NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
November 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2007**

OR

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

For the transition period from ___________________________ To ___________________________

Commission file number: **000-31203**

NET 1 UEPS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

[X] Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer

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

As of October 19, 2007 (the latest practicable date), 52,339,194 shares of the registrant s common stock, par value $0.001 per share, and 5,389,140 shares of the registrant s special convertible preferred stock, par value $0.001 per share, which are convertible into common stock on a one-for-one basis, were outstanding.

Form 10-Q

NET 1 UEPS TECHNOLOGIES, INC.

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Condensed Consolidated Balance Sheets

	Unaudited September 30, 2007	(A) June 30, 2007
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 215,522	$ 171,727
Pre-funded social welfare grants receivable	36,716	26,817
Accounts receivable, net of allowances of September: $567; June: $555	16,290	30,503
Finance loans receivable, net of allowances of September: $3,011; June: $2,773	5,302	5,755
Deferred expenditure on smart cards	420	507
Inventory	7,591	5,645
Deferred income taxes	6,646	7,028
Total current assets	288,487	247,982
LONG-TERM RECEIVABLE	45	54
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION OF September: $25,840; June: $24,406	7,301	7,582
EQUITY-ACCOUNTED INVESTMENTS	3,208	2,992
GOODWILL	87,653	85,871
INTANGIBLE ASSETS, NET OF ACCUMULATED AMORTIZATION OF September: $15,749; June: $13,745	30,512	31,609
TOTAL ASSETS	417,206	376,090
LIABILITIES		
CURRENT LIABILITIES		
Bank overdraft	9	16
Accounts payable	6,330	5,879
Other payables	47,685	34,457
Income taxes payable	15,044	14,346
Total current liabilities	69,068	54,698
DEFERRED INCOME TAXES	38,754	36,219
INTEREST BEARING LIABILITIES minority interest loans	4,025	4,100
COMMITMENTS AND CONTINGENCIES	-	-
TOTAL LIABILITIES	111,847	95,017
SHAREHOLDERS EQUITY		
COMMON STOCK		
Authorized: 83,333,333 with $0.001 par value;		
Issued and outstanding shares - September: 52,616,064; June: 51,730,547	52	52
SPECIAL CONVERTIBLE PREFERRED STOCK		
Authorized: 50,000,000 with $0.001 par value;		
Issued and outstanding shares - September: 5,412,091; June: 5,656,110	5	5

B CLASS PREFERENCE SHARES				
Authorized: 330,000,000 with $0.001 par value;				
Issued and outstanding shares (net of shares held by the Company) - September:				
39,878,591; June: 41,676,625		6		7
ADDITIONAL PAID-IN-CAPITAL		113,159		112,167
TREASURY SHARES, AT COST: September: 299,821; June: 299,821		(7,795)		(7,795)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		1,947		(3,915)
RETAINED EARNINGS		197,985		180,552
TOTAL SHAREHOLDERS EQUITY		305,359		281,073
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	417,206	$	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 September 30, 2007	Three months ended September 30, 2006
	(In thousands, except share data)	
REVENUE	$ 60,259	$ 52,926
EXPENSE		
COST OF GOODS SOLD, IT PROCESSING, SERVICING AND SUPPORT	15,143	13,319
SELLING, GENERAL AND ADMINISTRATION	16,464	13,485
DEPRECIATION AND AMORTIZATION	2,746	2,947
OPERATING INCOME	25,906	23,175
INTEREST INCOME, net	2,982	872
INCOME BEFORE INCOME TAXES	28,888	24,047
INCOME TAX EXPENSE	10,872	8,840
NET INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND (LOSS) EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	18,016	15,207
MINORITY INTEREST	(196)	205
(LOSS) EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	(284)	70
NET INCOME	$ 17,928	$ 15,072
Net income per share		
Basic earnings, in cents common stock and linked units	31.4	26.5
Diluted earnings, in cents common stock and linked units	31.2	26.2

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,	
	2007	2006
	(In thousands)	
Cash flows from operating activities		
Net income	$ 17,928	$ 15,072
Depreciation and amortization	2,746	2,947
Loss (Earnings) from equity-accounted investments	284	(70)
Fair value adjustment related to financial liabilities	(73)	2
Fair value of FAS 133 derivative adjustments	7	-
Interest payable	117	-
Profit on disposal of property, plant and equipment	(10)	(34)
Minority interest	(196)	205
Stock-based compensation charge (reversal)	841	(28)
Decrease (Increase) in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable	5,538	(9,029)
Decrease in deferred expenditure on smart cards	94	43
Increase in inventory	(1,765)	(2,579)
Increase (Decrease) in accounts payable and other payables	12,419	(7,291)
Increase (Decrease) in income taxes payable	496	(2,866)
Increase in deferred income taxes	1,817	2,100
Net cash provided by (used in) operating activities	40,243	(1,528)
Cash flows from investing activities		
Capital expenditures	(671)	(843)
Proceeds from disposal of property, plant and equipment	41	118
Acquisition of Prism Holdings Limited, net of cash acquired	-	(82,106)
Net cash used in investing activities	(630)	(82,831)
Cash flows from financing activities		
Proceeds from issue of share capital	150	50
Proceeds from bank overdrafts	9	18,173
Repayment of bank overdraft	(16)	(17,056)
Net cash provided by financing activities	143	1,167
Effect of exchange rate changes on cash	4,039	(4,410)
Net increase (decrease) in cash and cash equivalents	43,795	(87,602)
Cash and cash equivalents beginning of period	171,727	189,735
Cash and cash equivalents at end of period	$ 215,522	$ 102,133

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, 2007 and 2006
(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 months ended September 30, 2007 and 2006 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, including Net1 Applied Technology Holdings Limited (Aplitec), 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 September 30, 2007

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 has not yet assessed the impact of the adoption of FAS 157 on its overall results of operations, financial position or cash flows.

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 SFAS 159 and has not yet determined the impact that the adoption of this standard will have on its 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 October 2007 payment service commenced during the last few days of September 2007 and was offered at government pay points and 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 of the following categories as of September 30, 2007 and June 30, 2007.

	September 30, 2007	June 30, 2007
Raw materials	$ 616	$ 588
Finished goods	6,975	5,057
	$ 7,591	$ 5,645

5. Equity-accounted investments

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

Equity-accounted investment	% owned	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.

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

	Equity	Loans	Earnings (Loss)	Elimination	Total
Balance as of July 1, 2006	1,125	2,987	1,099	(225)	4,986
Share capital acquired/ loans extended	50	1,202	-	-	1,252
Earnings (Loss) from equity-accounted investment	-	-	609	(428)	181
Earnings from equity-accounted investment Permit[1]	-	-	1,314	101	1,415
(Loss) Earnings from equity-accounted investment SmartSwitch Namibia[2]	-	-	(347)	85	(262)
Loss from equity-accounted investment SmartSwitch Botswana[2]	-	-	(245)	(348)	(593)
Loss from equity-accounted investment VTU Colombia[2]	-	-	(113)	(266)	(379)
Sale of Permit	-	(677)	(2,481)	(324)	(3,482)
Foreign currency adjustment[3]	14	65	(18)	(6)	55
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 investment	-	-	(434)	150	(284)
(Loss) Earnings from equity-accounted investment SmartSwitch Namibia[2]	-	-	(77)	71	(6)
(Loss) Earnings from equity-accounted investment SmartSwitch Botswana[2]	-	-	(171)	79	(92)
Loss from equity-accounted					

investment VTU Colombia	-	-	(159)	-	(159)
Loss from equity-accounted investment VinaPay	-	-	(27)	-	(27)
Foreign currency adjustment(3)	30	96	(32)	(22)	72
Balance as of September 30, 2007	1,647	3,673	(1,257)	(855)	3,208

(1) sold during the fourth quarter of fiscal 2007.

(2) includes the (elimination of unrealized net income) recognition of realized net income as described below.

(3) 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)

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 months ended September 30, 2007 and 2006. 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 months ended September 30, 2007 and 2006. 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 three months ended September 30, 2007.

		Carrying value
Balance as of July 1, 2007	$	85,871
Foreign currency adjustment (1)		1,782
Balance as of September 30, 2007	$	87,653

(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.

As required by FAS 141 goodwill has been allocated to the Company s reportable segments as follows:

		As of September 30, 2007		As of June 30, 2007
Transaction-based activities	$	40,269	$	39,391
Smart card accounts		-		-
Financial services		5,125		5,014
Hardware, software and related technology sales		42,259		41,466
Total	$	87,653	$	85,871

Intangible assets

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

	As of September 30, 2007						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	$	18,042	$	(1,830)	$	16,212	$	17,649	$	(1,419)	$	16,230

Software and unpatented technology	11,477	(4,760)	6,717	11,227	(3,717)	7,510
FTS patent	5,535	(4,015)	1,520	5,415	(3,792)	1,623
Exclusive licenses	4,506	(2,159)	2,347	4,506	(1,997)	2,509
Trademarks	4,163	(481)	3,682	4,072	(375)	3,697
Contract rights	2,424	(2,424)	-	2,371	(2,371)	-
Customer contracts	114	(80)	34	114	(74)	40
Total finite-lived intangible assets	$ 46,261	$ (15,749)	$ 30,512	$ 45,354	$ (13,745)	$ 31,609

Aggregate amortization expense on the finite-lived intangible assets for the three months ended September 30, 2007 was approximately $1.7 million (three months ended September 30, 2006 was approximately $1.8 million). Future annual amortization expense is estimated at approximately $1.7 million, however, this amount could differ from the actual amortization as a result of changes in useful lives and other relevant factors.

7. Short-term facilities

As of September 30, 2007, the Company had short-term facilities of approximately $83.1 million, translated at exchange rates applicable as of September 30, 2007. The interest rates applicable to these short-term facilities range from the South African prime overdraft rate (13.5% per annum at September 30, 2007) to the South African prime overdraft rate less 225 basis points. As of September 30, 2007, the Company had utilized approximately $0.02 million of 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 October 12, 2007, the South African Reserve Bank announced an increase in the repurchase rate from 10.00% to 10.50% per annum which resulted in the Company s bankers increasing the South African prime overdraft rate to 14.00% 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 year ended June 30, 2007, the Company s balance sheet reflects two classes of equity - common stock and linked units.

During the three months ended September 30, 2007, 244,019 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 1,798,034 linked units during the three months ended September 30, 2007. The net result of these conversions was that 1,798,034 B class preference shares and B class loans were ceded to Net1 during the three months ended September 30, 2007, which converted 244,019 shares of special convertible preferred stock to 244,019 common stock in return for the ownership of 1,798,034 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 244,019 and the number of outstanding shares of special convertible preferred stock has decreased by 244,019. In addition, as a consequence of the conversion, Net1 now owns 197,098,596 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 months ended September 30, 2007, 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 (51.4 million) and special convertible preferred stock (5.7 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 September 30, 2007, does not include the dilutive effect of the restricted stock awards granted to employees in August 2007 because restricted stock awards are considered contingently issuable shares for the purposes of the diluted earnings per share calculation and as of September 30, 2007, the vesting conditions had not been satisfied. The vesting conditions are discussed in note 11 Stock-based compensation.

The basic earnings per share for the three months ended September 30, 2006, 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 (50.4 million) and special convertible preferred stock (6.5 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 months ended September 30, 2007 and 2006.

		Three months ended September 30,	
		2007	**2006**
		000	**000**
Weighted average number of outstanding shares of common stock	basic	51,454	50,367
Weighted average effect of dilutive securities: employee stock options		309	475
Weighted average number of outstanding shares of common stock	diluted	51,763	50,842

9. Earnings per share (continued)

	Three months ended September 30, 2007 000	2006 000
Weighted average number of outstanding linked units basic	5,656	6,545
Weighted average effect of dilutive securities: employee stock options	34	62
Weighted average number of outstanding linked units diluted	5,690	6,607

	Three months ended September 30, 2007 000	2006 000
Total weighted average number of outstanding shares used to calculate earnings per share basic	57,110	56,912
Total weighted average number of outstanding shares used to calculate earnings per share diluted	57,453	57,449

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 months ended September 30, 2007 and 2006 was:

	Three months ended September 30, 2007	2006
Net income	$ 17,928	$ 15,072
Foreign currency translation adjustments	5,862	(10,540)
	$ 23,790	$ 4,532

11. Stock-based compensation

Amended and Restated 2004 Stock Incentive Plan

The shareholders of Net1 originally approved the 2004 Stock Incentive Plan (the Plan) on May 27, 2004. On December 1, 2006, the shareholders of the Company approved the amendment and restatement of the Plan to increase the number of shares issuable under the Plan and to make other administrative revisions. The Plan permits Net1 to grant to its employees, directors and consultants incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, performance-based awards and other awards based on its common stock. The Remuneration Committee of Net1 s board of directors administers the Plan.

Term

No awards may be granted under the Plan after the tenth anniversary of the effective date of the Plan, but awards granted before such tenth anniversary may extend beyond that date.

Shares Reserved for Awards and Limits on Awards

The total number of shares of common stock available under the Plan is 5,752,580. The maximum number of shares for which stock options and stock appreciation rights, or for which other stock-based awards may be granted during a calendar year to any participant is 569,120.

11. Stock-based compensation (continued)

Amended and Restated 2004 Stock Incentive Plan (continued)

Options Granted under 2004 Stock Incentive Plan

In 2004, all stock options then available for grant under the Plan were granted to the Company s directors, officers, other employees and other eligible participants as non-qualified stock options. Of these options, 20% became exercisable on the date of grant, and 20% of the remaining options become exercisable on first, second, third and fourth anniversaries of the date of grant. The options expire ten years from date of grant. Under the rules governing the stock options, those stock options held by persons other than directors and executive officers are automatically exercised on the date they first become exercisable, with payment upon exercise provided by a loan from the Company to the option holder. Such loans are on a recourse basis and bear interest at market rates. Stock options held by directors and executive officers are not automatically exercised when they first become exercisable and no loan is extended for the payment for the exercise price upon exercise. All shares acquired upon exercise, whether held by directors, executive officers or others, may only be sold eleven months after they become exercisable, except as otherwise permitted by the Company s Remuneration Committee.

On August 24, 2006, the Company granted 569,120 options at an exercise price of $22.51 to employees of the Company, subject to the approval of the increase in the number of shares issuable under the Plan which was approved on December 1, 2006. These options become exercisable over a period of four and three quarter years commencing May 8, 2007. The period during which the options become exercisable are presented in the table below. The Company believes that it is reasonably likely that the employees will exercise the options as they become exercisable. Any unexercised options granted to the employee expire on August 24, 2016. The options were valued using the Cox Ross Rubinstein binomial model using the following assumptions:

Option exercisable	Market and Exercise Price ($)	Expected life (in days)	Dividend yield	Risk free rate of return	Estimated expected volatility
On or after May 8, 2007 and prior to May 8, 2008	22.51	257	0%	4.8745%	25%
On or after May 8, 2008 and prior to May 8, 2009	22.51	622	0%	4.8053%	26%
On or after May 8, 2009 and prior to May 8, 2010	22.51	987	0%	4.7572%	30%
On or after May 8, 2010 and prior to May 8, 2011	22.51	1,352	0%	4.7664%	33%
On or after May 8, 2011	22.51	1,717	0%	4.7905%	35%

The estimated expected volatility was calculated based on the volatilities of similar listed companies within the payment processing industry. Using the Cox Ross Rubinstein binomial model, the fair value of these options on the grant date was approximately $3.0 million. There are no tax consequences related to options granted to employees of Company subsidiaries incorporated in South Africa. As of September 30, 2007, the Company has recorded a deferred tax asset of approximately $0.07 million related to the stock-based compensation charge recognized related to employees of Net1 as it is able to deduct the difference between the market value on date of sale by the option recipient and the exercise price from income subject to taxation in the United States.

Awards that expire or are cancelled without delivery of shares generally become available for issuance under the Plan.

Stock Appreciation Rights

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

Other Stock-Based Awards granted under 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.

11. Stock-based compensation (continued)

Amended and Restated 2004 Stock Incentive Plan (continued)

Other Stock-Based Awards granted under 2004 Stock Incentive Plan (continued)

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 Fundamental EPS targets will be proportionately adjusted by the Remuneration Committee for any stock split, reverse stock split, stock dividend, share combination, recapitalization or similar event effected subsequent to the date of grant. The Remuneration Committee, in its sole discretion, may adjust the targets as it considers in good faith to be appropriate to reflect extraordinary items including, without limitation, the charges or costs associated with restructurings of the Company, discontinued operations, other unusual or nonrecurring items, and the cumulative effects of accounting changes.

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. As of September 30, 2007, the Company has recorded a deferred tax asset of approximately $0.04 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 once all restrictions have been lifted from income subject to taxation in the United States.

Options granted to employees of Prism

In August 2006, 904,674 non-qualified stock options were issued at an exercise price of $22.51 per option to employees of Prism. These options become exercisable over a period of four and three quarter years commencing May 8, 2007. The period during which the options become exercisable are presented in the table below. The Company believes that it is reasonably likely that the Prism employees will exercise the options one year after the option becomes exercisable. Any unexercised options granted to the employee expire on August 24, 2016. The options were valued using the Cox Ross Rubinstein binomial model using the following assumptions:

	Market and Exercise	Expected life	Dividend	Risk free rate of	Estimated expected

Option exercisable	Price ($)	(in days)	yield	return	volatility
On or after May 8, 2007 and prior to May 8, 2008	22.51	730	0%	4.8745%	25%
On or after May 8, 2008 and prior to May 8, 2009	22.51	1,095	0%	4.8053%	26%
On or after May 8, 2009 and prior to May 8, 2010	22.51	1,460	0%	4.7572%	30%
On or after May 8, 2010 and prior to May 8, 2011	22.51	1,825	0%	4.7664%	33%
On or after May 8, 2011	22.51	2,190	0%	4.7905%	35%

The estimated expected volatility was calculated based on the volatilities of similar listed companies within the payment processing industry. Using the Cox Ross Rubinstein binomial model, the fair value of these options on the grant date was approximately $5.7 million. Management has estimated forfeitures based on historic employee behavior under similar compensation plans. There are no tax consequences related to these options.

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 months ended September 30, 2007 and 2006, 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
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
Exercisable		195,142	$ 14.20	7.80	$ 2,535

No stock options became exercisable during the three months ended September 30, 2007 and 2006.

During the three months ended September 30, 2007 and 2006, respectively, the Company received approximately $0.15 million and $0.05 million from employees exercising stock options. The Company issues new shares to satisfy stock option exercises.

Stock-based compensation charge and unrecognized compensation cost

The Company has recorded a net stock compensation charge (reversal) of $0.8 million and ($0.03) million for the three months ended September 30, 2007 and 2006, 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 September 30, 2006			
Stock-based compensation charge options granted in January 2006	$ 66	-	$ 66
Stock-based compensation charge options granted to employees of Prism	122	$ 62	60
Reversal of stock compensation charge related to options granted			

in January 2006		(216)		-		(216)
Total Three months ended September 30, 2006	$	(28)	$	62	$	(90)
Three months ended September 30, 2007						
Stock-based compensation charge - options granted to employees of Prism	$	194	$	100	$	94
Stock-based compensation charge - options granted to employees on August 24, 2006		157		-		157
Stock-based compensation charge - restricted shares granted to employees in August 2007		490		-		490
Total Three months ended September 30, 2007	$	841	$	100	$	741

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.

11. Stock-based compensation (continued)

Stock-based compensation charge and unrecognized compensation cost (continued)

As of September 30, 2007, the total unrecognized compensation cost related to stock options is approximately $4.5 million, which the Company expects to recognize over approximately four years. As of September 30, 2007, the total unrecognized compensation cost related to restricted stock awards is approximately $13.0 million, which the Company expects to recognize over approximately three years. As of September 30, 2007, the interest due from employees related to loans extended to fund stock option exercises was approximately $0.02 million.

The Company has recognized a deferred tax asset of approximately $0.1 million for the three months ended September 30, 2007 related to its stock compensation charge under FAS 123R.

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 months ended September 30, 2007, there were three such customers, providing 34%, 17% and 10%, of total revenue (three months ended September 30, 2006: three such customers, providing 36%, 17% and 11%, 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 derives revenue from the provision of short-term personal lending activities and life insurance products. 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 final phase of the National Credit Act (No. 34 of 2005) (NCA) became effective in South Africa on June 1, 2007. The NCA has impacted the Company s traditional and UEPS-based lending activities in South Africa. In compliance with the provisions of the NCA, the Company is permitted to charge an initiation fee and a service fee on all traditional and UEPS-based lending activities as well as levy interest on a monthly basis. The Company s management decided, effective June 1, 2007, to cease charging interest on all new UEPS-based lending activities and now charges a service fee. The fees generated from new UEPS-based lending activities approximate the interest that was historically generated from these activities. The Company s management was required, effective June 1, 2007, to reduce the interest charged on all new traditional lending activities and also charges an initiation and service fee. The interest and fees generated from new traditional lending activities approximate the interest that was historically generated from these activities. The Company s management has included, and will continue to include in the foreseeable future, the initiation and service fees in the financial services segment.

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 September 30, 2007	2006
Revenues from external customers		
Transaction-based activities	$ 38,164	$ 32,237
Smart card accounts	9,136	8,580
Financial services	2,183	2,985
Hardware, software and related technology sales	10,776	9,124
Total	60,259	52,926
Inter-company revenues		
Transaction-based activities	1,079	1,007
Smart card accounts	-	-
Financial services	-	-
Hardware, software and related technology sales	-	-
Total	1,079	1,007
Operating income		
Transaction-based activities	20,589	18,428
Smart card accounts	4,152	3,900
Financial services	446	1,060
Hardware, software and related technology sales	1,940	1,049
Corporate/Eliminations	(1,221)	(1,262)
Total	25,906	23,175
Interest earned		
Transaction-based activities	-	-
Smart card accounts	-	-
Financial services	-	-
Hardware, software and related technology sales	-	-
Corporate/Eliminations	5,288	3,205
Total	5,288	3,205
Interest expense		
Transaction-based activities	2,303	2,330
Smart card accounts	-	-
Financial services	-	-
Hardware, software and related technology sales	3	3
Corporate/Eliminations	-	-
Total	2,306	2,333
Depreciation and amortization		
Transaction-based activities	1,198	1,360
Smart card accounts	-	-
Financial services	104	104
Hardware, software and related technology sales	1,113	1,145
Corporate/Eliminations	331	338
Total	$ 2,746	$ 2,947

12. Operating segments (continued)

	Three months ended September 30, 2007	2006
Income taxation expense		
Transaction-based activities	$ 5,414	$ 4,662
Smart card accounts	1,204	1,131
Financial services	129	308
Hardware, software and related technology sales	601	303
Corporate/Eliminations	3,524	2,436
Total	10,872	8,840
Net income after taxation		
Transaction-based activities	13,067	11,436
Smart card accounts	2,949	2,769
Financial services	315	752
Hardware, software and related technology sales	1,337	742
Corporate/Eliminations	260	(627)
Total	17,928	15,072
Segment assets		
Total	417,206	376,090
Expenditures for long-lived assets		
Transaction-based activities	510	503
Smart card accounts	-	-
Financial services	100	70
Hardware, software and related technology sales	61	270
Corporate/Eliminations	-	-
Total	$ 671	$ 843

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 months ended September 30, 2007, the tax charge was calculated using the expected effective tax rate for the year (36.89%) . Our effective tax rate for the three months ended September 30, 2007 and 2006 is 37.6% and 36.8%, respectively.

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.

13. Income tax in interim periods (continued)

Adoption of FIN 48 (continued)

The Company does not expect the change related to unrecognized tax benefits will have a significant impact on the 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 and the state of California. 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. 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 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, w expects, plans, intends, anticipates, believes, estimates, predicts, potential or continue or the nega 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 out 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 some 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. Our five existing contracts to provide welfare administration and distribution services expire on March 31, 2008.

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.

18

International Expansion

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 September 30, 2007, SmartSwitch Namibia has activated 194,651 UEPS smart cards and has signed up 145 merchants to accept the UEPS smart cards. SmartSwitch Namibia has launched our UEPS-based prepaid electricity system with Payzone, a Namibian-based company that distributes electricity on behalf of the Windhoek City Council. This solution will facilitate the sale of prepaid electricity in rural and urban areas using the UEPS system to secure, authenticate and collect payments on behalf of the participating municipalities.

The Payment Association of Namibia authorized SmartSwitch Namibia as a payment system service provider in Namibia in July 2007. As a result, SmartSwitch Namibia commenced various UEPS-based pilot projects with employers, merchants and Nampost at the beginning of the second quarter of fiscal 2008.

Botswana

We own 50% of the company 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 three month ended September 30, 2007, SmartSwitch Botswana commenced pilot UEPS-based transactions with merchants, employers and card holders, and these transactions are underwritten by Bank Gaborone. We expect these tests to be concluded during the second quarter of fiscal 2008.

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. As a result, SmartSwitch Nigeria can now officially commence its pilot for the UEPS service offering in Nigeria. We expect the pilot with Diamond Bank Limited, SmartSwitch Nigeria s 15% shareholder, to commence during the latter half of the second quarter of fiscal 2008.

Colombia

We own 50% of VTU De Colombia SA, or VTU Colombia, and have fully installed and integrated the VTU system in Colombia. We commenced a limited and low profile pilot with Colombia s third largest mobile operator. 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. Live transactions in the city of Bogota commenced during May 2007. VTU Colombia has also commenced preliminary discussions with Colombia s largest mobile operator. Further expansionary transactional tests have been performed in Cartagena.

Vietnam

In 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 first pilot systems installation and integration to mobile operators were concluded by June 2007. In addition, we have commenced preliminary discussions with two of Vietnam s other mobile operators and the country's largest internet gaming operator.

Other Countries

We have also implemented UEPS systems in Ghana, 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.

Ghanaian National Switch and Smart Card Payment System

During the three months ended September 30, 2007, we commenced software development and customization activities related to the Ghanaian National Switch and Smart Card Payment System. The Central Bank of Ghana has made the upfront deposit required and we have accordingly placed orders for hardware required in terms of the tender specifications. We recently commenced the process of integrating the Ghanaian participating banks with the National Switch and Smart Card Payment System.

The construction of the data room in Ghana is three months behind schedule and as a result we expect to conclude the software development and hardware delivery phases of the contract in the fourth quarter of fiscal 2008.

Progress of wage payment implementation

The implementation of our wage payment initiative in South Africa requires us to be registered as a bank in South Africa, or to have access to an existing deposit taking license. Our approach to obtaining our own license, or gain access to one was via one of the following channels:

- applying for a new banking license;
- purchasing an existing banking license; and
- entering into a joint venture arrangement with an existing banking institution to gain access to its banking license.

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. Under the agreement, Grindrod Bank is responsible for the human resources, administration, compliance, risk management and financial affairs of the division. Net1 is responsible for the supply and maintenance of all UEPS hardware and software required to implement and run its wage payment system, for which it will charge a monthly fee per smart card account at Net1 s cost price, and will receive ongoing fee payments based on the amount of business transacted by the division utilizing the UEPS technology. Net1 will assist Grindrod Bank with the implementation of the business plan and operational activities and both parties will each initially contribute $0.7 million (ZAR 5 million) to assist with the set-up costs of the division. The division will report to an executive committee consisting of two Net1 and two Grindrod representatives.

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.

Net1 and Grindrod Bank commenced with the establishment of the division during the third quarter of fiscal 2007. During the establishment phase, all the relevant technological platforms will be installed, where required, or integrated between Net1 and Grindrod. Grindrod Bank, with Net1 s assistance, has also initiated the process that will enable it to become a member of the South African National Payment System and the various payment clearing houses in South Africa and significant progress was made in this regard during the first quarter of fiscal 2008. Grindrod Bank has been granted membership of the Payments Association of South Africa, or PASA, and we recently successfully completed the process of becoming a member of the EFT debit / credit clearing houses and we received permission from the South African Reserve Bank to join the national payment and settlement system. We have initiated the process to join the other various payment clearing houses, including debit / credit card issuing and acquiring.

In parallel, Net1 and Grindrod Bank have defined the products, pricing and marketing strategy for the wage payment system. During the fourth quarter of fiscal 2007, Net1 and Grindrod Bank commenced pilot operations of the wage payment system and currently 2,107 people, mainly in the agricultural sector, are currently being paid through our wage payment system. We plan to expand our wage payment offering on a national basis by marketing the solution to trade unions, payroll processors and large employer groups.

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 12.50% on dividends distributed, subject to certain exemptions. If a dividend tax is introduced South African companies will no longer be liable to pay STC, the shareholder will be liable to pay the dividend tax. Treaty relief would be available for foreign shareholders.

The reform will be implemented in two phases, the first phase entailing a reduction of the STC rate, effective October 1, 2007, to 10% and the second phase, expected in 2008, a total conversion to a dividend tax. It is likely that South Africa companies will be required to withhold the dividend tax on all dividends paid. On October 31, 2007, the 2007 Revenue Amendments Bill was issued by the South African National Treasury which includes the legislation for the reduction in the rate of STC from 12.50% to 10.00%, effective October 1, 2007. Since the legislation had not been enacted as of September 30, 2007, we have not adjusted our fully distributed tax rate.

We can not reasonably determine whether any or all of these proposals will be enacted as proposed and we will comply with the new tax legislation once it has been enacted. If the announcements made by the South African Minister of Finance in his National Budget speech are enacted we expect the proposed replacement of STC with a dividend tax to reduce our current fully distributed rate of 36.89% to 29%. Under GAAP we apply the fully distributed rate of 36.89% to our deferred taxation assets and liabilities. The change in the fully distributed rate is expected to reduce 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 months ended September 30, 2007, is deferred income tax expense of approximately $2.3 million (ZAR 16.7 million) related to the application of the fully distributed rate of 36.89% compared with the South African statutory rate of 29% to our Income before income taxes. The following table illustrates the effect on our September 30, 2007, income tax expense, earnings per share and net deferred tax liability as if the first and second phases described above had been enacted on July 1, 2007:

Table 1	**Three months ended September 30, 2007**		
	Actual	**Illustrative effect scenario 1**[(1)]	**Illustrative effect scenario 2**[(2)]
Fully distributed tax rate	36.89%	35.45%	29.00%
Income tax expense	10,872	10,403	8,525
Net deferred tax liability reversal to net income [(3)]	-	5,607	28,034
Earnings per share, in U.S. cents	31	32	35
Net deferred tax liability (asset) as at September 30	29,191	23,012	(1,704)

(1) Scenario 1 illustrates the reduction in the fully distributed rate from 36.89% to 35.45% had the reduction in the STC rate been enacted on July 1, 2007.

(2) Scenario 2 illustrates the abolishment of STC had this been enacted on July 1, 2007. Accordingly, the fully distributed rate decreases from 36.89% to 29%. All South African deferred tax assets and liabilities are now measured at 29% which results in a reversal of net deferred tax liabilities recognized.

(3) The net deferred tax liability reversal to net income represents the net deferred tax liability rate adjustment as of September 30, 2007 translated at rates applicable as of September 30, 2007 assuming a) the fully distributed tax rate, prior to the abolishment of STC, was 35.45% (potential outcome scenario 1) and b) the fully distributed tax rate is thereafter 29% (potential outcome scenario 2).

As discussed above, we can not reasonably determine whether, or when, these 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 September 30, 2007

Refer to Note 1 of the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of September 30, 2007, 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 September 30,**		**Year ended June 30,**
	2007	**2006**	**2007**
ZAR : $ average exchange rate	7.1224	7.1630	7.2188
Highest ZAR : $ rate during period	7.5977	7.7995	7.9748
Lowest ZAR : $ rate during period	6.7905	6.7193	6.7193
Rate at end of period	6.9219	7.7253	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 months ended September 30, 2007 and 2006, 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 September 30,**		**Year ended June 30,**
	2007	**2006**	**2007**
Income and expense items: $1 = ZAR.	7.1237	7.2139	7.2100
Balance sheet items: $1 = ZAR	6.9219	7.7253	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 September 30, 2007 Compared to the Three Months Ended September 30, 2006

The following factors had a significant influence on our results of operations during the three months ended September 30, 2007 as compared with the same period in the prior year:

- increased revenues from price increases, effective from July 1, 2007 from the KwaZulu-Natal provincial government for welfare distribution and administration services;
- 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; and
- stock-based compensation charges related to grants of restricted stock in August 2007 under the 2004 Amended and Restated Stock Incentive Plan.

In addition, during the first quarter of fiscal 2008, the South African Rand stabilized against the US dollar and thus, our results were not significantly impacted by changes in the US dollar/ZAR exchange rate. However, during the second quarter of fiscal 2008, the exchange rate has again become more volatile and we expect that this volatility may affect our reported results for the second quarter of fiscal 2008.

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:

Table 4	**In United States Dollars (US GAAP) Three months ended September 30,**		
	2007	**2006**	**$ %**
	$ 000	**$ 000**	**change**
Revenue	60,259	52,926	14%
Cost of goods sold, IT processing, servicing and support .	15,143	13,319	14%
Selling, general and administration	16,464	13,485	22%
Depreciation and amortization	2,746	2,947	(7)%

Operating income	25,906	23,175	12%
Interest income, net	2,982	872	242%
Income before income taxes	28,888	24,047	20%
Income tax expense	10,872	8,840	23%
Income before minority interest and earnings from equity-accounted investments	18,016	15,207	18%
Minority interest	(196)	205	
(Loss) Earnings from equity-accounted investments	(284)	70	
Net income	17,928	15,072	19%

Table 5

	In South African Rand (US GAAP) Three months ended September 30,		
	2007 ZAR 000	2006 ZAR 000	ZAR % change
Revenue	429,269	381,804	12%
Cost of goods sold, IT processing, servicing and support .	107,875	96,083	12%
Selling, general and administration	117,285	97,280	21%
Depreciation and amortization	19,561	21,259	(8)%
Operating income	184,548	167,182	10%
Interest income, net	21,243	6,291	238%
Income before income taxes	205,791	173,473	19%
Income tax expense	77,449	63,771	21%
Income before minority interest and earnings from equity-accounted investments	128,342	109,702	17%
Minority interest	(1,396)	1,479	
(Loss) Earnings from equity-accounted investments	(2,023)	505	
Net income	127,715	108,728	17%

Analyzed in ZAR, the increase in revenue and cost of goods sold, IT processing, servicing and support for the three months ended September 30, 2007, was primarily due to the higher volumes in our transaction-based activities and a greater number of UEPS-based smart card holders.

Our operating income margin for the three months ended September 30, 2007, of 43% was comparable with 44% for the three months ended September 30, 2006.

Selling, general and administration expenses increased during the three months ended September 30, 2007 from the comparable quarter in 2007 primarily due to the stock-based compensation charge related to the restricted stock grants discussed above and increases in goods and services purchased from third parties, including the effects of the increase in inflation in South Africa.

Our total 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, resulted in expenditures of $0.6 million (ZAR 4.1 million) and $0.5 million (ZAR 3.6 million) during the three months ended September 30, 2007 and 2006.

Depreciation and amortization includes the amortization charge related to the acquisition of Prism of $1.4 million (ZAR 10.0 million) and $1.3 million (ZAR 9.1 million), respectively, for the three months ended September 30, 2007 and 2006. The deferred tax benefit included in our statement of operations related to the intangible amortization charge for the three months ended September 30, 2007 and 2006 was $0.5 million (ZAR 3.6 million) and $0.5 million (ZAR 3.4 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 three months ended September 30, 2007 compared with the three months ended September 30, 2006. 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 September 30, 2007 increased to $5.3 million (ZAR 37.7 million) from $3.2 million (ZAR 23.2 million) for the three months ended September 30, 2006. 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 September 30, 2007 compared with the three months ended September 30, 2006 and the adjustment in the South African prime interest rate from an average of approximately 11.32% per annum for the three months ended September 30, 2006, to 13.24% per annum for the three months ended September 30, 2007.

During the three months ended September 30, 2007, 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. In ZAR, finance costs decreased to $2.3 million (ZAR 16.4 million) for the three months ended September 30, 2007, from $2.3 million (ZAR 16.8 million) for the three months ended September 30, 2006.

Total tax expense for the three months ended September 30, 2007 was $10.9 million (ZAR 77.4 million) compared with $8.8 million (ZAR 63.8 million) during the same period in the comparable quarter of the prior fiscal year. The increase was primarily due to our increased profitability in our transaction-based activities. Our effective tax rate for the three months ended September 30, 2007 was 37.6%, compared to 36.8% for the three months ended September 30, 2006. The change in our effective tax rate was primarily due to additional non-deductible expenses during the three months ended September 30, 2007 compared to the three months ended September 30, 2006.

Loss from equity-accounted investments for the three months ended September 30, 2007, of $0.3 million (ZAR 2.0 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 three months ended September 30, 2006 of $0.07 million (ZAR 0.5 million) does not include equity-accounted losses attributable to VTU Colombia and VinaPay because we had not invested in these entities as of September 30, 2006. During the three months ended September 30, 2007, we recognized income from license fees, software and hardware sales made to equity-accounted investees in prior periods of approximately $0.04 million (ZAR 0.3 million). During the three months ended September 30, 2006 we eliminated hardware sales and other services made to our equity accounted investees, net of 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 6 ***In United States Dollars (US GAAP)***

			Three months ended September 30,		
	2007	**% of**	**2006**	**% of**	**%**
Operating Segment	**$ 000**	**total**	**$ 000**	**total**	**change**
Consolidated revenue:					
Transaction-based activities	38,164	63%	32,237	61%	18%
Smart card accounts	9,136	15%	8,580	16%	6%
Financial services	2,183	4%	2,985	6%	(27)%
Hardware, software and related technology sales	10,776	18%	9,124	17%	18%
Total consolidated revenue	60,259	100%	52,926	100%	14%
Consolidated operating income (loss):					
Transaction-based activities	20,589	79%	18,428	80%	12%
Smart card accounts	4,152	16%	3,900	17%	6%

Financial services	446	2%	1,060	5%	(58)%
Hardware, software and related technology sales	1,940	7%	1,049	5%	85%
Corporate/eliminations	(1,221)	(4)%	(1,262)	(7)%	(3)%
Total consolidated operating income	25,906	100%	23,175	100%	12%

Table 7	***In South African Rand (US GAAP)***				
	Three months ended September 30,				
	2007		**2006**		
Operating Segment	**ZAR 000**	**% of total**	**ZAR 000**	**% of total**	**% change**
Consolidated revenue:					
Transaction-based activities	271,870	63%	232,555	61%	17%
Smart card accounts	65,083	15%	61,895	16%	5%
Financial services	15,551	4%	21,534	6%	(28)%
Hardware, software and related technology sales	76,765	18%	65,820	17%	17%
Total consolidated revenue	429,269	100%	381,804	100%	12%
Consolidated operating income (loss):					
Transaction-based activities	146,671	79%	132,938	80%	10%
Smart card accounts	29,578	16%	28,134	17%	5%
Financial services	3,177	2%	7,647	5%	(58)%
Hardware, software and related technology sales	13,820	7%	7,567	5%	83%
Corporate/eliminations	(8,698)	(4)%	(9,104)	(7)%	(4)%
Total consolidated operating income	184,548	100%	167,182	100%	10%

Transaction-based activities

In U.S. dollars, revenues increased by 18% for the three months ended September 30, 2007, from the three months ended September 30, 2006. Operating income increased by 12% for the three months ended September 30, 2007 from the three months ended September 30, 2006.

In ZAR, revenues increased by 17% for the three months ended September 30, 2007, from the three months ended September 30, 2006. Operating income increased by 10% for the three months ended September 30, 2007 from the three months ended September 30, 2006.

These increases in revenues and operating income were due primarily to the continued adoption of our merchant acquiring system in the provinces where we distribute welfare grants, increased transacting ability at participating retailers POS devices in these provinces and higher volumes from all of our provincial contracts. 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 for the three months ended September 30, 2007 decreased to 54% from 57% for the three months ended September 30, 2006. 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 three months ended September 30, 2006;
- costs incurred during the three months ended September 30, 2007 for the registration of 120,000 new beneficiaries in the North West province; and
- higher revenues for the three months ended September 30, 2006 as a result of the earlier opening of the October 2006 payfile for payment through our merchant acquiring system.

These operating income margin decreases were partially offset by the increased revenues from price increases from the KwaZulu-Natal provincial government for welfare distribution and administration services and improved margins from EasyPay.

Continued adoption of our merchant acquiring system:

The key statistics and indicators of our merchant acquiring system during the three months ended September 30, 2007 and 2006, in each of the South African provinces where we distribute social welfare grants are summarized in the table below:

Table 8	**Three months ended September 30,**	
	2007	**2006**
Province included (1)	NC, EC, KZN, L and NW	NC, EC, KZN, L and NW
Total POS devices installed	4,305	4,169
Number of participating UEPS retail locations	2,578	2,468
Value of transactions processed through POS devices during the quarter (2) (in $ 000)	266,934	202,299
Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in $ 000)	266,810	189,139
Value of transactions processed through POS devices during the quarter (2) (in ZAR 000)	1,901,570	1,449,071
Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in ZAR 000)	1,900,684	1,354,805
Number of grants paid through POS devices during the quarter (2)	3,716,230	2,976,558
Number of grants paid through POS devices during the completed pay cycles for the quarter (3)	3,715,383	2,784,170
Average number of grants processed per terminal during the quarter (2)	858	725
Average number of grants processed per terminal during the completed pay cycles for the quarter (3)	858	678

(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 and participating UEPS retail locations 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 September 30, 2007:

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 September 30, 2007:

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 September 30, 2007:

***Higher volumes from our provincial contracts*:**

During the three months ended September 30, 2007, 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 three months ended September 30, 2007 increased 6% to 11,828,399 from the three months ended September 30, 2006.

The higher volumes under existing provincial contracts during the three months ended September 30, 2007, as well as average revenue per grant paid, are detailed below:

Table 9	**Three months ended September 30,**					
	Number of Grants Paid		**Average Revenue per Grant Paid**			
			2007	**2006**	**2007**	**2006**
Province	**2007**	**2006**	**$(1)**	**$(1)**	**ZAR(1)**	**ZAR(1)**
KwaZulu-Natal **(A)**	5,040,155	4,915,405	2.95	2.84	21.01	20.35
Limpopo **(B)**	2,935,110	2,892,620	2.35	2.23	16.76	16.00
North West **(C)**	1,219,059	820,955	2.96	2.50	21.10	17.94
Northern Cape **(D)**	496,100	413,243	2.68	2.61	19.06	18.69
Eastern Cape **(E)**	2,137,975	2,127,992	2.11	1.66	15.02	11.86
Total	**11,828,399**	**11,170,215**				

(1) Average Revenue per Grant Paid excludes $ 0.77 (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 2007.

(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 October 2006.

(D) - in ZAR, the increase in the Average Revenue per Grant Paid in Northern Cape was primarily due to bulk registrations in August 2007.

(E) - in ZAR, the increase in the Average Revenue per Grant Paid in Eastern Cape was due to negotiated price increases effective January 1, 2007.

EasyPay transaction fees:

During the three months ended September 30, 2007 and 2006, respectively, EasyPay processed 119 million and 101 million transactions with an approximate value of $3.7 billion (ZAR 26.1 billion) and $3.2 billion, (ZAR 22.8 billion). The average fee per transaction during the three months ended September 30, 2007 and 2006 was $0.03 (ZAR 0.21) . The number of transactions processed during the three months ended September 30, 2007 increased compared with the three months ended September 30, 2006, due to the continued strong economic climate currently experienced in South Africa which has resulted in an increase in the number of transactions processed through retailers. We expect an increase in the number of transactions processed during the three months ended December 31, 2007 due to increased activity during the summer holidays in South Africa. We do not expect a significant fluctuation, in ZAR, in the average fee per transaction during the second quarter of fiscal 2008.

Operating income margins generated by EasyPay during the three months ended September 30, 2007 and 2006, were 39.5% and 26.0%, 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 three months ended September 30, 2007 and 2006, of approximately $0.4 million (ZAR 3.2 million) and $0.3 million (ZAR 2.4 million), respectively, is included in the calculation of EasyPay operating margins. Operating income margin before amortization of EasyPay intangible assets during the three months ended September 30, 2007 and 2006 was 52.5% and 36.3%, respectively.

31

Smart card accounts

In U.S. dollars, revenues increased by 6% for the three months ended September 30, 2007, from the three months ended September 30, 2006. Operating income increased by 6% for the three months ended September 30, 2007 from the three months ended September 30, 2006.

In ZAR, revenues increased by 5% for the three months ended September 30, 2007, from the three months ended September 30, 2006. Operating income increased by 5% for the three months ended September 30, 2007 from the three months ended September 30, 2006.

Operating income margin from providing smart card accounts was constant at 45% for each of the three months ended September 30, 2007 and 2006.

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 3,943,580 smart card-based accounts were active at September 30, 2007, compared to 3,738,975 active accounts as at September 30, 2006. 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 three months ended September 30, 2007, from the three months ended September 30, 2006. Operating income decreased by 58% for the three months ended September 30, 2007 from the three months ended September 30, 2006.

In ZAR, revenues decreased by 28% for the three months ended September 30, 2007, from the three months ended September 30, 2006. Operating income decreased by 58% for the three months ended September 30, 2007 from the three months ended September 30, 2006.

Revenues from UEPS-based lending decreased during the three months ended September 30, 2007 compared with the three months ended September 30, 2006 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 September 30, 2007 compared with the three months ended September 30, 2006. 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 10

	As at September 30,					
	2007	**2006**		**2007**	**2006**	
			$%	**ZAR**	**ZAR**	**ZAR %**
	$ 000	**$ 000**	**change**	**000**	**000**	**change**
Traditional microlending:						
Finance loans receivable gross	5,249	6,650	(21)%	36,336	51,372	(29)%
Allowance for doubtful finance loans receivable	(3,011)	(3,551)	(15)%	(20,840)	(27,425)	(24)%
Finance loans receivable net	2,238	3,099	(28)%	15,496	23,947	(35)%
UEPS-based lending:						
Finance loans receivable net and gross (i.e., no allowance)	3,064	2,899	6%	21,205	22,393	(5)%
Total finance loans receivable, net	5,302	5,998		36,701	46,340	

Operating income margin for the financial services segment decreased to 20% for the three months ended September 30, 2007 from 36% for the three months ended September 30, 2006, 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 18% for the three months ended September 30, 2007, from the three months ended September 30, 2006. Operating income increased by 85% for the three months ended September 30, 2007 from the three months ended September 30, 2006.

In ZAR, revenues increased by 17% for the three months ended September 30, 2007, from the three months ended September 30, 2006. Operating income increased by 83% for the three months ended September 30, 2007 from the three months ended September 30, 2006.

We commenced software development and customization activities during the three months ended September 30, 2007, related to the Ghanaian national switch and smart card payment system contract. Our revenues include approximately $1.0 million (ZAR7.0 million) from software development and customization activities 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 September 30, 2007. During the second quarter of fiscal 2008 we expect to recognize revenues related to the Ghana contract for on-going software development and customization and delivery of hardware. We can not reasonably predict the revenue from these sales expected in the second quarter of fiscal 2008.

During the three months ended September 30, 2007, we received an order for hardware from Nedbank Limited, or Nedbank, for approximately $1.5 million (ZAR 10.0 million), translated at the USD/ ZAR exchange rate as of September 30, 2007. We expect to deliver this hardware to Nedbank during the second quarter of fiscal 2008.

Amortization of Prism intangible assets during the three months ended September 30, 2007 and 2006 was approximately $0.9 million (ZAR 6.7 million) and $0.9 million (ZAR 6.7 million), respectively, and reduced our operating income.

Revenues from sales of software and hardware to SmartSwitch Botswana during the three months ended September 30, 2006, totaled approximately $2.0 million (ZAR 14.4 million) of which approximately $0.5 million (ZAR 3.7 million), after taxation, was eliminated and will be recognized in future periods. The elimination has been included in the Corporate/Eliminations. Our operating margin on these sales was significantly higher than other items, including Prism products and services, included within the hardware, software and related technology sales segment.

Hardware sales to Nedbank are infrequent, and we do not anticipate revenue from large-scale hardware supply contracts to occur in the foreseeable future. In addition, we expect sales of hardware, software and licenses related to our international expansion to occur on an ad hoc basis as and when new international ventures, such as SmartSwitch Namibia and SmartSwitch Botswana, are established, or contracts such as Ghana are concluded. Depending on the size of our equity interest in these ventures, we may have to eliminate the sale of any hardware, software and licenses to these entities.

Corporate/eliminations

In U.S. dollars, the operating loss decreased by $0.04 million for the three months ended September 30, 2007, from the three months ended September 30, 2006.

In ZAR, the operating loss decreased by ZAR 0.4 million for the three months ended September 30, 2007, from the three months ended September 30, 2006.

Our operating losses include expenditure related to compliance with Sarbanes, non-executive directors fees, employee and executives 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.

Liquidity and Capital Resources

Our business has historically generated and continues to generate high levels of cash. At September 30, 2007, our cash balances were $215.5 million, which comprised mainly ZAR-denominated balances of ZAR 1,183.9 million ($171.0 million) and U.S. dollar-denominated balances of $41.8 million. Our cash balances increased from June 30, 2007 levels mainly as a result of cash generated by operating activities and the later opening of the October pay file in the last few days of September 2007. Typically we pay welfare grants during the last three to five working days of the month related to the following months pay cycle.

Surplus cash held by our South African operations is invested in overnight call accounts in the South African money market, 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 $83.1 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 $49.1 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.

Without giving effect to the possibility that we may have to pre-fund the payment of social welfare grants in additional or all nine provinces in South Africa, which would require us to extend our credit facilities and/or issue debt instruments, we currently believe that our cash and credit facilities are sufficient to fund our operations for at least the next four quarters. We have received letters of intent from banking institutions to extend our credit facilities and/or raise debt instruments for us in the event that we are awarded contracts in connection with our submission of tenders for the distribution and administration of social welfare grants in all nine provinces.

Cash flows from operating activities

Net cash inflows from operating activities for the three months ended September 30, 2007, was $40.2 million (ZAR 286.5 million) compared to net cash outflows from operating activities of $1.5 million (ZAR 11.0 million) for the three months ended September 30, 2006. The significant increase in net cash inflows is largely due to all provincial governments paying all amounts due to us as of September 30, 2007 and the opening of the KwaZulu-Natal October pay file on September 29, 2007, which resulted in significant reimbursements to merchants occurring in the first week of October 2007 rather than in the last week of September 2007. Merchants are traditionally reimbursed within 48 hours of distributing the grant to the beneficiary. The provincial governments typically repay us between seven and 14 days of distributing the grant. In addition, during the three months ended September 30, 2007, the KwaZulu-Natal provincial government granted and paid price increases retrospective to April 1, 2007.

During the three months ended September 30, 2007, we made an additional second provisional payment of $8.3 million (ZAR 60.4 million) related to our 2007 tax year. See the table below for a summary of all taxes paid (refunded).

Taxes paid during the three months ended September 30, 2007 and 2006 were as follows:

Table 11	**Three months ended September 30,**			
	2007	**2006**	**2007**	**2006**
	$	$	**ZAR**	**ZAR**
	000	**000**	**000**	**000**
First provisional payments	n/a	n/a	n/a	n/a
Third provisional payments	n/a	n/a	n/a	n/a
Taxation paid related to prior years	8,357	9,027	60,465	66,837
Taxation refunds received	(10)	(500)	(66)	(3,616)
Secondary Taxation on Companies	n/a	n/a	n/a	n/a
Total tax paid	8,347	8,527	60,399	63,221

Cash flows from investing activities

Cash used in investing activities for the three months ended September 30, 2007 includes capital expenditure of $0.7 million (ZAR 4.8 million), of which $0.2 million (ZAR 1.8 million) relates the acquisition of POS terminals for our merchant acquiring system.

Cash used in investing activities for the three months ended September 30, 2006 includes capital expenditure of $0.8 million (ZAR 5.8 million), of which $0.3 million (ZAR 2.3 million) related to the ordinary course purchase of equipment and other property plant and equipment by EasyPay. During the three months ended September 30, 2006, we paid $82.1 million (ZAR 591.1 million), net of cash received, for the entire issued and outstanding ordinary capital of Prism.

Cash flows from financing activities

During the three months ended September 30, 2007, we received $0.15 million (ZAR 1.1 million) from employees exercising stock options.

During the three months ended September 30, 2006, we received $0.05 million (ZAR 0.4 million) from an employee exercising stock options.

As discussed above we were required to utilize our credit facilities in order to meet our obligations to distribute social welfare grants to beneficiaries during the three months ended September 30, 2006. As of September 30, 2006, these short term borrowings had been settled in full. As our reporting currency is the U.S. dollar and our functional currency is the ZAR, the exchange rate fluctuations during the three months ended September 30, 2006 resulted in reporting discrepancies between the proceeds from bank overdrafts and the repayment of bank overdrafts presented in our unaudited condensed consolidated statement of cash flow for the three months ended September 30, 2006. The result of these exchange rate fluctuations are included in effect of exchange rate changes on cash presented in our unaudited condensed consolidated statement of cash flow for the three months ended September 30, 2006.

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 months ended September 30, 2007, 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 September 30, 2007. We anticipate that capital spending for the second 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 12 **Payments due by Period, as at September 30, 2007(in $ 000s)**

	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations	5,750	1,878	2,468	1,404	-
Purchase obligations	6,006	6,006	-	-	-
Total	11,756	7,884	2,468	1,404	-

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 September 30, 2007 and 2006, our outstanding foreign exchange contracts were as follows:

As of September 30, 2007

Notional amount		Strike price		Fair market value price		Maturity
USD	324,000	ZAR	7.289	ZAR	6.9847	November 30, 2007

As of September 30, 2006

Notional amount		Strike price		Fair market value price		Maturity
EUR	627,372	ZAR	8.0529	ZAR	9.3259	November 30, 2006
EUR	(627,372)	ZAR	8.2625	ZAR	9.3259	November 30, 2006

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 $20,586 per month, while interest earned per month on any surplus cash increases by $11,538 per $14.4 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 Standard & Poor s.

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 September 30, 2007.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the most recent fiscal quarter ended September 30, 2007, 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. For the quarter ended September 30, 2007, there have been no material changes to these risk factors.

Item 6. Exhibits

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

Exhibit Number		Description
31.1		Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2		Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32		Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of Sarbanes- Oxley Act of 2002

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 November 8, 2007.

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