NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
November 05, 2015

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, 2015

OR

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

For the transition period from _________ To __________

Commission file number: **000-31203**

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

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

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

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

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

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

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

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES [X]   NO [ ]

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

[ ] Large accelerated filer [X] Accelerated filer

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

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

As of November 3, 2015 (the latest practicable date), 47,322,702 shares of the registrant s common stock, par value $0.001 per share, net of treasury shares, were outstanding.

Form 10-Q

NET 1 UEPS TECHNOLOGIES, INC.

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

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

	Unaudited September 30, 2015	(A) June 30, 2015
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 125,610	$ 117,583
Pre-funded social welfare grants receivable (Note 2)	1,411	2,306
Accounts receivable, net of allowances of September: $2,767; June: $1,956	153,453	148,768
Finance loans receivable, net of allowances of September: $3,640; June: $4,227	33,921	40,373
Inventory (Note 3)	12,335	12,979
Deferred income taxes	6,829	7,298
Total current assets before settlement assets	333,559	329,307
Settlement assets (Note 4)	600,195	661,916
Total current assets	933,754	991,223
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of September: $92,145; June: $94,014	52,048	52,320
EQUITY-ACCOUNTED INVESTMENTS	14,342	14,329
GOODWILL (Note 6)	154,294	166,437
INTANGIBLE ASSETS, net (Note 6)	40,862	47,124
OTHER LONG-TERM ASSETS, including reinsurance assets (Note 5 and Note 7)	13,982	14,997
TOTAL ASSETS	1,209,282	1,286,430
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	15,527	21,453
Other payables	49,011	45,595
Current portion of long-term borrowings (Note 9)	8,359	8,863
Income taxes payable	12,848	6,287
Total current liabilities before settlement obligations	85,745	82,198
Settlement obligations (Note 4)	600,195	661,916
Total current liabilities	685,940	744,114
DEFERRED INCOME TAXES	9,169	10,564
LONG-TERM BORROWINGS (Note 9)	48,561	50,762
OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 7)	2,178	2,205
TOTAL LIABILITIES	745,848	807,645
COMMITMENTS AND CONTINGENCIES (Note 17)		
EQUITY		
COMMON STOCK (Note 10)		
Authorized: 200,000,000 with $0.001 par value;		

Issued and outstanding shares, net of treasury - September: 47,322,702; June: 46,679,565		64		64
PREFERRED STOCK				
Authorized shares: 50,000,000 with $0.001 par value;				
Issued and outstanding shares, net of treasury: September: -; June: -		-		-
ADDITIONAL PAID-IN-CAPITAL		218,384		213,896
TREASURY SHARES, AT COST: September: 18,057,228; June: 18,057,228		(214,520)		(214,520)
ACCUMULATED OTHER COMPREHENSIVE LOSS		(182,545)		(139,181)
RETAINED EARNINGS		640,888		617,868
TOTAL NET1 EQUITY		462,271		478,127
NON-CONTROLLING INTEREST		1,163		658
TOTAL EQUITY		463,434		478,785
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	1,209,282	$	1,286,430

(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,			
		2015		2014
	(In thousands, except per share data)			
REVENUE	$	154,473	$	156,441
EXPENSE				
Cost of goods sold, IT processing, servicing and support		77,382		74,406
Selling, general and administration		35,761		38,736
Depreciation and amortization		10,115		10,174
OPERATING INCOME		31,215		33,125
INTEREST INCOME		4,275		4,090
INTEREST EXPENSE		974		1,312
INCOME BEFORE INCOME TAX EXPENSE		34,516		35,903
INCOME TAX EXPENSE (Note 16)		10,897		11,648
NET INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS		23,619		24,255
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS		188		92
NET INCOME		23,807		24,347
LESS NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST		787		258
NET INCOME ATTRIBUTABLE TO NET1	$	23,020	$	24,089
Net income per share, in United States dollars (Note 13)				
Basic earnings attributable to Net1 shareholders	$	0.49	$	0.51
Diluted earnings attributable to Net1 shareholders	$	0.49	$	0.51

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended September 30, 2015	2014
	(In thousands)	
Net income	$ 23,807	$ 24,347
Other comprehensive income (loss)		
Net unrealized income (loss) on asset available for sale, net of tax	50	(226)
Movement in foreign currency translation reserve	(43,696)	(21,185)
Total other comprehensive loss, net of taxes	(43,646)	(21,411)
Comprehensive (loss) income	(19,839)	2,936
(Less) comprehensive income attributable to non-controlling interest	(505)	(232)
Comprehensive (loss)/income attributable to Net1	$ (20,344)	$ 2,704

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statement of Changes in Equity for the three months ended September 30, 2015 (dollar amounts in thousands)

	Net 1 UEPS Technologies, Inc. Shareho					
	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital
Balance July 1, 2015	64,736,793	$ 64	(18,057,228)	$ (214,520)	46,679,565	$ 213,896
Restricted stock granted (Note 12)	319,492				319,492	
Exercise of stock option (Note 12)	323,645				323,645	3,762
Stock-based compensation charge (Note 12)						726
Net income						
Other comprehensive loss (Note 11)						
Balance September 30, 2015	65,379,930	$ 64	(18,057,228)	$ (214,520)	47,322,702	$ 218,384

See Notes to Unaudited Condensed Consolidated Financial Statements

5

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

	Three months ended September 30, 2015	2014
		(In thousands)
Cash flows from operating activities		
Net income	$ 23,807	$ 24,347
Depreciation and amortization	10,115	10,174
Earnings from equity-accounted investments	(188)	(92)
Fair value adjustments	1,433	413
Interest payable	709	1,159
Profit on disposal of plant and equipment	(95)	(122)
Stock-based compensation charge	726	916
Facility fee amortized	34	82
(Increase) Decrease in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable	(17,278)	9,470
Increase in inventory	(931)	(2,123)
Increase (Decrease) in accounts payable and other payables	2,972	(10,933)
Increase in taxes payable	7,824	6,611
Decrease in deferred taxes	(1,026)	(390)
Net cash provided by operating activities	28,102	39,512
Cash flows from investing activities		
Capital expenditures	(10,698)	(9,378)
Proceeds from disposal of property, plant and equipment	348	241
Proceeds from sale of business (Note 14)	-	1,895
Net change in settlement assets	(21,575)	(43,054)
Net cash used in investing activities	(31,925)	(50,296)
Cash flows from financing activities		
Proceeds from issue of common stock	3,762	989
Long-term borrowings utilized	720	1,097
Acquisition of treasury stock (Note 10)	-	(9,151)
Sale of equity to non-controlling interest (Note 10)	-	1,407
Net change in settlement obligations	21,575	43,054
Net cash provided by financing activities	26,057	37,396
Effect of exchange rate changes on cash	(14,207)	(4,099)
Net increase in cash and cash equivalents	8,027	22,513
Cash and cash equivalents beginning of period	117,583	58,672
Cash and cash equivalents end of period	$ 125,610	$ 81,185

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, 2015 and 2014
(All amounts in tables stated in thousands or thousands of United States Dollars, unless otherwise stated)

1. Basis of Presentation and Summary of Significant Accounting Policies
Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the United States 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, 2015 and 2014, 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, 2015. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

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

Recent accounting pronouncements adopted

There were no accounting pronouncements adopted during the three months ended September 30, 2015.

Recent accounting pronouncements not yet adopted as of September 30, 2015

In May 2014, the FASB issued guidance regarding *Revenue from Contracts with Customers*. This guidance requires an entity to recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance was effective for the Company beginning July 1, 2017, however this date has been extended as per subsequent guidance issued by the FASB. Early adoption is not permitted. The Company expects that this guidance will have a material impact on its financial statements and is currently evaluating the impact of this guidance on its financial statements on adoption.

In August 2015, the FASB issued guidance regarding *Revenue from Contracts with Customers, Deferral of the Effective Date*. This guidance defers the required implementation date specified in *Revenue from Contracts with Customers* to December 2017. Public companies may elect to adopt the standard along the original timeline. The Company expects that this guidance will have a material impact on its financial statements and is currently evaluating the impact of this guidance on its financial statements on adoption.

In August 2014, the FASB issued guidance regarding *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*. This guidance requires an entity to perform interim and annual assessments of its ability to continue as a going concern within one year of the date that its financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity s ability to continue as a going concern. The guidance is effective for the Company beginning July 1, 2017. Early adoption is permitted. The

Company is currently assessing the impact of this guidance on its financial statements disclosure.

In February 2015, the FASB issued guidance regarding *Amendments to the Consolidation Analysis*. This guidance amends both the variable interest entity and voting interest entity consolidation models. The requirement to assess an entity under a different consolidation model may change previous consolidation conclusions. The guidance is effective for the Company beginning July 1, 2016. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)
Recent accounting pronouncements not yet adopted as of September 30, 2015 (continued)

In July 2015, the FASB issued guidance regarding *Simplifying the Measurement of Inventory*. This guidance requires entities to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market in this context is defined as one of three different measures). The guidance will not apply to inventories that are measured by using either the last-in, first-out (LIFO) method or the retail inventory method (RIM). The guidance is effective for the Company beginning July 1, 2017. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

2. Pre-funded social welfare grants receivable

Pre-funded social welfare grants receivable represents amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The October 2015 payment service commenced on October 1, 2015, but the Company pre-funded certain merchants participating in the merchant acquiring system on the last two days of September 2015.

3. Inventory

The Company s inventory comprised the following categories as of September 30, 2015 and June 30, 2015.

	September 30, 2015	June 30, 2015
Finished goods	$ 12,335	$ 12,979
	$ 12,335	$ 12,979

4. Settlement assets and settlement obligations

Settlement assets comprise (1) cash received from the South African government that the Company holds pending disbursement to recipient beneficiaries of social welfare grants and (2) cash received from customers on whose behalf the Company processes payroll payments that the Company will disburse to customer employees, payroll-related payees and other payees designated by the customer.

Settlement obligations comprise (1) amounts that the Company is obligated to disburse to recipient beneficiaries of social welfare grants, and (2) amounts that the Company is obligated to pay to customer employees, payroll-related payees and other payees designated by the customer.

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

5. Fair value of financial instruments

Initial recognition and measurement

Financial instruments are recognized when the Company becomes a party to the transaction. Initial measurements are at cost, which includes transaction costs.

Risk management

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

8

5. Fair value of financial instruments (continued)
Risk management (continued)

Currency exchange risk

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

Translation risk

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

Interest rate risk

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

Credit risk

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

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

UEPS-based microlending credit risk

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

Equity price and liquidity risk

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

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

5. Fair value of financial instruments (continued)
Financial instruments

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

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

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

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

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

The fair value of these securities as of September 30, 2015, represented approximately 1% of the Company s total assets, including these securities. The Company expects to hold these securities for an extended period of time and it is not concerned with short-term equity price volatility with respect to these securities provided that the underlying business, economic and management characteristics of the company remain sound.

Derivative transactions - Foreign exchange contracts

As part of the Company s risk management strategy, the Company enters into derivative transactions to mitigate exposures to foreign currencies using foreign exchange contracts. These foreign exchange contracts are over-the-counter derivative transactions. Substantially all of the Company s derivative exposures are with counterparties that have long-term credit ratings of BBB or better. The Company uses quoted prices in active markets for similar assets and liabilities to determine fair value (Level 2). The Company has no derivatives that require fair value measurement under Level 1 or 3 of the fair value hierarchy.

The Company s outstanding foreign exchange contracts are as follows:

As of September 30, 2015

Notional amount	Strike price	Fair market value price	Maturity
EUR 526,263.00	ZAR 15.3809	ZAR15.5532	October 20, 2015
EUR 509,516.00	ZAR 15.4728	ZAR15.6435	November 20, 2015
EUR 529,865.00	ZAR 15.5654	ZAR15.7402	December 21, 2015
EUR 526,663.00	ZAR 15.6625	ZAR15.8358	January 20, 2016

5. Fair value of financial instruments (continued)
Financial instruments (continued)

As of June 30, 2015

Notional amount	Strike price	Fair market value price	Maturity
EUR 526,263.00	ZAR 15.1145	ZAR 13.6275	July 20, 2015
EUR 526,263.00	ZAR 15.2025	ZAR 13.7062	August 20, 2015
EUR 526,263.00	ZAR 15.2944	ZAR 13.7898	September 21, 2015
EUR 526,263.00	ZAR 15.3809	ZAR 13.8683	October 20, 2015
EUR 509,516.00	ZAR 15.4728	ZAR 13.9540	November 20, 2015
EUR 529,865.00	ZAR 15.5654	ZAR 14.0397	December 21, 2015
EUR 526,663.00	ZAR 15.6625	ZAR 14.1239	January 20, 2016

The following table presents the Company s assets and liabilities measured at fair value on a recurring basis as of September 30, 2015, according to the fair value hierarchy:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	$ 1,884	$ -	$ -	$ 1,884
Investment in Finbond (available for sale assets included in other long-term assets)	-	-	6,618	6,618
Other	-	1,069	-	1,069
Total assets at fair value	$ 1,884	$ 1,069	$ 6,618	$ 9,571

The following table presents the Company s assets and liabilities measured at fair value on a recurring basis as of June 30, 2015, according to the fair value hierarchy:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	$ 1,640	$ -	$ -	$ 1,640
Investment in Finbond (available for sale assets included in other long-term assets)	-	-	7,488	7,488
Other	-	1,259	-	1,259
Total assets at fair value	$ 1,640	$ 1,259	$ 7,488	$ 10,387

Liabilities								
Foreign exchange contracts	$	-	$	452	$	-	$	452
Total liabilities at fair value	$	-	$	452	$	-	$	452

5. Fair value of financial instruments (continued)
Financial instruments (continued)

Changes in the Company s investment in Finbond (Level 3 that are measured at fair value on a recurring basis) were insignificant during the three months ended September 30, 2015 and 2014, respectively. There have been no transfers in or out of Level 3 during the three months ended September 30, 2015 and 2014, respectively.

Assets and liabilities measured at fair value on a nonrecurring basis

The Company measures its assets at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The Company has no liabilities that are measured at fair value on a nonrecurring basis. The Company reviews the carrying values of its assets when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary. The fair values of the Company s assets are determined using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the assets exceeds its fair value and the excess is determined to be other-than-temporary. The Company has not recorded any impairment charges during the reporting periods presented herein.

6. Goodwill and intangible assets, net
Goodwill

Summarized below is the movement in the carrying value of goodwill for the three months ended September 30, 2015:

	Gross value	Accumulated impairment	Carrying value
Balance as of June 30, 2015	$ 166,437	$ -	$ 166,437
Foreign currency adjustment (1)	(12,143)	-	(12,143)
Balance as of September 30, 2015	$ 154,294	$ -	$ 154,294

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

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

	South African transaction processing	International transaction processing	Financial inclusion and applied technologies	Carrying value
Balance as of June 30, 2015	$ 24,579	$ 115,519	$ 26,339	$ 166,437
Foreign currency adjustment (1)	(3,053)	(6,537)	(2,553)	(12,143)
Balance as of September 30, 2015	$ 21,526	$ 108,982	$ 23,786	$ 154,294

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

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

Carrying value and amortization of intangible assets

Summarized below is the carrying value and accumulated amortization of the intangible assets as of September 30, 2015 and June 30, 2015:

	As of September 30, 2015			As of June 30, 2015		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:						
Customer relationships	$ 82,160	$ (44,008)	$ 38,152	$ 88,109	$ (45,312)	$ 42,797
Software and unpatented technology	27,872	(27,491)	381	29,964	(28,323)	1,641
FTS patent	2,731	(2,731)	-	3,119	(3,119)	-
Exclusive licenses	4,506	(4,506)	-	4,506	(4,506)	-
Trademarks	5,589	(3,260)	2,329	6,094	(3,408)	2,686
Total finite-lived intangible assets	$ 122,858	$ (81,996)	$ 40,862	$ 131,792	$ (84,668)	$ 47,124

Aggregate amortization expense on the finite-lived intangible assets for the three months ended September 30, 2015 and 2014, was approximately $3.3 million and $3.9 million, respectively.

Future estimated annual amortization expense for the next five fiscal years and thereafter, assuming an exchange rate prevailing on September 30, 2015, is presented in the table below. Actual amortization expense in future periods could differ from this estimate as a result of acquisitions, changes in useful lives, exchange rate fluctuations and other relevant factors.

2016	$ 10,105
2017	7,929
2018	7,928
2019	7,634
2020	7,463
Thereafter	$ 3,088

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

Summarized below is the movement in reinsurance assets and policy holder liabilities under insurance contracts during the three months ended September 30, 2015:

	Reinsurance assets (1)	Insurance contracts (2)
Balance as of June 30, 2015	$ 183	$ (567)
Foreign currency adjustment (3)	(23)	71
Balance as of September 30, 2015	$ 160	$ (496)

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

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

Policyholders' liabilities under insurance contracts are derived from actual claims submitted which had not been settled as of September 30, 2015 and June 30, 2015, respectively, and represents management s estimate of the net present value of future claims and benefits under existing insurance contracts, offset by probable future premiums to be received (net of expected service cost).

7. Reinsurance assets and policy holder liabilities under insurance and investment contracts (continued)
Assets and policy holder liabilities under investment contracts

Summarized below is the movement in assets and policy holder liabilities under investment contracts during the three months ended September 30, 2015:

		Assets (1)		Investment contracts (2)
Balance as of June 30, 2015	$	593	$	(593)
Foreign currency adjustment (3)		(73)		73
Balance as of September 30, 2015	$	520	$	(520)

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

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

8. Short-term credit facility
The Company s short-term credit facilities are described in Note 12 to the Company s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2015.

South Africa

The Company s short-term South African credit facility with Nedbank Limited comprises an overdraft facility of up to ZAR 50 million and indirect and derivative facilities of up to ZAR 150 million, which include letters of guarantee, letters of credit and forward exchange contracts. As of September 30, 2015, the interest rate on the overdraft facility was 8.35% . As of each of September 30, 2015 and June 30, 2015, respectively, the Company had not utilized any of its overdraft facility. As of September 30, 2015, the Company had utilized approximately ZAR 128.2 million ($9.1 million, translated at exchange rates applicable as of September 30, 2015) of its ZAR 150 million indirect and derivative facilities to obtain foreign exchange contracts from the bank and to enable the bank to issue guarantees, including stand-by letters of credit, in order for the Company to honor its obligations to third parties requiring such guarantees (refer to Note 17). As of June 30, 2015, the Company had utilized approximately ZAR 139.6 million ($11.4 million, translated at exchange rates applicable as of June 30, 2015) of its indirect and derivative facilities.

Korea

The Company had not utilized any of its KRW 10 billion ($8.4 million, translated at exchange rates applicable as of September 30, 2015) overdraft facility as of September 30, 2015 and June 30, 2015. As of September 30, 2015, the interest rate on the overdraft facility was 3.20% . The facility expires in January 2016.

9. Long-term borrowings
The Company s Korean senior secured loan facility is described in Note 13 to the Company s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2015. The current carrying value as of September 30, 2015, is $60.0 million. As of September 30, 2015, the carrying amount of the long-term borrowings approximated fair value. The interest rate in effect on September 30, 2015, was 4.74% .

Interest expense incurred during the three months ended September 30, 2015 and 2014, was $0.7 million and $1.1 million, respectively. Prepaid facility fees amortized during the three months ended September 30, 2015 and 2014, was $0.03 million and $0.1 million, respectively.

The next scheduled principal payment of $8.4 million (translated at exchange rates applicable as of September 30, 2015) will be made on April 29, 2016.

10. Capital structure

The following table presents reconciliation between the number of shares, net of treasury, presented in the unaudited condensed consolidated statement of changes in equity during the three months ended September 30, 2015 and 2014, respectively, and the number of shares, net of treasury, excluding non-vested equity shares that have not vested during the three months ended September 30, 2015 and 2014, respectively:

	Sept 30, 2015	Sept 30, 2014
Number of shares, net of treasury:		
Statement of changes in equity	47,322,702	46,475,623
Less: Non-vested equity shares that have not vested (Note 12)	(589,447)	(453,333)
Number of shares, net of treasury excluding non-vested equity shares that have not vested	46,733,255	46,022,290

Common stock repurchases and transaction with non-controlling interests

The Company did not repurchase any of its shares during the three months ended September 30, 2015 and 2014, under its share repurchase authorization. However, on August 27, 2014, the Company entered into a Subscription and Sale of Shares Agreement with Business Venture Investments No 1567 Proprietary Limited (RF) (BVI), one of the Company s BEE partners, in preparation for any new potential SASSA tender. Pursuant to the agreement: (i) the Company repurchased BVI s remaining 1,837,432 shares of the Company s common stock for approximately ZAR 97.4 million in cash ($9.2 million translated at exchange rates prevailing as of August 27, 2014) and (ii) BVI has subscribed for new ordinary shares of Cash Paymaster Services (Pty) Ltd (CPS) representing 12.5% of CPS ordinary shares outstanding after the subscription for ZAR 15.0 million in cash (approximately $1.4 million translated at exchange rates prevailing as of August 27, 2014). In connection with transactions described above, the CPS shareholder agreement that was negotiated as part of the original December 2013 Relationship Agreement became effective.

11. Accumulated other comprehensive loss

The table below presents the change in accumulated other comprehensive (loss) income per component during the three months ended September 30, 2015:

	Three months ended September 30, 2015		
	Accumulated Foreign currency translation reserve	Accumulated Net unrealized income on asset available for sale, net of tax	Total
Balance as of June 30, 2015	$ (140,221)	$ 1,040	$ (139,181)
Movement in foreign currency translation reserve	(43,414)	-	(43,414)
Unrealized gain on asset available for sale, net of tax of $11	-	50	50
Balance as of September 30, 2015	$ (183,635)	$ 1,090	$ (182,545)

There were no reclassifications from accumulated other comprehensive loss to comprehensive (loss) income during the three months ended September 30, 2015 or 2014, respectively.

15

12. Stock-based compensation
Stock option and restricted stock activity

Options

The following table summarizes stock option activity for the three months ended September 30, 2015 and 2014:

	Number of shares	Weighted average exercise price ($)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ($ 000)	Weighted Average Grant Date Fair Value ($)
Outstanding June 30, 2015	2,401,169	15.34	4.74	11,516	
Exercised	(323,645)	11.62		2,669	
Outstanding September 30, 2015	2,077,524	15.92	4.33	7,509	
Outstanding June 30, 2014	2,710,392	14.16	5.38	3,909	
Granted under Plan: August 2014	464,410	11.23	10.00	2,113	4.55
Exercised	(688,633)	8.24		3,697	
Outstanding September 30, 2014	2,486,169	15.24	5.45	1,820	

No stock options were awarded during the three months ended September 30, 2015. The fair value of each option is estimated on the date of grant using the Cox Ross Rubinstein binomial model that uses the assumptions noted in the following table. The estimated expected volatility is calculated based on the Company s 250 day volatility. The estimated expected life of the option was determined based on historical behavior of employees who were granted options with similar terms. The Company has estimated no forfeitures for options awarded in August 2014.

The table below presents the range of assumptions used to value options granted during the three months ended September 30, 2015 and 2014:

	Three months ended September 30,	
	2015	2014
Expected volatility	n/a	60%
Expected dividends	n/a	0%
Expected life (in years)	n/a	3
Risk-free rate	n/a	1.0%

There were no forfeitures during each of the three months ended September 30, 2015 and 2014.

The following table presents stock options vested and expecting to vest as of September 30, 2015: