359)	(39)%	(21,850)	(31,727)	(31)%
Finance loans receivable net	1,944	2,753	(29)%	15,927	20,038	(21)%
UEPS-based lending:						
Finance loans receivable net and gross (i.e., no allowance)	2,986	3,457	(14)%	24,469	25,156	(3)%
Total finance loans receivable, net	4,930	6,210		40,396	45,194	

Operating income margin for the financial services segment decreased to 22% for the nine months ended March 31, 2008 from 32% for the nine months ended March 31, 2007, primarily due to a lower return on our UEPS-based lending products and continued difficult operating conditions in our traditional micro-lending operations, as well as the effect of implementing the NCA.

Hardware, software and related technology sales

In U.S. dollars, revenues increased by 62% for the nine months ended March 31, 2008, from the nine months ended March 31, 2007. Operating income increased by 266% for the nine months ended March 31, 2008 from the nine months ended March 31, 2007.

In ZAR, revenues increased by 60% for the nine months ended March 31, 2008, from the nine months ended March 31, 2007. Operating income increased by 260% for the nine months ended March 31, 2008 from the nine months ended March 31, 2007.

We commenced software development and customization activities and delivered hardware to Ghana related to the Ghanaian national switch and smart card payment system contract during the nine months ended March 31, 2008. Our revenues include approximately \$10.8 million (ZAR 76.3 million) from software development and customization activities and hardware related to this contract. Software development and customization are high margin activities for us and contributed to the increase in operating income during the nine months ended March 31, 2008.

Our revenues for the nine months ended March 31, 2008, includes approximately \$2.6 million (ZAR 18.2 million) from sales to Nedbank. Sales of hardware to Nedbank occur on an ad hoc basis.

Amortization of Prism intangible assets during each of the nine months ended March 31, 2008 and 2007 was approximately \$2.8 million (ZAR 20.2 million), respectively, and reduced our operating income.

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

Corporate/eliminations

In U.S. dollars, the operating loss decreased by \$2.5 million for the nine months ended March 31, 2008, from the nine months ended March 31, 2007.

In ZAR, the operating loss decreased by ZAR 18.2 million for the nine months ended March 31, 2008, from the nine months ended March 31, 2007.

Corporate/eliminations for the nine months ended March 31, 2007 includes the non-recurring charges of approximately \$1.2 million (ZAR 8.6 million) related to an acquisition we ultimately decided not to pursue.

Our operating losses include expenditure related to compliance with Sarbanes, non-executive directors' fees; employee and executive salaries and bonuses; stock-based compensation; legal and auditor fees; directors and officers' insurance premiums; telecommunications expenses; property-related expenditures including utilities, rental, security and maintenance; and elimination entries.

Liquidity and Capital Resources

Our business has historically generated and continues to generate high levels of cash. At March 31, 2008, our cash balances were \$235.6 million, which comprised mainly ZAR-denominated balances of ZAR 1,575.2 million (\$192.2 million) and U.S. dollar-denominated balances of \$40.7 million. Our cash balances increased from June 30, 2007 levels mainly as a result of cash generated by operating activities.

Surplus cash held by our South African operations is invested in overnight call accounts that we maintain at South African banking institutions, and surplus cash held by our non-South African companies is invested in the U.S. and European money markets.

Historically, we have financed all operations, research and development, working capital, capital expenditures and acquisitions through our internally generated cash. We have aggregate credit facilities of \$70.2 million (ZAR 575.0 million). We take the following factors into account when considering whether to borrow under our financing facilities:

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

We have a unique cash flow cycle due to our obligations to pre-fund the payments of social welfare grants in the KwaZulu-Natal and Eastern Cape provinces. We provide the funds required for the grant payments on behalf of these provincial governments from our own cash resources and are reimbursed within two weeks by the KwaZulu-Natal and Eastern Cape governments, thus exposing ourselves to these provinces' credit risk. These obligations result in a peak funding requirement, on a monthly basis, of approximately \$41.5 million (ZAR 340 million) for each of the KwaZulu-Natal and Eastern Cape contracts. The funding requirements are at peak levels for the first three weeks of every month during the year.

We currently believe that our cash and credit facilities are sufficient to fund our current operations for at least the next four quarters. However, if we are awarded additional provinces in the SASSA tender, we will likely need additional funding to pre-fund the payment of social welfare grants for these additional provinces. In anticipation of this need, we have sought and received a letter of intent from a major South African banking institution to increase the amount of our credit facilities. In addition, we may seek to access the global debt capital markets for this purpose. However, there can be no assurance that we will be able to increase our credit facilities or raise other debt capital on

satisfactory terms, or at all.

Cash flows from operating activities

Three months ended March 31, 2008

Net cash inflows from operating activities for the three months ended March 31, 2008, was \$65.2 million (ZAR 482.9 million) compared to net cash inflows from operating activities of \$4.1 million (ZAR 29.6 million) for the three months ended March 31, 2007. Cash inflows have increased due to the increase in activity, specifically in our transaction-based activities and hardware, software and related technology sales operating segments. In addition, all provincial governments paid us the the amounts outstanding as of March 31, 2008 for welfare distribution and administration services, including the amount outstanding from the KwaZulu-Natal provincial government as of December 31, 2007.

Edgar Filing: NET 1 UEPS TECHNOLOGIES INC - Form 10-Q

During the three months ended March 31, 2008, we paid a \$1.4 million (ZAR 10.9 million) first provisional payment for our 2008 tax year. See the table below for a summary of all taxes paid.

Taxes paid during the three months ended March 31, 2008 and 2007 were as follows:

Table 21

	Three months ended March 31,			
	2008	2007	2008	2007
	\$ 000	\$ 000	ZAR 000	ZAR 000
First provisional payments 2008	1,367	2,998	10,945	21,515
Third provisional payments 2007	-	237	-	1,696
Secondary taxation on companies	-	70	-	502
Total tax paid	1,367	3,305	10,945	23,713

Nine months ended March 31, 2008

Net cash inflows from operating activities for the nine months ended March 31, 2008, was \$89.8 million (ZAR 640.6 million) compared to net cash inflows from operating activities of \$19.1 million (ZAR 138.5) for the nine months ended March 31, 2007. Cash inflows have increased due to the increase in activity, specifically in our transaction-based activities and hardware, software and related technology sales operating segments. In addition, all provincial governments paid us the the amounts outstanding as of March 31, 2008 for welfare distribution and administration services, including the amount outstanding from the KwaZulu-Natal provincial government as of December 31, 2007.

During the nine months ended March 31, 2008, we paid a \$13.6 million (ZAR 95.3 million) first provisional payment for our 2008 tax year. In addition, we paid a \$3.9 million (ZAR 26.5 million) third provisional payment for our 2007 tax year. During the nine months ended March 31, 2008, we paid an additional \$8.4 million (ZAR 60.5 million) second provisional payment related to our 2007 tax year. See the table below for a summary of all taxes paid.

Taxes paid during the nine months ended March 31, 2008 and 2007 were as follows:

Table 22

	Nine months ended March 31,			
	2008	2007	2008	2007
	\$ 000	\$ 000	ZAR 000	ZAR 000
First provisional payments 2008	13,641	12,228	95,278	86,835
Third provisional payments 2007	3,861	2,571	26,526	18,212
Taxation paid related to prior years	8,357	9,027	60,465	66,837
Taxation refunds received	(10)	(672)	(66)	(4,880)
Secondary taxation on companies	-	70	-	502
Total tax paid	25,849	23,224	182,203	167,506

We expect to pay our second provisional payment for our 2008 tax year during the fourth quarter of fiscal 2008.

Cash flows from investing activities

Three months ended March 31, 2008

Cash used in investing activities for the three months ended March 31, 2008 includes capital expenditure of \$1.0 million (ZAR 7.41 million), of which \$0.4 million (ZAR 2.8 million) relates to hardware and software acquired, including hardware to perform switching activities and software to interface to customers and to perform database management, \$0.3 million (ZAR 2.1 million) relates to vehicles acquired to distribute social welfare grants and \$0.1 million (ZAR 0.8 million) relates to the acquisition of POS terminals for our merchant acquiring system.

In April 2008, VTU Colombia's shareholders agreed to each contribute \$0.5 million to acquire additional shares in VTU Colombia. Our shareholding after the acquisition of additional shares will remain at 50%. These funds will be paid during the fourth quarter of fiscal 2008 and will be used to fund operating activities.

Cash used in investing activities for the three months ended March 31, 2007 includes capital expenditure of \$0.9 million (ZAR 6.8 million), of which \$0.4 million (ZAR 2.9 million) relates to the purchase of enrollment equipment and vehicles for the North West province. During the three months ended March 31, 2007, we lent an additional \$0.3 million (ZAR 2.2 million) to SmartSwitch Botswana.

Nine months ended March 31, 2008

Cash used in investing activities for the nine months ended March 31, 2008 includes capital expenditure of \$2.9 million (ZAR 20.7 million), of which \$0.5 million (ZAR 3.5 million) relates to renovations of the transaction-based activities segment head office and data room, \$0.4 million (ZAR 2.8 million) relates to hardware and software acquired, including hardware to perform switching activities and software to interface to customers and perform database management, \$0.3 million (ZAR 2.1 million) relates to vehicles acquired to distribute social welfare grants, \$0.2 million (ZAR 1.5 million) relates to capital expenditure to maintain our EasyPay operations and \$0.5 million (ZAR 3.7 million) relates the acquisition of POS terminals for our merchant acquiring system.

Cash used in investing activities for the nine months ended March 31, 2007 includes capital expenditure of \$2.6 million (ZAR 18.9 million), of which \$0.4 million (ZAR 2.9 million) relates to the purchase of enrollment equipment and vehicles for the North West province, \$0.5 million (ZAR 3.5 million) relates to the purchase of equipment and furniture for SmartSwitch Nigeria's data room in Nigeria and \$0.8 million (ZAR 5.6 million) related to the purchase of equipment and other property plant and equipment by EasyPay in order to maintain operations.

During the nine months ended March 31, 2007, we lent an additional \$0.3 million (ZAR 2.2 million) to SmartSwitch Botswana.

During the nine months ended March 31, 2007, we paid \$82.1 million (ZAR 591.1 million), net of cash received, for the entire issued and outstanding ordinary capital of Prism. In addition, during the nine months ended March 31, 2007 we paid approximately \$9.7 million (ZAR 70 million) in cash as consideration for the remaining 25.1% of EasyPay.

Cash flows from financing activities

Three months ended March 31, 2008

There were no significant cash flows from financing activities during the three months ended March 31, 2008 and 2007.

Nine months ended March 31, 2008

During the nine months ended March 31, 2008, we received \$0.18 million (ZAR 1.2 million) from employees and a director exercising stock options.

During the nine months ended March 31, 2007, we received \$0.05 million (ZAR 0.36 million) from an employee exercising stock options. During the nine months ended March 31, 2007, the other shareholders of SmartSwitch Nigeria, in terms of the shareholders agreement, lent \$3.5 million (ZAR 25.6 million) to the entity.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Capital Expenditures

We operate in an environment where our contracts for the payment of social welfare grants require substantial capital investment to establish our operational infrastructure when a contract commences. Further capital investment is required when the number of beneficiaries increases to the point where the maximum capacity of the original infrastructure is exceeded.

We discuss our capital expenditures during the three and nine months ended March 31, 2008, under **Liquidity and capital resources** cash flows from investing activities.

All of our capital expenditures for the past three fiscal years have been funded through internally generated funds. We had no outstanding capital commitments at March 31, 2008. We anticipate that capital spending for the fourth quarter of fiscal 2008 will relate primarily to on-going replacement of equipment used to administer and distribute social welfare grants and provide a switching service through EasyPay. We expect to fund these expenditures through internally generated funds.

Contingent Liabilities, Commitments and Contractual Obligations

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

Table 23	Payments due by Period, as at March 31, 2008 (in \$ 000s)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	4,112	1,282	2,123	707	-
Purchase obligations	6,125	6,125	-	-	-
Total	10,237	7,407	2,123	707	-

49

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We seek to reduce our 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, we use financial instruments to economically hedge our exposure to exchange rate and interest rate fluctuations arising from our operations. We are also exposed to credit risks.

Currency Exchange Risk

We are subject to currency exchange risk because we purchase inventories that we are required to settle in other currencies, primarily the euro and U.S. dollar. We have used forward contracts to limit our exposure in these transactions to fluctuations in exchange rates between the South African rand, on the one hand, and the U.S. dollar and the euro, on the other hand. As of March 31, 2008 and 2007, our outstanding foreign exchange contracts were as follows:

As of March 31, 2008

Notional amount	Strike price	Fair market value price	Maturity
USD 2,440	ZAR 8.0843	ZAR 8.1389	April 4, 2008
USD 96,000	ZAR 8.168	ZAR 8.1891	April 30, 2008
EUR 222,400	ZAR 12.9018	ZAR 13.0060	May 15, 2008
EUR 98,950	ZAR 12.7869	ZAR 13.0445	May 30, 2008
USD 4,891	ZAR 8.225	ZAR 8.2588	June 3, 2008
EUR 183,000	ZAR 12.9018	ZAR 13.1261	June 30, 2008

As of March 31, 2007

Notional amount	Strike price	Fair market value price	Maturity
USD 266,000	ZAR 7.1100	ZAR 7.3001	April 23, 2007
USD 266,000	ZAR 7.1320	ZAR 7.3220	May 21, 2007
EUR 1,026,400	ZAR 9.5298	ZAR 9.7869	June 15, 2007
EUR 34,071	ZAR 10.0732	ZAR 9.7869	June 15, 2007
USD 981,500	ZAR 7.4290	ZAR 7.3535	June 29, 2007

Translation Risk

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

Interest Rate Risk

As a result of our normal borrowing and leasing activities, our operating results are exposed to fluctuations in interest rates, which we manage primarily through our regular financing activities. We generally maintain limited investment in cash equivalents and have occasionally invested in marketable securities. Typically, for every 1% increase in SARB's repurchase, or repo rate, our interest expense on pre-funding social welfare grants in the KwaZulu-Natal and Eastern Cape provinces increases by \$17,601 per month, while interest earned per month on any surplus cash increases by \$10,031 per \$12.2 million (ZAR 100 million).

Credit Risk

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

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

Micro-lending Credit Risk

We are exposed to credit risk in our microlending activities, which provides unsecured short-term loans to qualifying customers. We manage this risk by assigning each prospective customer a creditworthiness score, which takes into account a variety of factors such as employment status, salary earned, other debts and total expenditures on normal household and lifestyle expenses.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2008.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

See Item 1A RISK FACTORS in Part I of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007 for a discussion of the Company's risk factors. Except for the risk factors discussed below, there have been no material changes to these risk factors.

The South African Social Security Agency, or SASSA, is in the process of conducting a national tender for the distribution of welfare grants in which bidders had the opportunity to bid for all of South Africa or on a province-by-province basis. If we were not to receive contracts to continue to distribute these grants in each of the provinces where we currently distribute them, or if we do win these contracts, but the terms are not as favorable to us as our current contracts, our financial condition, results of operations and cash flows would be materially and adversely affected.

We currently derive a majority of our revenues from contracts to distribute social welfare grants on behalf of five of the nine provincial governments of South Africa. For the foreseeable future, our revenues, results of operations and cash flows will depend on this concentrated group of customers. During the years ended June 30, 2007, 2006 and 2005, we derived approximately 70%, 77% and 79%, respectively, of our revenues from payments made to us by these provinces under our government social welfare contracts.

The South African Social Security Agency, or SASSA, is in the process of conducting a national tender for the distribution of welfare grants in which bidders had the opportunity to bid for all of South Africa or on a province-by-province basis. On May 4, 2007, we filed proposals for each of South Africa's nine provinces, as well as a proposal for the entire country. SASSA provided an indicative time-frame for the evaluation of the tender proposals and the award of the contract to successful bidders, but all of the key dates have already been missed. As part of the evaluation process for the tender, all bidders were requested to demonstrate their proposed payment solution to SASSA. Our response to the request for proposal was demonstrated to the SASSA evaluation committee on October 25, 2007. In December 2007, we received a notice to bidders from SASSA requesting further details of our financial proposals in a standard format provided in the notice to bidders by no later than December 28, 2007. We provided our response to the notice to bidders to SASSA on December 28, 2007.

On January 31, 2008 we received a further notice to bidders from SASSA advising bidders that, due to unforeseen circumstances, the tender evaluation process had not been completed and, as a result, SASSA was requesting tenderers to extend the validity period of their tender responses from February 9, 2008 to March 31, 2008. We agreed to this extension. On March 10, 2008, SASSA extended our five existing contracts to provide welfare administration and distribution services by 12 months to March 31, 2009. SASSA reserves the right to terminate any of the five existing contracts on 30 days written notice, but only after an initial period of six months which ends on September 30, 2008.

On March 27, 2008, we received a further notice to bidders from SASSA advising bidders that, due to unforeseen circumstances, the tender evaluation process had still not been completed and, as a result, SASSA was requesting tenderers to extend the validity period of their tender responses by a further three months to June 30, 2008. We responded to SASSA in writing stating that we would extend the validity of our proposal as requested.

On April 21, 2008, SASSA announced an update on the progress of the social grants tender process. It stated that the evaluation committee that has been processing the nine provincial tenders has completed its work, and that at this time, there is being constituted an adjudication committee which will deliberate on the tender and make a final recommendation on the award per province to the accountable authority. SASSA stated that the process is on track and that the outcome will be announced as soon as the process is finalized. SASSA did not provide any additional indication of when there would be further announcements or when the process would be completed. It also did not indicate how the process it described would adjudicate proposals, as in the case of one of the proposals that we

submitted, that covered the entire country rather than just certain provinces.

Because of the extensive delays in the tender award process, we cannot predict whether or not contracts will ultimately be awarded on the basis of the current proposals, whether SASSA will seek further extensions of proposals or whether a new process might be initiated by SASSA. Furthermore, there can be no assurance that the tender will result in our receiving contracts to continue to distribute social welfare grants in each of the five South African provinces where we currently distribute them past March 31, 2009, which is when the extension we received by SASSA terminates. Even if we do receive new contracts, we cannot predict the terms that such contracts will contain. Any new contract we receive may contain pricing or other terms, such as provisions relating to early termination, that are not as favorable to us as the contracts under which we currently operate. In addition, according to the new tender specification, any new contract will require the successful bidder to pre-fund the social welfare grants in the relevant province for a one month period, which will result in significant cash flow funding requirements for the contractor. The time and attention required by our management in connection with the tender process and the uncertainty surrounding the tender process has consumed a great deal of our management's time and attention

during the past year and until the process is complete, will continue to do so, which may have a disruptive effect on our business..

Moreover, because we incur a significant portion of the expenses associated with these contracts during the initial implementation phase, we have historically enjoyed higher profit margins on these contracts after the completion of the implementation period, which averages approximately 18 months. Therefore, to the extent that we are not successful in obtaining new provincial contracts, or if a new contract were to be terminated for any reason during the implementation period, our profit margins would also be adversely affected.

Finally, if we were to be awarded one or more contracts by SASSA, an unsuccessful tenderor could seek to challenge the award, which could result in the contract being set aside or could require us to expend time and resources in an attempt to defeat any such challenge. For example, the November 2002 award to us of the Limpopo provincial contract, which was executed in 2003, was challenged by a disqualified bidder for the contract. A South African court set aside the contract in 2005, although the Limpopo province reinstated the contract in terms of its emergency powers. Nevertheless, the court challenge created uncertainty, consumed management time and attention and required us to incur substantial legal expenses.

Volatility in the South African Rand to U.S. dollar exchange rate may adversely affect our reported operating results.

The South African rand, or ZAR, is the primary operating currency for our business operations while our financial results are reported in U.S. dollars. Because our sales are primarily denominated in ZAR, a decline in the value of the ZAR against the U.S. dollar may have a significant adverse effect on our reported results of operations. During the three years ended June 30, 2007, the ZAR/U.S. dollar exchange rate has been volatile. During the quarter ended March 31, 2008, the ZAR declined significantly against the US dollar. Refer to Item 7 Currency Exchange Rate Information Actual exchange rates table 4 and the graph beneath table 4 included in our Annual Report on Form 10-K and Item 2 Currency Exchange Rate Information Actual exchange rates Table 2 and the graph beneath Table 2 in this Quarterly Report on Form 10-Q.

The current exchange rate volatility between the U.S. dollar and the South African rand is caused by a number of factors outside our control, including, but not limited to, the recent credit crisis experienced primarily in the United States and certain European countries and the global socio-economic and political climate, including actual or perceived political instability such as is currently being experienced in Zimbabwe.

As a result of this volatility, although our reported results of operations were positively affected by currency fluctuations for the 2005 fiscal year compared to fiscal 2004, these fluctuations adversely affected our reported results for fiscal 2007 as compared to fiscal 2006 and fiscal 2006 as compared to fiscal 2005. These fluctuations may make it more difficult for investors and others to understand how our business has performed without regard to these currency exchange rate changes. We expect that exchange rate volatility will continue in the foreseeable future.

Trends in sales and profits may experience significant fluctuations as the rate of exchange between the ZAR and the U.S. dollar fluctuates. We cannot assure you what effect, if any, changes in the exchange rate of the ZAR against the U.S. dollar will have on our results of operations and financial condition.

We do not currently engage in any currency hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our results of operations, other than economic hedging relating to our inventory purchases which are settled in U.S. dollars or euros. We have used forward contracts in order to hedge our economic exposure to the ZAR/U.S. dollar and ZAR/euro exchange rate fluctuations from these foreign currency transactions. We cannot guarantee that we will enter into hedging transactions in the future or, if we do, that these transactions will successfully protect us against currency fluctuations.

Item 6. Exhibits

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

Exhibit Number	Description
<u>10.41</u>	<u>Restricted Stock Agreement by and between Net 1 UEPS Technologies, Inc. and Christopher Stefan Seabrooke dated February 11, 2008</u>
<u>10.42</u>	<u>Restricted Stock Agreement by and between Net 1 UEPS Technologies, Inc. and Paul Edwards dated February 12, 2008</u>
<u>31.1</u>	<u>Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32</u>	<u>Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes- Oxley Act of 2002</u>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 8, 2008.

NET 1 UEPS TECHNOLOGIES, INC.

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

Dr. Serge C.P. Belamant
Chief Executive Officer, Chairman of the Board and Director

By: /s/ Herman Gideon Kotzé

Herman Gideon Kotzé
Chief Financial Officer, Treasurer and Secretary, Director