

NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
November 07, 2013

**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 **September 30, 2013**

OR

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

For the transition period from _____ To _____

Commission file number: **000-31203**

NET 1 UEPS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida
(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

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

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

YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a smaller reporting company)

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

YES NO

As of November 7, 2013 (the latest practicable date), 45,735,236 shares of the registrant's common stock, par value \$0.001 per share, net of treasury shares, were outstanding.

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NET 1 UEPS TECHNOLOGIES, INC.

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Part I. Financial Information

Item 1. Financial Statements

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

	Unaudited September 30, 2013	(A) June 30, 2013
(In thousands, except share data)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 47,670	\$ 53,665
Pre-funded social welfare grants receivable (Note 2)	4,263	2,934
Accounts receivable, net of allowances of September: \$935; June: \$4,701	118,025	102,614
Finance loans receivable, net of allowances of September: \$701; June: \$-	17,338	8,350
Inventory (Note 3)	11,063	12,222
Deferred income taxes	5,125	4,938
Total current assets before settlement assets	203,484	184,723
Settlement assets (Note 4)	685,305	752,476
Total current assets	888,789	937,199
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION OF September: \$92,099; June: \$84,808	48,716	48,301
EQUITY-ACCOUNTED INVESTMENTS	1,270	1,183
GOODWILL (Note 6)	180,950	175,806
INTANGIBLE ASSETS, net (Note 6)	76,915	77,257
OTHER LONG-TERM ASSETS, including reinsurance assets (Note 7)	36,150	36,576
TOTAL ASSETS	1,232,790	1,276,322
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	14,036	26,567
Other payables	38,802	33,808
Current portion of long-term borrowings (Note 9)	15,007	14,209
Income taxes payable	9,261	2,275
Total current liabilities before settlement obligations	77,106	76,859
Settlement obligations (Note 4)	685,305	752,476
Total current liabilities	762,411	829,335
DEFERRED INCOME TAXES	18,703	18,727
LONG-TERM BORROWINGS (Note 9)	70,374	66,632
OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 7)	21,499	21,659
TOTAL LIABILITIES	872,987	936,353
COMMITMENTS AND CONTINGENCIES (Note 16)		
EQUITY		
COMMON STOCK (Note 10)		
Authorized: 200,000,000 with \$0.001 par value; Issued and outstanding shares,		
net of treasury - September: 45,780,513; June: 45,592,550	59	59
PREFERRED STOCK	-	-

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Authorized shares: 50,000,000 with \$0.001 par value; Issued and outstanding shares, net of treasury: September: -; June: -		
ADDITIONAL PAID-IN-CAPITAL	161,605	160,670
TREASURY SHARES, AT COST: September: 13,455,090; June: 13,455,090	(175,823)	(175,823)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(93,544)	(100,858)
RETAINED EARNINGS	464,214	452,618
TOTAL NET1 EQUITY	356,511	336,666
NON-CONTROLLING INTEREST	3,292	3,303
TOTAL EQUITY	359,803	339,969
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	1,232,790	\$ 1,276,322

(A) Derived from audited financial statements

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended	
	September 30,	
	2013	2012
	(In thousands, except per share data)	
REVENUE	\$ 123,494	\$ 111,682
EXPENSE		
Cost of goods sold, IT processing, servicing and support	56,559	45,101
Selling, general and administration	40,506	47,252
Depreciation and amortization	10,029	10,004
OPERATING INCOME	16,400	9,325
INTEREST INCOME	3,319	3,091
INTEREST EXPENSE	1,752	2,071
INCOME BEFORE INCOME TAX EXPENSE	17,967	10,345
INCOME TAX EXPENSE (note 15)	6,485	3,729
NET INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	11,482	6,616
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	103	128
NET INCOME	11,585	6,744
(ADD) NET (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTEREST	(11)	-
NET INCOME ATTRIBUTABLE TO NET1	\$ 11,596	\$ 6,744
Net income per share, in United States dollars (note 12)		
Basic earnings attributable to Net1 shareholders	\$ 0.25	\$ 0.15
Diluted earnings attributable to Net1 shareholders	\$ 0.25	\$ 0.15

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended	
	September 30,	
	2013	2012
	(In thousands)	
Net income	\$ 11,585	\$ 6,744
Other comprehensive (loss) income		
Net unrealized loss on asset available for sale, net of tax	(255)	-
Movement in foreign currency translation reserve	7,569	4,255
Total other comprehensive income, net of taxes	7,314	4,255
Comprehensive income	18,899	10,999
Add comprehensive loss attributable to non-controlling interest	11	-
Comprehensive income attributable to Net1	\$ 18,910	\$ 10,999

See Notes to Unaudited Condensed Consolidated Financial Statements

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

Net 1 UEPS Technologies, Inc. Shareholder

	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings	Accumulated other comprehensive (loss) income	
Balance July 1, 2013	59,047,640	\$	59	(13,455,090)	\$ (175,823)	45,592,550	\$ 160,670	\$ 452,618	\$ (100,85
Restricted stock granted	187,963				187,963				
Stock-based compensation charge						930			
Income tax benefit from vested stock awards						5			
Net income							11,596		
Other comprehensive income									7,31
Balance September 30, 2013	59,235,603	\$	59	(13,455,090)	\$ (175,823)	45,780,513	\$ 161,605	\$ 464,214	\$ (93,54

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended	
	September 30,	
	2013	2012
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 11,585	\$ 6,744
Depreciation and amortization	10,029	10,004
Earnings from equity-accounted investments	(103)	(128)
Fair value adjustments	(133)	(293)
Interest payable	972	1,192
Profit on disposal of plant and equipment	(1)	-
Stock-based compensation charge	930	1,116
Facility fee amortized	69	88
(Increase) Decrease in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable	(23,101)	5,892
Decrease (Increase) in inventory	1,011	(959)
Decrease in accounts payable and other payables	(8,668)	(1,349)
Increase in taxes payable	6,921	5,438
Decrease in deferred taxes	(1,187)	(2,016)
Net cash (used in) provided by operating activities	(1,676)	25,729
Cash flows from investing activities		
Capital expenditures	(5,616)	(6,453)
Proceeds from disposal of property, plant and equipment	48	105
Acquisitions, net of cash acquired	-	(1,913)
Repayment of loan by equity-accounted investment	-	3
Other investing activities, net	(1)	-
Proceeds from maturity of investments related to insurance business	-	545
Net change in settlement assets	51,773	60,779
Net cash provided by investing activities	46,204	53,066
Cash flows from financing activities		
Proceeds from issue of common stock	-	240
Net change in settlement obligations	(51,773)	(60,779)
Net cash used in financing activities	(51,773)	(60,539)
Effect of exchange rate changes on cash	1,250	165
Net (decrease) increase in cash and cash equivalents	(5,995)	18,421
Cash and cash equivalents beginning of period	53,665	39,123
Cash and cash equivalents end of period	\$ 47,670	\$ 57,544

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.

**Notes to the Unaudited Condensed Consolidated Financial Statements
for the three months ended September 30, 2013 and 2012**

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

1. Basis of Presentation and Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with US generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three months ended September 30, 2013 and 2012, are not necessarily indicative of the results for the full year. The Company believes that the disclosures are adequate to make the information presented not misleading.

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

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

Recent accounting pronouncements adopted

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

Recent accounting pronouncements not yet adopted as of September 30, 2013

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

2. Pre-funded social welfare grants receivable

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

3. Inventory

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

	September 30, 2013	June 30, 2013
Finished goods	\$ 11,063	