QUALSTAR CORP
Form SC 13G
February 14, 2003

SCHEDULE 13G

Amendment No. 0
Qualstar Corporation
Common Stock
Cusip #74758R109

Cusip #74758R109
Item 1: Reporting Person - FMR Corp.
Item 4: Delaware
Item 5: 0
Item 6: 0
Item 7: 1,178,165
Item 8: 0
Item 9: 1,178,165
Item 11: 9.273%
Item 12: HC

Cusip #74758R109
Item 1: Reporting Person - Edward C. Johnson 3d
Item 4: United States of America
Item 5: 0
Item 6: 0
Item 7: 1,178,165
Item 8: 0
Item 9: 1,178,165
Item 11: 9.273%
Item 12: IN

Cusip #74758R109
Item 1: Reporting Person - Abigail P. Johnson
Item 4: United States of America
Item 5: 0
Item 6: 0
Item 7: 1,178,165
Item 8: 0
Item 9: 1,178,165
Item 11: 9.273%
Item 12: IN

SCHEDULE 13G - TO BE INCLUDED IN
STATEMENTS
FILED PURSUANT TO RULE 13d-1(b) or 13d-2(b)

Item 1(a). Name of Issuer:

Qualstar Corporation

Item 1(b). Name of Issuer's Principal Executive Offices:

3990-B Heritage Oak Court
Simi Valley, CA 93063

Item 2(a). Name of Person Filing:

FMR Corp.

Item 2(b). Address or Principal Business Office or, if None, Residence:

82 Devonshire Street, Boston, Massachusetts 02109

Item 2(c). Citizenship:

Not applicable

Item 2(d). Title of Class of Securities:

Common Stock

Item 2(e). CUSIP Number:

74758R109

Item 3. This statement is filed pursuant to Rule 13d-1(b) or 13d-2(b) and the person filing, FMR Corp., is a parent holding company in accordance with Section 240.13d-1(b)(ii)(G). (Note: See Item 7).

Item 4. Ownership

(a) Amount Beneficially Owned: 1,178,165

(b) Percent of Class: 9.273%

(c) Number of shares as to which such person has:

(i) sole power to vote or to direct the vote: 0

(ii) shared power to vote or to direct the vote: 0

(iii) sole power to dispose or to direct the disposition of: 1,178,165

(iv) shared power to dispose or to direct the disposition of: 0

Item 5. Ownership of Five Percent or Less of a Class.

Not applicable.

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the Common Stock of Qualstar Corporation. The interest of one person, Fidelity Low Priced Stock Fund, an investment company registered under the Investment Company Act of 1940, in the Common Stock of Qualstar Corporation, amounted to 1,178,165 shares or 9.273% of the total outstanding Common Stock at December 31, 2002.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company.

See attached Exhibit(s) A, B.

Item 8. Identification and Classification of Members of the Group.

Not Applicable. See attached Exhibit A.

Item 9. Notice of Dissolution of Group.

Not applicable.

Item 10. Certification.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired in the ordinary course of business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired in connection with or as a participant in any transaction having such purpose or effect.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Schedule 13G in connection with FMR Corp.'s beneficial ownership of the Common Stock of Qualstar Corporation at December 31, 2002 is true, complete and correct.

February 14, 2003
Date

/s/Eric D. Roiter
Signature

Eric D. Roiter
Duly authorized under Power of Attorney
dated December 30, 1997 by and on behalf
of FMR Corp. and its direct and indirect
subsidiaries

SCHEDULE 13G - TO BE INCLUDED IN STATEMENTS
FILED PURSUANT TO RULE 13d-1(b) or 13d-2(b)

Pursuant to the instructions in Item 7 of Schedule 13G, Fidelity Management & Research Company ("Fidelity"), 82 Devonshire Street, Boston, Massachusetts

02109, a wholly-owned subsidiary of FMR Corp. and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 1,178,165 shares or 9.273% of the Common Stock outstanding of Qualstar Corporation ("the Company") as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.

The ownership of one investment company, Fidelity Low Priced Stock Fund, amounted to 1,178,165 shares or 9.273% of the Common Stock outstanding. Fidelity Low Priced Stock Fund has its principal business office at 82 Devonshire Street, Boston, Massachusetts 02109.

Edward C. Johnson 3d, FMR Corp., through its control of Fidelity, and the funds each has sole power to dispose of the 1,178,165 shares owned by the Funds.

Neither FMR Corp. nor Edward C. Johnson 3d, Chairman of FMR Corp., has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds, which power resides with the Funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Funds' Boards of Trustees.

Members of the Edward C. Johnson 3d family are the predominant owners of Class B shares of common stock of FMR Corp., representing approximately 49% of the voting power of FMR Corp. Mr. Johnson 3d owns 12.0% and Abigail Johnson owns 24.5% of the aggregate outstanding voting stock of FMR Corp. Mr. Johnson 3d is Chairman of FMR Corp. and Abigail P. Johnson is a Director of FMR Corp. The Johnson family group and all other Class B shareholders have entered into a shareholders' voting agreement under which all Class B shares will be voted in accordance with the majority vote of Class B shares. Accordingly, through their ownership of voting common stock and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR Corp.

SCHEDULE 13G - TO BE INCLUDED IN STATEMENTS
FILED PURSUANT TO RULE 13d-1(b) or 13d-2(b)
RULE 13d-1(f)(1) AGREEMENT

The undersigned persons, on February 14, 2003, agree and consent to the joint filing on their behalf of this Schedule 13G in connection with their beneficial ownership of the Common Stock of Qualstar Corporation at December 31, 2002.

FMR Corp.

By /s/ Eric D. Roiter
Eric D. Roiter
Duly authorized under Power of Attorney

dated December 30, 1997, by and on behalf
of FMR Corp. and its direct and indirect
subsidiaries

Edward C. Johnson 3d

By /s/ Eric D. Roiter
Eric D. Roiter
Duly authorized under Power of Attorney
dated December 30, 1997, by and on behalf
of Edward C. Johnson 3d

Abigail P. Johnson

By /s/ Eric D. Roiter
Eric D. Roiter
Duly authorized under Power of Attorney
dated December 30, 1997, by and on behalf
of Abigail P. Johnson

Fidelity Management & Research Company

By /s/ Eric D. Roiter
Eric D. Roiter
Senior V.P. and General Counsel

Fidelity Low Priced Stock Fund

By /s/ Eric D. Roiter
Eric D. Roiter
Secretary

d" align=center width="9%">**value amortization value** Finite-lived intangible assets: Customer relationships$86,279 $(19,319)$66,960 $83,824 $(12,306)$71,518 Software and unpatented technology 10,710 (10,710) - 10,079 (10,079) - FTS patent 5,166 (4,821) 345 4,861 (4,333) 528 Exclusive licenses 4,506 (3,617) 889 4,506 (3,293) 1,213 Trademarks 3,885 (1,273) 2,612 3,656 (1,025) 2,631 Customer contracts 114 (114) - 114 (114) - Total finite-lived intangible assets$110,660 $(39,854)$70,806 $107,040 $(31,150)$75,890

Aggregate amortization expense on the finite-lived intangible assets for the three and six months ended December 31, 2009, was approximately $3.7 million and $7.3 million, respectively (three and six months ended December 31, 2008, was approximately $3.4 million and $5.8 million, respectively). Future annual amortization expense is estimated at approximately $12.5 million, however, this amount could differ from the actual amortization as a result of changes in useful lives, exchange rate fluctuations and other relevant factors.

6. Short-term facilities

As of December 31, 2009, the Company had short-term facilities in ZAR of approximately $67.4 million, translated at exchange rates applicable as of December 31, 2009. As of December 31, 2009 the overdraft rate on these facilities was 9.35%, and the facility was fully undrawn. In addition, Net 1 Universal Technologies (Austria) AG (Net1 UAT), formerly BGS Smartcard Systems AG (BGS) has short-term facilities of approximately $1.5 million, translated at exchange rates applicable as of December 31, 2009, with each of two of Austria s largest banks. These facilities are available to the Company. The interest rate applicable to these short-term facilities is negotiated when the facilities are utilized. As of December 31, 2009, the Company had utilized none of its South African short-term facilities. The Company s management believes its current short-term facilities are sufficient in order to meet its future obligations as they arise.

7. Capital structure

The Company s capital structure is 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, 2009.

7. Capital structure (continued)

Common stock repurchases

On July 28, 2009, the Company repurchased an aggregate of 9,221,526 shares of its common stock from two shareholders, who originally acquired their shares in connection with the Aplitec transaction. The purchase price was $13.50 (ZAR 105.98) per share and was paid from the Company s cash reserves in ZAR for an aggregate purchase price of $124.5 million (ZAR 977.3 million).

8. Earnings per share

The entire consolidated net income of the Company was attributable to the shareholders of the Company comprising both the holders of Net1 common stock and the holders of linked units prior to the Company s listing on the JSE Limited (JSE). As discussed 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, 2009, all of the remaining linked unit holders converted their linked units to common stock in October 2008 as a result of listing of all of the Company s common stock on the JSE. As a result of the conversion of all the linked units, the entire consolidated net income of the Company is attributable to the holders of Net1 common stock.

Basic earnings per share includes restricted stock awards that meet the definition of a participating security as described in FSP EITF 03-6-1 (Topic 260). Restricted stock awards are eligible to receive non-forfeitable dividend equivalents at the same rate as common stock. Basic earnings per share have been calculated using the two-class method and basic earnings per share for the three and six months ended December 31, 2009 and 2008, reflects only undistributed earnings. Basic earnings per shares for the three and six months ended December 31, 2008, have been retrospectively adjusted, as required by FSP EITF 03-6-1 (Topic 260), to include participating securities in the weighted average number of outstanding shares of common stock.

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 and six ended December 31, 2009 and 2008, includes the dilutive effect of a portion of the restricted stock awards granted to employees in August 2007 as these restricted stock awards are considered contingently issuable shares for the purposes of the diluted earnings per share calculation and as of December 31, 2009 and 2008, the vesting conditions in respect of a portion of the awards had been satisfied.

The following table details the weighted average number of outstanding shares used for the calculation of earnings per share for the three and six months ended December 31, 2009 and 2008.

	Three months ended December 31,		**Six months ended December 31,**	
	2009	**2008[1]**	**2009**	**2008[1]**
	000	**000**	**000**	**000**
Weighted average number of outstanding shares of common stock basic	45,378	57,068	47,097	57,550
Weighted average effect of dilutive securities: employee stock options	210	124	157	227
Weighted average number of outstanding shares of common stock diluted	45,588	57,192	47,254	57,777

(1) the weighted average number of outstanding shares have been retrospectively adjusted to conform with the requirements of FSP EITF 03-6-1 (Topic 260).

9. Stock-based compensation

Stock option and restricted stock activity

Options

The following table summarizes stock option activity for the six months ended December 31, 2009, and 2008:

		Number of shares		Weighted average exercise price	Weighted Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value		Weighted Average Grant Date Fair Value
Outstanding	July 1, 2009	1,896,994	$	19.03	8.30	$	1,576		
Exercised		(83,338)		-	-		1,667		
Outstanding	December 31, 2009	1,813,656	$	19.76	7.92		4,195		
Outstanding	July 1, 2008	953,378	$	18.20	7.40		5,813		
Granted under plan		560,000	$	24.46	10.00		-	$	4,017
Exercised		(50,006)		-	-		1,270		
Outstanding	December 31, 2008	1,463,372	$	21.12	8.00	$	1,703		

No stock options became exercisable during the three and six months ended December 31, 2009 and 2008.

No stock options were exercised during the three months ended December 31, 2009 and 2008. During the six months ended December 31, 2009 and 2008, the Company received approximately $0.3 million and $0.2 million, respectively, from stock options exercised and approximately $0.4 million and $0 million from repayment of stock option-related loans. The Company issues new shares to satisfy stock option exercises.

Restricted stock

The following table summarizes restricted stock activity for the six months ended December 31, 2009, and 2008:

		Number of Shares of Restricted Stock	Weighted Average Grant Date Fair Value
Non-vested	July 1, 2009	597,162	-
Granted	August 2009	10,098	$185
Vested		(198,338)	-
Non-vested	December 31, 2009	408,922	-
Non-vested	July 1, 2008	594,782	-
Granted	August 2008	3,474	$85
Non-vested	December 31, 2008	598,256	-

The fair value of restricted stock vested during the six months ended December 31, 2009, was $3.8 million (2008: Nil).

16

9. Stock-based compensation (continued)

Stock-based compensation charge and unrecognized compensation cost

The Company has recorded a stock compensation charge of $1.4 million and $1.3 million for the three months ended December 31, 2009 and 2008, respectively, which comprised:

	Total charge	Allocated to cost of goods sold, IT processing, servicing and support	Allocated to selling, general and administration
Three months ended December 31, 2009			
Stock-based compensation charge	$ 1,431	$ 51	$ 1,380
Total Three months ended December 31, 2009	$ 1,431	$ 51	$ 1,380
Three months ended December 31, 2008			
Stock-based compensation charge	$ 1,346	$ 61	$ 1,285
Total Three months ended December 31, 2008	$ 1,346	$ 61	$ 1,285

The Company has recorded a stock compensation charge of $1.4 million and $2.6 million for the six months ended December 31, 2009 and 2008, respectively, which comprised:

	Total charge	Allocated to cost of goods sold, IT processing, servicing and support	Allocated to selling, general and administration
Six months ended December 31, 2009			
Stock-based compensation charge	$ 2,854	$ 102	$ 2,752
Total Six months ended December 31, 2009	$ 2,854	$ 102	$ 2,752
Six months ended December 31, 2008			
Stock-based compensation charge	$ 2,551	$ 122	$ 2,429
Total Six months ended December 31, 2008	$ 2,551	$ 122	$ 2,429

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

As of December 31, 2009, the total unrecognized compensation cost related to stock options was approximately $5.7 million, which the Company expects to recognize over approximately four and a half years. As of December 31, 2009, the total unrecognized compensation cost related to restricted stock awards was approximately $5.8 million, which the Company expects to recognize over approximately two years.

As of December 31, 2009, the Company has recorded a deferred tax asset of approximately $0.9 million related to the stock-based compensation charge recognized related to employees of Net1 as it is able to deduct the grant date fair value for taxation purposes in the United States.

10. Operating segments

The Company discloses segment information in accordance with FASB SFAS 131, *Disclosures about Segments of an Enterprise and Related Information (Topic 280)*, 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: Transaction-based activities, Smart card accounts, Financial services and Hardware, software and related technology sales. Each segment, other than the Hardware, software and related technology sales segment, operates mainly within South Africa. The Company s reportable segments offer different products and services and require different resources and marketing strategies and share the Company s assets.

10. Operating segments (continued)

The Transaction-based activities segment currently consists mainly of a state pension and welfare benefit distribution service provided to provincial governments in South Africa, transaction processing for retailers, utilities and banks and transaction fees generated from UEPS-enabled smartcards used in Iraq. 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 banks 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 the three and six months ended December 31, 2009, there were three and six such customers, providing 27%, 16% and 10% and 29%, 17% and 11%, respectively, of total revenue (the three and six months ended December 31, 2008: two customers providing 30% and 12%, and 30% and 13%, respectively, of total revenue).

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

The Financial services segment provides short-term loans as a principal and life insurance products on an agency basis and generates interest income and initiation and services fees. Interest income is recognized in the consolidated statement of operations as it falls due, using the interest method by reference to the constant interest rate stated in each loan agreement. The Company sold its traditional microlending business included in this segment on March 1, 2009, and therefore the Financial services segment for the three and six months ended December 31, 2009, comprised only the Company s UEPS-based microlending business.

The Hardware, software and related technology sales segment markets, sells and implements the UEPS as well as develops and provides Prism secure transaction technology, solutions and services. From September 1, 2008, the segment includes the operations of Net1 UAT, which comprise mainly hardware sales and licenses of the DUET system. 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, SIM card licenses and other software 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. Sales to SmartSwitch Nigeria Limited and the related taxation implications are not reflected in revenue to external customers, operating income, income taxation expense or net income after taxation presented in the tables below.

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

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 December 31,		Six months ended December 31,	
	2009	**2008**	**2009**	**2008**
Revenues to external customers				
Transaction-based activities	$ 45,415	$ 32,820	$ 90,393	$ 73,164
Smart card accounts	8,137	6,711	16,211	15,281
Financial services	858	1,430	1,650	3,214
Hardware, software and related technology sales	19,454	20,427	31,124	37,664
Total	73,864	61,388	139,378	129,323
Inter-company revenues				

Transaction-based activities	1,020	783	2,051	1,793
Smart card accounts	-	-	-	-
Financial services	-	-	-	-
Hardware, software and related technology sales	366	1,316	884	2,018
Total	1,386	2,099	2,935	3,811
Operating income				
Transaction-based activities	26,733	17,653	53,401	39,291
Smart card accounts	3,699	3,050	7,369	6,945
Financial services	546	(1,570)	1,077	(1,243)
Hardware, software and related technology sales	1,660	5,493	(53)	9,627
Corporate/Eliminations	(3,219)	(1,821)	(6,007)	(4,537)
Total	$ 29,419	$ 22,805	$ 55,787	$ 50,083

18

10. Operating segments (continued)

	Three months ended December 31,		Six months ended December 31,	
	2009	**2008**	**2009**	**2008**
Interest earned				
Transaction-based activities	$ -	$ -	$ -	$ -
Smart card accounts	-	-	-	-
Financial services	-	-	-	-
Hardware, software and related technology sales	-	-	-	-
Corporate/Eliminations	2,160	5,053	4,807	11,783
Total	2,160	5,053	4,807	11,783
Interest expense				
Transaction-based activities	257	2,007	522	4,203
Smart card accounts	-	-	-	-
Financial services	-	-	1	-
Hardware, software and related technology sales	2	83	4	195
Corporate/Eliminations	8	660	16	1,920
Total	267	2,750	543	6,318
Depreciation and amortization				
Transaction-based activities	963	915	2,444	2,029
Smart card accounts	-	-	-	-
Financial services	128	102	251	215
Hardware, software and related technology sales	3,278	2,952	5,964	4,827
Corporate/Eliminations	295	292	584	613
Total	4,664	4,261	9,243	7,684
Income taxation expense				
Transaction-based activities	7,494	4,699	15,006	10,277
Smart card accounts	1,035	854	2,062	1,944
Financial services	152	74	301	166
Hardware, software and related technology sales	479	1,166	513	2,741
Corporate/Eliminations	2,332	10,206	4,641	11,773
Total	11,492	16,999	22,523	26,901
Net income				
Transaction-based activities	19,039	10,947	38,005	24,813
Smart card accounts	2,663	2,195	5,306	5,000
Financial services	393	(1,645)	774	(1,410)
Hardware, software and related technology sales	1,139	3,895	(594)	6,776
Corporate/Eliminations	(3,950)	12,370	(6,266)	18,827
Total	19,284	27,762	37,225	54,006
Segment assets				

Total		423,765		417,731		423,765		417,731
Expenditures for long-lived assets								
Transaction-based activities		598		160		1,014		2,243
Smart card accounts		-		-		-		-
Financial services		58		41		118		632
Hardware, software and related technology sales		29		238		194		408
Corporate/Eliminations		-		-		-		-
Total	$	685	$	439	$	1,326	$	3,283

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.

11. 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 (Topic 740)*, and FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods (Topic 740)*. 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, if and when applicable, on the opening balance of deferred tax assets and liabilities is also included in the tax charge as a discrete event in the interim period in which the enactment date occurs.

For the three and six months ended December 31, 2009, the tax charge was calculated using the expected effective tax rate for the year (34.55%) . Our effective tax rate for the three and six months ended December 31, 2009, was 36.7% and 37.4%, respectively.

The Company increased its unrecognized tax benefits by $0.1 million and $0.3 million during the three and six months ended December 31, 2009. As of December 31, 2009, the Company had accrued interest related to uncertain tax positions of approximately $0.1 million on its balance sheet.

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

The Company files income tax returns mainly in South Africa, Austria, the Russian Federation and in the US federal jurisdiction. As of December 31, 2009, the Company is no longer subject to income tax examination by the South African Revenue Service for years before December 31, 2005. 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.

12. Subsequent events

In January 2010, the Company acquired 100% of MediKredit Integrated Healthcare Solutions (Pty) Ltd (MediKredit) for ZAR 74 million (approximately $10 million) in cash after all regulatory approvals were obtained. MediKredit is a South African private company that offers transaction processing, financial and clinical risk management solutions to both funders and providers of healthcare. The Company has not concluded the allocation of the purchase price to the acquired assets and liabilities.

On February 5, 2010, the Company s Board of Directors authorized the repurchase of up to $50 million of the Company's common stock. The authorization does not have an expiration date.

The share repurchase authorization will be used at management s discretion, subject to limitations imposed by SEC Rule 10b-18 and other legal requirements and subject to price and other internal limitations established by the Board. Repurchases will be funded from the Company s available cash. Share repurchases may be made through open market purchases, privately negotiated transactions, or both. There can be no assurance that the Company will purchase any shares or any particular number of shares.

The authorization may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, liquidity and other factors that management deems appropriate.

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

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

Forward-looking statements

Some of the statements in this Quarterly Report on Form 10-Q constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. Such factors include, among other things, those listed under Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended June 30, 2009. 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.

Business Developments During Fiscal 2010

South Africa

SASSA update

The South Africa Social Security Agency, or SASSA, has not yet released a request for tender and accordingly we continue to provide our service under the one year extension which expires on March 31, 2010. We continue to believe it likely that SASSA will provide current service providers with an extension, however, we can not accurately predict the period of such extension, if any.

Progress of wage payment implementation

Under our wage payment initiative, we continue to enroll employees at our existing corporate customers as well as pursue business development activities with additional prospects. To support future growth, we are adding and training management and business development staff dedicated to wage payment. We recently appointed a dedicated general manager for our Financial Services Cluster, who will focus exclusively on growing our UEPS-based lending and wage payment initiatives.

Acquisition of MediKredit Integrated Healthcare Solutions (Pty) Limited, or MediKredit

In January 2010, we completed the acquisition of 100% of MediKredit, a South African private company, for a purchase price of ZAR 74 million (approximately $10 million). MediKredit offers transaction processing, financial and clinical risk management solutions to both funders and providers of healthcare.

We believe that MediKredit will provide us the opportunity to expand our technology to another adjacent market and to cross-sell our payment technologies. Management believes that the acquisition is strategically important for the following reasons:

- MediKredit expands our position as the leading independent transaction processor in South Africa. Our market leadership in the merchant processing space (through EasyPay) in South Africa will be complemented by the acquisition of the South African market leader in the healthcare transaction processing space. Management believes that the South African government s stated intention to implement a national health insurance program will create significant opportunities going forward for MediKredit and us. MediKredit has 165 employees and provides its services to approximately 5,000 health care providers in South Africa (90% of total market size), 90 healthcare plans (60% of total market size), 12 healthcare administrators (65% of total market size) and processed 60 million transactions during calendar 2008. MediKredit also owns a globally unique national coding system for all pharmaceutical, surgical and healthcare consumable products, the National Pharmaceutical Product Index, or NAPPI, product suite, which has become the national electronic standard for the transfer of information throughout the healthcare delivery chain in South Africa.
- The acquisition will expand our offering in some of our existing markets like Ghana and Nigeria, where national health insurance schemes have been introduced and where the UEPS platform and installed card base could offer a complete national solution when combined with the MediKredit system.
- MediKredit provides us with a small, strategic entry point for the US healthcare administration market. The rapidly changing US healthcare and administration industry provides a significant opportunity for the introduction of MediKredit s technology. MediKredit s wholly owned subsidiary in the US, XeoHealth Corporation, recently launched its proven Real Time Adjudication rules engine for the health care industry in the US.
- Enhancement of our technology platforms and IT development resources. We both operate similar back-end systems, which require skilled developers and technicians. The addition of MediKredit would significantly broaden our base of qualified development employees.
- Increase in the depth and diversity of our management team with the addition of experienced executives. The MediKredit management team has significant experience in the healthcare industry, which has always been a key focus area and potential market entry point for us.

Outside South Africa

The African Continent and Iraq

During the second quarter of fiscal 2010, we recorded revenue from transaction fees and the delivery of smartcards under our contract with the government of Iraq. During early January 2010, we passed a key milestone in the implementation of this contract by enrolling the one-millionth beneficiary and also received additional orders for 800,000 UEPS-enabled smart cards and 1,500 point of sale devices. We expect to generate ongoing revenues from these sales as well as transaction fees under our Iraqi contract during the third quarter of fiscal 2010. We have entered the second phase of our initiative in Ghana and now generate recurring income in the form of hardware and software maintenance fees.

We continue to service our current customers on the African continent and in Iraq. Our UETS business unit continued its business development efforts in multiple new countries on the African continent during the quarter.

During the second quarter of fiscal 2010, SmartSwitch Namibia generated incremental transaction fees from prepaid airtime and electricity transactions and transactions conducted between merchants and UEPS-enabled smartcards in Namibia. SmartSwitch Botswana generated transaction fees during the second quarter of fiscal 2010 from the payment of food voucher grants and sold hardware to merchants participating in the food voucher program. We expect SmartSwitch Namibia and Botswana to continue generating transaction fees during the third quarter of fiscal 2010.

22

Net 1 Universal Technologies (Austria) AG, or Net1 UAT

BGS Smartcard Systems AG, or BGS, has changed its name to Net1 UAT.

Net1 UAT s operations are seasonal and the first quarter and third quarters are historically its weakest. Growth at Net1 UAT during the second quarter of fiscal 2010 continued to be adversely impacted by our transitioning of its business model from a hardware and software sale-oriented company to one which generates recurring transaction fees, as well as by challenging economic conditions in Eastern Europe. During the second quarter of fiscal 2010, Net1 UAT delivered 20,000 POS devices and PIN pads under its contract with the National Bank of Uzbekistan, or NUTA, and in January 2010 marked its 15th anniversary of the creation of the National Payment System of Uzbekistan UZKART. Net1 UAT continues to pursue further business development opportunities within its geographical markets. For the fiscal third quarter of 2010, we expect revenue from Net1 UAT to decline due to seasonality and weak market conditions.

Net1 Virtual Card

During the second quarter of fiscal 2010, we increased our business development efforts of our Virtual Card offering in the continental United States and surrounding territories and successfully demonstrated, in a live environment, this product to a number of prospective partners, including mobile operators, banks and card associations.

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, 2009.

- Deferred taxation;
- Stock-based compensation;
- Intangible assets acquired through the acquisition of Prism and Net1 UAT;
- Accounts receivable and provision for doubtful debts;
- Research and development; and
- Revenue Recognition System Implementation Projects.

Recent accounting pronouncements adopted

Refer to Note 1 of the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements adopted as of December 31, 2009, 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 December 31, 2009

Refer to Note 1 of the unaudited condensed consolidated financial statements for a full description of recent accounting pronouncements not yet adopted as of December 31, 2009, 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 1	**Three months ended December 31,**		**Six months ended December 31,**		**Year ended June 30,**
	2009	**2008**	**2009**	**2008**	**2009**
ZAR : $ average exchange rate	7.5212	9.9576	7.6741	8.8718	9.0484
Highest ZAR : $ rate during period	8.2035	11.8506	8.3187	11.8506	11.8506
Lowest ZAR : $ rate during period	7.2120	8.2250	7.2120	7.1557	7.1556
Rate at end of period	7.4174	9.4649	7.4174	9.4649	7.8821

Translation exchange rates

We are required to translate our results of operations from ZAR to US dollars on a monthly basis. Thus, the average rates used to translate this data for the three and six months ended December 31, 2009 and 2008, 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 2	**Three months ended December 31,**		**Six months ended December 31,**		**Year ended June 30,**
	2009	**2008**	**2009**	**2008**	**2009**
Income and expense items: $1 = ZAR.	7.5238	9.8291	7.6723	8.8009	8.9397
Balance sheet items: $1 = ZAR	7.4174	9.4649	7.4174	9.4649	7.8821

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 US dollars and are prepared in accordance with US GAAP. Our discussion analyzes our results of operations both in US 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 US dollar and ZAR on our reported results and because we use the US 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. Our results of operations for the three and six months ended December 31, 2008, include the operations of Net1 UAT from September 1, 2008. Net1 UAT s operations are included in our consolidated financial statements for the entire second quarter of fiscal 2010 and 2009 and the first half of fiscal 2010.

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.

Second quarter fiscal 2010 compared to the second quarter of fiscal 2009

The following factors had a significant influence on our results of operations during the second quarter of fiscal 2010 as compared with the same period in the prior year:

- ***Favorable impact from the weakness of the US dollar:*** Emerging market currencies were negatively impacted by the global financial crisis during the last three months of calendar 2008 and the first half of calendar 2009. The US dollar depreciated by 23% compared to the ZAR during the second quarter of fiscal 2010 compared to fiscal 2009 which has had a positive impact on our reported results;
- ***Cost management and improvement in merchant adoption in our pension and welfare operations:*** Our second quarter of fiscal 2010 results were favorably impacted by cost management controls and continued increases in merchant adoption;
- ***Increased transaction volumes at EasyPay:*** Our reported results were favorably impacted by increased transaction volumes at EasyPay resulting from growth in value-added services and higher than expected activity at retailers during the Christmas season;
- ***Increased user adoption in Iraq:*** Our reported results were positively impacted by increased transaction revenues from the adoption of our UEPS technology in Iraq;
- ***Lower revenues and margins from hardware, software and related technology sales segment:*** Our hardware, software and related technology sales segment was adversely impacted by fewer ad hoc sales to the Bank of Ghana, lower revenues and overall margin generated by Net1 UAT and weaker demand for our products as well as pricing pressures resulting from the global recession, but partially offset by hardware sales to Iraq;
- ***Intangible asset amortization related to acquisition:*** Our reported results were adversely impacted by additional intangible asset amortization of approximately $0.5 million related to the RMT acquisition, which closed in April 2009; and
- ***Non-recurring items:*** During the second quarter of fiscal 2009 we recognized a foreign exchange gain of $20.6 million (ZAR 202.3 million) resulting from an asset swap arrangement and we impaired goodwill with a value of $1.8 million (ZAR 18.0 million).

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 US dollars and in ZAR:

Table 3

	In United States Dollars (US GAAP) Three months ended December 31,		
	2009 $ 000	2008 $ 000	$ % change
Revenue	73,864	61,388	20%
Cost of goods sold, IT processing, servicing and support	20,915	17,175	22%
Selling, general and administration	18,866	15,311	23%
Depreciation and amortization	4,664	4,261	9%
Impairment of goodwill	-	1,836	
Operating income	29,419	22,805	29%
Unrealized foreign exchange gain related to short-term investment	-	20,581	
Interest income, net	1,893	2,303	(18)%
Income before income taxes	31,312	45,689	(31)%
Income tax expense	11,492	16,999	(32)%
Net income before loss from equity-accounted investments	19,820	28,690	(31)%
Loss from equity-accounted investments	(270)	(226)	19%
Net income	19,550	28,464	(31)%
(Add) Less: net (loss) income attributable to non-controlling interest	266	702	(62)%
Net income attributable to us	19,284	27,762	(31)%

Table 4

	In South African Rand (US GAAP) Three months ended December 31,		
	2009 ZAR 000	2008 ZAR 000	ZAR % change
Revenue	555,738	603,387	(8)%
Cost of goods sold, IT processing, servicing and support	157,359	168,815	(7)%
Selling, general and administration	141,944	150,493	(6)%
Depreciation and amortization	35,091	41,881	(16)%
Impairment of goodwill	-	18,046	
Operating income	221,344	224,152	(1)%
Unrealized foreign exchange gain related to short-term investment	-	202,292	
Interest income, net	14,243	22,636	(37)%
Income before income taxes	235,587	449,080	(48)%
Income tax expense	86,464	167,084	(48)%
Net income before loss from equity-accounted investments	149,123	281,996	(47)%
Loss from equity-accounted investments	(2,031)	(2,221)	(9)%
Net income	147,092	279,775	(47)%
(Add) Less: net (loss) income attributable to non-controlling interest	2,001	6,900	(71)%
Net income attributable to us	145,091	272,875	(47)%

Analyzed in ZAR, the decrease in revenue and cost of goods sold, IT processing, servicing and support for the second quarter of fiscal 2010, was primarily due to lower sales of hardware, software and related technologies, which was partially offset by higher revenues in our transaction-based activities operating segment.

Our operating income margin for the second quarter of fiscal 2010 increased to 40% from 37% for the second quarter of fiscal 2009. We discuss the components of the operating income margin under Results of operations by operating segment .

Analyzed in ZAR, selling, general and administration expenses decreased during the second quarter of fiscal 2010 primarily due to fewer regulatory and consulting fees incurred during fiscal 2010. Selling, general and administration expenses include the stock-based compensation charge related to the stock options awarded in the May 2009 and restricted stock granted in August 2009.

Our direct costs of maintaining a listing on Nasdaq and obtaining a listing on the JSE, as well as compliance with the Sarbanes-Oxley Act of 2002, or Sarbanes, particularly Section 404 of Sarbanes, includes independent directors fees, legal fees, fees paid to Nasdaq and the JSE, our compliance officer s salary, fees paid to consultants who assist with Sarbanes compliance and fees paid to our independent accountants related to the audit and review process. This has resulted in expenditures of $0.5 million (ZAR 3.7 million) and $0.4 million (ZAR 4.3 million) during the second quarter of fiscal 2010 and 2009, respectively.

Depreciation and amortization and deferred tax expenses increased during fiscal 2010 primarily as a result of the RMT acquisition, as summarized in the tables below:

Table 5	**Three months ended December 31,**	
	2009	**2008**
	$ 000	**$ 000**
Amortization included in depreciation and amortization expense:	3,436	3,157
Prism acquisition	429	1,012
RMT acquisition	530	-
Net1 UAT acquisition	2,477	2,145
Deferred tax included in income tax expense:	912	881
Prism acquisition	144	344
RMT acquisition	148	-
Net1 UAT acquisition	620	537

Table 6	**Three months ended December 31,**	
	2009	**2008**
	ZAR 000	**ZAR 000**
Amortization included in depreciation and amortization expense:	25,849	31,034
Prism acquisition	3,229	9,951
RMT acquisition	3,984	-
Net1 UAT acquisition	18,636	21,083
Deferred tax included in income tax expense:	6,862	8,663
Prism acquisition	1,081	3,385
RMT acquisition	1,116	-
Net1 UAT acquisition	4,665	5,278

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. Through December 31, 2009, we were in an extension phase with all our contracts thus and the majority of our property, plant and equipment related to the administration and distribution of social welfare grants had been fully depreciated in prior periods. Accordingly, depreciation expense related to these activities decreased during the second quarter of fiscal 2010 compared with the second quarter of fiscal 2009. This reduction in depreciation was partially offset by the increase in depreciation related to new back-end processing computers and our participating merchant POS terminals.

The foreign exchange gain during fiscal 2009 resulted from an asset swap arrangement (in the form of a 32-day call account instrument) that we entered into in connection with the short-term bank financing we obtained to fund the Net1 UAT acquisition. The call account instrument was repaid to us with accrued interest on October 16, 2008.

Interest on surplus cash for the second quarter of fiscal 2010 decreased to $2.2 million (ZAR 16.3 million) from $5.1 million (ZAR 50.0 million) for the second quarter of fiscal 2009. The decrease in interest on surplus cash held in

South Africa was due to a lower average daily ZAR cash balance during the second quarter of fiscal 2010 compared with the second quarter of fiscal 2009 and lower deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 15.39% per annum for the second quarter of fiscal 2009 to 10.50% per annum for the second quarter of fiscal 2010. The lower cash balances resulted primarily from our repurchase of our shares from Brait S.A s investment affiliates in August 2009.

Included in interest expense is the facility fee of approximately $0.4 million (ZAR 3.5 million) that we paid to the lender under the short-term loan facility we obtained to fund the Net1 UAT acquisition and approximately $0.3 million (ZAR 3.2 million) interest on the short-term loan facility. Excluding the impact of this facility fee and the interest on the short-term loan facility, interest expense decreased during the second quarter of fiscal 2010 due to a decrease in the average rates of interest on our short-term facilities and the elimination of our obligation to provide prefunded social welfare grants to provincial governments. In ZAR, excluding the impact of the facility fee, finance costs decreased to $0.3 million (ZAR 2.0 million) for the second quarter of fiscal 2010 from $2.1 million (ZAR 20.3 million) for the second quarter of fiscal 2009.

Total tax expense for the second quarter of fiscal 2010 was $11.5 million (ZAR 86.5 million) compared with $17.0 million (ZAR 167.0 million) during the same period in the prior fiscal year. Our total tax expense decreased, primarily due to the foreign exchange gain discussed above. Our effective tax rate for the second quarter of fiscal 2010 was 36.7%, compared to 37.2% for the second quarter of fiscal 2009. The change in our effective tax rate was primarily due to a decrease in non-deductible expenses during the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009.

Results of operations by operating segment

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

Table 7

	In United States Dollars (US GAAP) **Three months ended December 31,**				
Operating Segment	**2009 $ 000**	**% of $total**	**2008 $ 000**	**% of total**	**% change**
Consolidated revenue:					
Transaction-based activities	45,415	61%	32,820	53%	38%
Smart card accounts	8,137	11%	6,711	11%	21%
Financial services	858	1%	1,430	2%	(40)%
Hardware, software and related technology sales	19,454	27%	20,427	34%	(5)%
Total consolidated revenue	73,864	100%	61,388	100%	20%
Consolidated operating income (loss):					
Transaction-based activities	26,733	91%	17,653	77%	51%
Operating income before amortization	27,540		17,981		53%
Amortization of intangible assets	(807)		(328)		146%
Smart card accounts	3,699	13%	3,050	13%	21%
Financial services	546	2%	(1,570)	(7)%	(135)%
Operating income before impairment of goodwill	546		266		105%
Impairment of goodwill	-		(1,836)		
Hardware, software and related technology sales	1,660	6%	5,493	24%	(70)%
Operating income before amortization	4,289		8,322		(48)%
Amortization of intangible assets	(2,629)		(2,829)		(7)%
Corporate/eliminations	(3,219)	(12)%	(1,821)	(7)%	77%
Total consolidated operating income	29,419	100%	22,805	100%	29%

28

Table 8	*In South African Rand (US GAAP)* Three months ended December 31,				
	2009		2008		
Operating Segment	**ZAR 000**	**% of total**	**ZAR 000**	**% of total**	**% change**
Consolidated revenue:					
Transaction-based activities	341,694	61%	322,590	53%	6%
Smart card accounts	61,221	11%	65,963	11%	(7)%
Financial services	6,455	1%	14,056	2%	(54)%
Hardware, software and related technology sales	146,368	27%	200,778	34%	(27)%
Total consolidated revenue	555,738	100%	603,387	100%	(8)%
Consolidated operating income (loss):					
Transaction-based activities	201,134	91%	173,513	77%	16%
Operating income before amortization	207,206		176,742		17%
Amortization of intangible assets	(6,072)		(3,229)		88%
Smart card accounts	27,831	13%	29,979	13%	(7)%
Financial services	4,108	2%	(15,432)	(7)%	(127)%
Operating income before impairment of goodwill	4,108		2,614		57%
Impairment of goodwill	-		(18,046)		
Hardware, software and related technology sales	12,490	6%	53,991	24%	(77)%
Operating income before amortization	32,268		81,796		(61)%
Amortization of intangible assets	(19,778)		(27,805)		(29)%
Corporate/eliminations	(24,219)	(12)%	(17,899)	(7)%	35%
Total consolidated operating income	221,344	100%	224,152	100%	(1)%

Transaction-based activities

In ZAR, the increases in revenue were primarily due to increased transaction volumes at EasyPay and a modest contribution from our pension and welfare operations.

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

Operating income margin of our transaction-based activities increased to 59% from 54%. The increase was due primarily to cost management in our pension and welfare operations, increased transaction fees from the utilization of our UEPS system in Iraq and improved margins at EasyPay.

***Pension and welfare operations*:**

Our contract extension commenced on April 1, 2009, and expires on March 31, 2010. The new contract contains a standard pricing formula for all provinces based on a transaction fee per beneficiary paid regardless of the number or amount of grants paid per beneficiary, calculated on a guaranteed minimum number of beneficiaries per month. Under our previous contracts, depending on the province, we received either a fee per grant distributed, or per beneficiary paid, or as a percentage of the total grant amount distributed. In addition, commencing with the May 2009 pay cycle, SASSA has assumed responsibility for the pre-funding of all social welfare grants. Our average revenue per beneficiary paid will therefore remain unchanged during the current contract period. From time to time, we are requested to assist with the payment of ad-hoc special grants or benefits (such as disaster relief payments), which may be at a different rate than the standard welfare distribution price. We also receive a once-off registration fee for every new beneficiary we enroll on our system.

Key statistics of our merchant acquiring system:

The increase in the number of POS devices and number of participating UEPS retail locations since December 31, 2008, is due to increased rental or purchase of POS devices by current merchants requesting additional equipment and new merchants joining our UEPS merchant acquiring system.

The key statistics and indicators of our merchant acquiring system during the second quarter of fiscal 2010 and 2009, in each of the South African provinces where we distribute social welfare grants are summarized in the table below:

Table 9	**Three months ended December 31,**	
	2009	**2008**
Province included (1)	NC, EC, KZN, L and NW	NC, EC, KZN, L and NW
Total POS devices installed	4,670	4,182
Number of participating UEPS retail locations	2,547	2,385
Value of transactions processed through POS devices during the quarter (2) (in $ 000)	372,041	269,425
Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in $ 000)	367,998	253,967
Value of transactions processed through POS devices during the quarter (2) (in ZAR 000)	2,798,201	2,550,082
Value of transactions processed through POS devices during the completed pay cycles for the quarter (3) (in ZAR 000)	2,767,792	2,496,496
Number of grants paid through POS devices during the quarter (2)	4,569,316	4,383,642
Number of grants paid through POS devices during the completed pay cycles for the quarter (3)	4,506,829	4,328,107
Average number of grants processed per terminal during the quarter (2) .	994	1,050
Average number of grants processed per terminal during the completed pay cycles for the quarter (3)	980	1,036

(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.

EasyPay transaction fees:

During the second quarter of fiscal 2010 and 2009, EasyPay processed 173 million and 156 million transactions with an approximate value of $5.2 billion (ZAR 39.2 billion) and $3.7 billion (ZAR 36.2 billion), respectively. The increase in transaction volumes results from more value-added services processed by EasyPay during the second quarter of fiscal 2010 compared with 2009 and stronger than expected retail spending during the Christmas season. The average fee per transaction during the second quarter of fiscal 2010 and 2009, was $0.03 (ZAR 0.21) and $0.02 (ZAR 0.21), respectively. We expect transaction volumes to increase as a result of higher value-added services processed by EasyPay during the third quarter of fiscal 2010 compared with fiscal 2009. In ZAR, we do not expect a significant fluctuation in the average fee per transaction during the third quarter of fiscal 2010.

Operating income margin generated by EasyPay during the second quarter of fiscal 2010 and 2009, were 52% and 47%, 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. Certain EasyPay intangible assets were fully amortized at the end of fiscal 2009. Accordingly, our results for the second quarter of fiscal 2010 includes less EasyPay intangible asset amortization compared with fiscal 2009 which has resulted in a higher operating income margin at EasyPay.

Amortization of EasyPay intangible assets during the second quarter of fiscal 2010 and 2009, of $0.3 million (ZAR 2.1 million) and $0.3 million (ZAR 3.2 million), respectively, is included in the calculation of EasyPay operating margins. Operating income margin before amortization of EasyPay intangible assets during the second quarter of fiscal 2010 and 2009 was 58% and 57%, respectively.

Smart card accounts

In ZAR, revenue from the provision of smart card-based accounts decreased in proportion to the lower number of beneficiaries serviced through our SASSA contract. A total number of 3,680,888 smart card-based accounts were active at December 31, 2009, compared to 4,061,100 active accounts as at December 31, 2008. The decrease in the number of active accounts resulted from the suspension and removal of invalid or fraudulent grants by SASSA.

Operating income margin from providing smart card accounts was constant at 45% for the second quarter of fiscal 2010 and 2009.

Financial services

On March 1, 2009, we sold our traditional microlending business to Finbond, and therefore our segment results for the second quarter of fiscal 2010 do not include any revenue or loss from this business.

Revenue from UEPS-based lending decreased primarily due to the lower number of loans granted. In addition, on average, the return on these UEPS-based loans was lower. 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 recorded a goodwill impairment of $1.8 million during the second quarter of fiscal 2009 as a result of deteriorating trading conditions of this operating segment and from our strategic decision not to grow our traditional microlending business.

Operating income margin before goodwill impairment for the financial services segment increased to 64% for the second quarter of fiscal 2010 from 21% for the second quarter of fiscal 2009 primarily due to sale of the traditional microlending business, which had an overall lower operating income margin compared with UEPS-based lending.

Hardware, software and related technology sales

The table below presents the contribution of Net1 UAT to our revenue and operating income during the second quarter of fiscal 2010 and 2009:

Table 10	**Three months ended December 31,**	
	2009	**2008**
	000	**000**
Revenue	19,454	20,427
Hardware, software and related technology sales excluding Net1 UAT	10,762	9,883
Net1 UAT	8,692	10,544
Operating income before amortization of intangible assets	4,289	8,322
Operating income	1,660	5,493
Hardware, software and related technology sales excluding Net1 UAT	2,042	2,733
Net1 UAT	(382)	2,760
Net1 UAT excluding amortization of acquisition related intangible assets	2,095	4,905
Amortization of acquisition related intangible assets	(2,477)	(2,145)

Table 11	**Three months ended December 31,**	
	2009	**2008**
	ZAR 000	**ZAR 000**
Revenue	146,368	200,778
Hardware, software and related technology sales excluding Net1 UAT	80,971	97,140
Net1 UAT	65,397	103,638
Operating income before amortization of intangible assets	32,268	81,796

Operating income	12,490	53,991
Hardware, software and related technology sales excluding Net1 UAT	15,365	26,862
Net1 UAT	(2,875)	27,129
Net1 UAT excluding amortization of acquisition related intangible assets	15,762	48,212
Amortization of acquisition related intangible assets	(18,637)	(21,083)

In ZAR, the decrease in revenue was primarily due to lower revenues at Net1 UAT and lower ad hoc hardware and software development sales in 2010 as compared with the prior year when we recorded revenue from sales under our Ghana contract, offset marginally by increase hardware sales to Iraq. In addition, our revenues in ZAR are further impacted by the depreciation of the USD against the ZAR as sales to customers in Europe, Ghana and Iraq are primarily denominated in USD. In ZAR, the decrease in operating income was primarily due to amortization of Net1 UAT intangible assets and lower sales activity.

Amortization of Prism intangible assets during the second quarter of fiscal 2010 and 2009 was approximately $0.2 million (ZAR 1.1 million) and $0.7 million (ZAR 6.7 million), respectively, and reduced our operating income.

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

Corporate/eliminations

The increase in our losses in this segment resulted from increases in corporate head office-related expenditure, including the effects of the increase in inflation in South Africa and stock-based compensation charges.

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

First half of fiscal 2010 compared to the first half of fiscal 2009

The following factors had a significant influence on our results of operations during the first half of fiscal 2010 as compared with the same period in the prior year:

- ***Favorable impact from the weakness of the US dollar:*** The US dollar depreciated by 13% compared to the ZAR during the first half of fiscal 2010 compared to fiscal 2009 which has had a positive impact on our reported results;
- ***Improved revenue and operating income from pension and welfare business:*** Our first half of fiscal 2010 results were favorably impacted by increased revenues and operating income resulting from an inflation-adjusted fixed fee for the distribution of a minimum number of social welfare grants and ad hoc grants distributed on behalf of the South African government during the first quarter of fiscal 2010. In addition, our first half of fiscal 2010 results were favorably impacted by cost management controls and continued increases in merchant adoption;
- ***Increased transaction volumes at EasyPay:*** Our reported results were positively impacted by increased transaction volumes at EasyPay resulting from growth in value-added services and higher than expected activity at retailers during the Christmas season;
- ***Increased user adoption in Iraq:*** Our reported results were favorably impacted by increased transaction revenues from the adoption of our UEPS technology in Iraq;
- ***Lower revenues and margins from hardware, software and related technology sales segment:*** Our hardware, software and related technology sales segment was adversely impacted by fewer ad hoc sales to the Bank of Ghana, lower revenues and overall margin generated by Net1 UAT and weaker demand for our

products as well as pricing pressures resulting from the global recession in calendar 2009, but partially offset by hardware sales to Iraq;

- ***Intangible asset amortization related to acquisition:*** Our reported results were adversely impacted by additional intangible asset amortization of approximately $1.0 million related to the RMT acquisition, which closed in April 2009; and
- ***Non-recurring items:*** During the first half of fiscal 2009 we recognized a foreign exchange gain of $26.7 million (ZAR 234.6 million) resulting from an asset swap arrangement and we impaired goodwill with a value of $1.8 million.

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 US dollars and in ZAR:

Table 12

	In United States Dollars (US GAAP) Six months ended December 31,		
	2009 $ 000	2008 $ 000	% change
Revenue	139,378	129,323	8%
Cost of goods sold, IT processing, servicing and support	37,742	36,411	4%
Selling, general and administration	36,606	33,309	10%
Depreciation and amortization	9,243	7,684	20%
Impairment of goodwill	-	1,836	
Operating income	55,787	50,083	11%
Unrealized foreign exchange gain related to short-term investment	-	26,657	
Interest income, net	4,264	5,465	(22)%
Income before income taxes	60,051	82,205	(27)%
Income tax expense	22,523	26,901	(16)%
Net income before loss from equity-accounted investments	37,528	55,304	(32)%
Loss from equity-accounted investments	(381)	(536)	(29)%
Net income	37,147	54,768	(32)%
(Add) Less: net (loss) income attributable to non-controlling interest	(78)	762	(110)%
Net income attributable to us	37,225	54,006	(31)%

Table 13

	In South African Rand (US GAAP) Six months ended December 31,		
	2009 ZAR 000	2008 ZAR 000	ZAR % change
Revenue	1,069,347	1,138,155	(6)%
Cost of goods sold, IT processing, servicing and support	289,567	320,448	(10)%
Selling, general and administration	280,851	293,149	(4)%
Depreciation and amortization	70,915	67,626	5%
Impairment of goodwill	-	16,158	
Operating income	428,014	440,774	(3)%
Unrealized foreign exchange gain related to short-term investment	-	234,606	
Interest income, net	32,715	48,097	(32)%
Income before income taxes	460,729	723,477	(36)%
Income tax expense	172,803	236,752	(27)%
Net income before loss from equity-accounted investments	287,926	486,725	(41)%
Loss from equity-accounted investments	(2,923)	(4,717)	(38)%
Net income	285,003	482,008	(41)%
	(598)	6,706	

(Add) Less: net (loss) income attributable to non-controlling interest			
Net income attributable to us	285,601	475,302	(40)%

Analyzed in ZAR, the decrease in revenue and cost of goods sold, IT processing, servicing and support for the first half of fiscal 2010, was primarily due to lower sales of hardware, software and related technologies, which was partially offset by higher revenues in our transaction-based activities operating segment.

Our operating income margin for the first half of fiscal 2010 increased to 40% from 39% for the first half of fiscal 2009. We discuss the components of the operating income margin under Results of operations by operating segment .

33

In ZAR, selling, general and administration expenses decreased during the first half of fiscal 2010 due to fewer regulatory and consulting fees incurred during fiscal 2010 and the JSE Limited listing costs of approximately $0.5 million incurred during fiscal 2009. Selling, general and administration expenses include the stock-based compensation charge related to the stock options awarded in the May 2009 and restricted stock granted in August 2009.

Our direct costs of maintaining a listing on Nasdaq and obtaining a listing on the JSE, as well as compliance with the Sarbanes-Oxley Act of 2002, or Sarbanes, particularly Section 404 of Sarbanes, includes independent directors fees, legal fees, fees paid to Nasdaq and the JSE, our compliance officer s salary, fees paid to consultants who assist with Sarbanes compliance, fees paid to our independent accountants related to the audit and review process and, during fiscal 2009, fees paid to our consultants and advisors assisting with the JSE listing. This has resulted in expenditures of $1.2 million (ZAR 8.8 million) and $1.3 million (ZAR 11.8 million) during the first half of fiscal 2010 and 2009, respectively.

Depreciation and amortization and deferred tax expenses increased during fiscal 2010 primarily as a result of the RMT acquisition, as summarized in the tables below:

Table 14	**Six months ended December 31,**	
	2009	**2008**
	$ 000	**$ 000**
Amortization included in depreciation and amortization expense:	6,759	5,272
Prism acquisition	842	2,261
RMT acquisition	1,044	-
Net1 UAT acquisition	4,873	3,011
Deferred tax included in income tax expense:	1,795	1,523
Prism acquisition	282	769
RMT acquisition	292	-
Net1 UAT acquisition	1,221	754

Table 15	**Six months ended December 31,**	
	2009	**2008**
	ZAR 000	**ZAR 000**
Amortization included in depreciation and amortization expense:	51,852	46,401
Prism acquisition	6,457	19,902
RMT acquisition	8,008	-
Net1 UAT acquisition	37,387	26,499
Deferred tax included in income tax expense:	13,772	13,406
Prism acquisition	2,162	6,770
RMT acquisition	2,242	-
Net1 UAT acquisition	9,368	6,636

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. Through December 31, 2009, we were in an extension phase with all our contracts thus and the majority of our property, plant and equipment related to the administration and distribution of social welfare grants had been fully depreciated in prior periods. Accordingly, depreciation expense related to these activities decreased during the first half of fiscal 2010 compared with the first half of fiscal 2009. This reduction in depreciation was partially offset by the increase in depreciation related to new back-end processing computers and our participating merchant POS terminals.

We recognized a foreign exchange gain of $26.7 million (ZAR 234.6 million) during the first half of fiscal 2009 resulting from an asset swap arrangement we entered into in August 2008.

Interest on surplus cash for the first half of fiscal 2010 decreased to $4.9 million (ZAR 36.9 million) from $11.8 million (ZAR 103.7 million) for the first half of fiscal 2009. The decrease in interest on surplus cash held in South Africa was due to a lower average daily ZAR cash balance during the first half of fiscal 2010 compared with the first half of fiscal 2009 and lower deposit rates resulting from the adjustment in the South African prime interest rate from an average of approximately 15.45% per annum for the first half of fiscal 2009 to 10.62% per annum for the first half of fiscal 2010. The lower cash balances resulted primarily from our repurchase of our shares from Brait S.A s investment affiliates in August 2009.

Included in interest expense for the first half of fiscal 2009 is the facility fee of approximately $1.1 million (ZAR 9.7 million) that we paid to the lender under the short-term loan facility we obtained to fund the Net1 UAT acquisition and approximately $0.8 million (ZAR 7.3 million) interest on the short-term loan facility. Excluding the impact of this facility fee and the interest on the short-term loan facility, interest expense decreased during the first half of fiscal 2010 due to a decrease in the average rates of interest on our short-term facilities and the elimination of our obligation to provide prefunded social welfare grants to provincial governments. In ZAR, excluding the impact of the facility fee, finance costs decreased to $0.5 million (ZAR 4.2 million) for the first half of fiscal 2010 from $4.4 million (ZAR 38.7 million) for the first half of fiscal 2009.

Total tax expense for the first half of fiscal 2010 was $22.5 million (ZAR 172.8 million) compared with $26.9 million (ZAR 236.8 million) during the same period in the prior fiscal year. Deferred tax assets and liabilities are measured utilizing the enacted fully distributed tax rate. Accordingly, a reduction in the fully distributed tax rate from 35.45% to 34.55% results in lower deferred tax assets and liabilities and the net change of $3.5 million (ZAR 26.5 million) is included in our income tax expense in our unaudited condensed consolidated statement of operations for the first half of fiscal 2009. Our total tax expense decreased primarily due to the foreign exchange gain discussed above. Our effective tax rate for the first half of fiscal 2010 was 37.5%, compared to 32.7% for the first half of fiscal 2009. The change in our effective tax rate was primarily due to reduction in our fully distributed tax rate to 34.55% during fiscal 2009, offset by an increase in non-deductible expenses, including stock-based compensation charges and legal fees, during the first half of fiscal 2010 compared to the first half of fiscal 2009.

Results of operations by operating segment

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

Table 16 — ***In United States Dollars (US GAAP)*** **Six months ended December 31,**

Operating Segment	**2009 $ 000**	**% of total**	**2008 $ 000**	**% of total**	**% change**
Consolidated revenue:					
Transaction-based activities	90,393	65%	73,164	57%	24%
Smart card accounts	16,211	12%	15,281	12%	6%
Financial services	1,650	1%	3,214	2%	(49)%
Hardware, software and related technology sales	31,124	22%	37,664	29%	(17)%
Total consolidated revenue	139,378	100%	129,323	100%	8%
Consolidated operating income (loss):					
Transaction-based activities	53,401	96%	39,291	78%	36%
Operating income before amortization	54,989		40,025		37%
Amortization of intangible assets	(1,588)		(734)		116%
Smart card accounts	7,369	13%	6,945	14%	6%
Financial services	1,077	2%	(1,243)	(2)%	(187)%
Operating income before impairment of goodwill	1,077		593		82%
Impairment of goodwill	-		(1,836)		
Hardware, software and related technology sales	(53)	-%	9,627	19%	(101)%
Operating income before amortization	5,118		14,165		(64)%
Amortization of intangible assets	(5,171)		(4,538)		14%
Corporate/eliminations	(6,007)	(11)%	(4,537)	(9)%	32%
Total consolidated operating income	55,787	100%	50,083	100%	11%

35

Table 17	*In South African Rand (US GAAP)* Six months ended December 31,				
	2009		2008		
	ZAR	% of	ZAR	% of	%
Operating Segment	**000**	**total**	**000**	**total**	**change**
Consolidated revenue:					
Transaction-based activities	693,521	65%	643,907	57%	8%
Smart card accounts	124,375	12%	134,486	12%	(8)%
Financial services	12,659	1%	28,286	2%	(55)%
Hardware, software and related technology sales	238,792	22%	331,476	29%	(28)%
Total consolidated revenue	1,069,347	100%	1,138,155	100%	(6)%
Consolidated operating income (loss):					
Transaction-based activities	409,708	96%	345,795	78%	18%
Operating income before amortization	421,891		352,252		20%
Amortization of intangible assets	(12,183)		(6,457)		89%
Smart card accounts	56,537	13%	61,122	14%	(8)%
Financial services	8,263	2%	(10,939)	-2%	(176)%
Operating income before impairment of goodwill	8,263		5,219		58%
Impairment of goodwill	-		(16,158)		
Hardware, software and related technology sales	(407)	-%	84,726	19%	(100)%
Operating income before amortization	39,262		124,670		(69)%
Amortization of intangible assets	(39,669)		(39,944)		(1)%
Corporate/eliminations	(46,087)	(11)%	(39,930)	(9)%	15%
Total consolidated operating income	428,014	100%	440,774	100%	(3)%

Transaction-based activities

In ZAR, the increases in revenue were primarily due to our inflation-adjusted fixed fee, ad hoc grants distributed on behalf of the South African government as well as increased transaction volumes at EasyPay. We discuss these factors in more detail below.

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

Operating income margin of our transaction-based activities increased to 59% from 54%. The increase was due primarily to inflation-adjusted fixed fee for the distribution of a minimum number of social welfare grants and ad hoc grants distributed on behalf of the South African government, increased transaction fees from the utilization of our UEPS system in Iraq and improved margins at EasyPay.

***Pension and welfare operations*:**

Refer to discussion under Second quarter of fiscal 2010 compared to the second quarter of fiscal 2009 Results of operations by operating segment Transaction-based activities Pension and welfare operations.

During the first quarter of fiscal 2010 we paid ad hoc grants on behalf of the South Africa government which resulted in higher revenue and operating income during the first half of 2010 compared with 2009.

Continued adoption of our merchant acquiring system:

Refer to discussion under Second quarter of fiscal 2010 compared to the second quarter of fiscal 2009 Results of operations by operating segment Transaction-based activities Key statistics of our merchant acquiring system.

EasyPay transaction fees:

During the first half of fiscal 2010 and 2009, EasyPay processed 326 million and 291 million transactions with an approximate value of $9.4 billion (ZAR 72.1 billion) and $7.7 billion (ZAR 67.9 billion), respectively. The increase in transaction volumes results from more value-added services processed by EasyPay during the first half of fiscal 2010 compared with 2009.The average fee per transaction during each of the first half of fiscal 2010 and 2009, was $0.03 (ZAR 0.22) .

Operating income margin generated by EasyPay during the first half of fiscal 2010 and 2009, were 50% and 45%, 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. Certain EasyPay intangible assets were fully amortized at the end of fiscal 2009. Accordingly, our results for the first half of fiscal 2010 includes less EasyPay intangible asset amortization compared with fiscal 2009 which has resulted in a higher operating income margin at EasyPay.

Amortization of EasyPay intangible assets during the first half of fiscal 2010 and 2009, of \$0.5 million (ZAR 4.2 million) and \$0.7 million (ZAR 6.5 million), respectively, is included in the calculation of EasyPay operating margins. Operating income margin before amortization of EasyPay intangible assets during each of the first half of fiscal 2010 and 2009 was 56% and 55%, respectively.

Smart card accounts

In ZAR, revenue from the provision of smart card-based accounts decreased in proportion to the lower number of beneficiaries serviced through our SASSA contract. A total number of 3,680,888 smart card-based accounts were active at December 31, 2009, compared to 4,061,100 active accounts as at December 31, 2008. The decrease in the number of active accounts resulted from the suspension and removal of invalid or fraudulent grants by SASSA.

Operating income margin from providing smart card accounts was constant at 45% for the first half of fiscal 2010 and 2009.

Financial services

On March 1, 2009, we sold our traditional microlending business to Finbond, and therefore our segment results for the first half of fiscal 2010 do not include any revenue or loss from this business.

Revenue from UEPS-based lending decreased primarily due to the lower number of loans granted. In addition, on average, the return on these UEPS-based loans was lower. 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 recorded a goodwill impairment of \$1.8 million during the first half of fiscal 2009 as a result of deteriorating trading conditions of this operating segment and from our strategic decision not to grow the business.

Operating income margin before goodwill impairment for the financial services segment increased to 65% for the first half of fiscal 2010 from 26% for the first half of fiscal 2009 primarily due to sale of the traditional microlending business, which had an overall lower operating income margin compared with UEPS-based lending.

Hardware, software and related technology sales

Operating results include Net1 UAT for the entire first half of fiscal 2010 and from September 1, 2008, for the first half of fiscal 2009. The table below presents the contribution of Net1 UAT to our revenue and operating income during the first half of fiscal 2010 and 2009:

Table 18	**Six months ended December 31,**	
	2009	**2008**
	\$ 000	**\$ 000**
Revenue	31,124	37,664
Hardware, software and related technology sales excluding Net1 UAT	21,384	26,055

Net1 UAT	9,740	11,609
Operating income before amortization of intangible assets	5,118	14,165
Operating income	(53)	9,627
Hardware, software and related technology sales excluding Net1 UAT	4,074	7,321
Net1 UAT	(4,127)	2,306
Net1 UAT excluding amortization of acquisition related intangible assets	746	5,317
Amortization of acquisition related intangible assets	(4,873)	(3,011)

Table 19	**Six months ended December 31,**	
	2009	**2008**
	ZAR 000	**ZAR 000**
Revenue	238,792	331,476
Hardware, software and related technology sales excluding Net1 UAT	164,064	229,307
Net1 UAT	74,728	102,169
Operating income before amortization of intangible assets	39,262	124,670
Operating income	(407)	84,726
Hardware, software and related technology sales excluding Net1 UAT	31,256	64,431
Net1 UAT	(31,663)	20,295
Net1 UAT excluding amortization of acquisition related intangible assets	5,724	46,794
Amortization of acquisition related intangible assets	(37,387)	(26,499)

In ZAR, the decrease in revenue was primarily due to lower revenues at Net1 UAT and software development sales in 2009 from sales under our Ghana contract, offset marginally by increase hardware sales to Iraq. In addition, our revenues in ZAR are further impacted by the depreciation of the USD against the ZAR as sales to customers in Europe, Ghana and Iraq are primarily denominated in USD. In ZAR, the decrease in operating income was primarily due to amortization of Net1 UAT intangible assets and lower sales activity.

During the first half of fiscal 2010 and 2009, we delivered hardware, including smart cards and terminals, to the Bank of Ghana and recognized revenue of approximately $2.3 million (ZAR 17.9 million) and $7.3 million (ZAR 63.4 million), respectively.

During the first half of fiscal 2009 we recognized revenue of $2.5 million (ZAR 19.5 million) from sales of hardware to Nedbank. Sales to Nedbank occur on an ad hoc basis and there were no significant sales during the first half of fiscal 2010.

Amortization of Prism intangible assets during the first half of fiscal 2010 and 2009, respectively, was approximately $0.3 million (ZAR 2.3 million) and $1.5 million (ZAR 13.4 million), respectively, and reduced our operating income.

Corporate/eliminations

The increase in our losses in this segment resulted from increases in corporate head office-related expenditure, including the effects of the increase in inflation in South Africa and stock-based compensation charges.

Our operating loss includes expenditure related to compliance with Sarbanes; non-executive directors fees; employee and executive salaries and bonuses; stock-based compensation; legal and audit 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 December 31, 2009, our cash balances were $152.9 million, which comprised mainly ZAR-denominated balances of ZAR 962.5 million ($129.8 million), US dollar-denominated balances of $12.7 million and other currency deposits, primarily euro, of $10.4 million. Our cash balances decreased from June 30, 2009, levels mainly as a result of the repurchase of our common stock from Brait S.A. and its investment entities affiliates, which decrease was offset by cash generated by operating activities. In January 2010, we paid approximately $10.0 million (ZAR 74.0 million) to acquire the outstanding claims in and 100% of the outstanding issued share capital in MediKredit.

On February 5, 2010, our Board of Directors authorized the repurchase of up to $50 million of our common stock. The authorization does not have an expiration date. The authorization may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, liquidity and other factors that management deems appropriate.

We generally invest the surplus cash held by our South African operations in overnight call accounts that we maintain at South African banking institutions, and surplus cash held by our non-South African companies in the US and European money markets.

Historically, we have financed most of our operations, research and development, working capital, capital expenditures and acquisitions through our internally generated cash. 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 the funding mechanism under our SASSA contact and our pre-finding of merchants. Under our SASSA contract, we receive the grant funds 48 hours prior to the provision of the service and any interest we earn on these amounts is for the benefit of SASSA. In addition, we pre-fund certain merchants who facilitate the distribution of grants through our merchant acquiring system. When grants are paid at merchant locations before the start of the payment service at pay points, we pre-fund these payments to the merchants distributing the grants on our behalf. We typically reimburse these merchants within 48 hours after they distribute the grants to the social welfare beneficiaries.

We currently believe that our cash and credit facilities are sufficient to fund our current operations for at least the next four quarters.

Cash flows from operating activities

Three months ended December 31, 2009

Net cash provided by operating activities for the second quarter of fiscal 2010 was $13.8 million (ZAR 103.6 million) compared to $45.9 million (ZAR 450.9 million) for the second quarter of fiscal 2009. The difference was due mainly to the net cash inflow during the second quarter of fiscal 2009 resulted from the foreign exchange gain.

During the second quarter of fiscal 2010 we made our first provisional tax payments of $15.8 million (ZAR 118.8 million) related to our 2010 tax year in South Africa.

During the second quarter of fiscal 2009 we made our first provisional tax payments of $9.9 million (ZAR 99.1 million) related to our 2009 tax year and our third provisional payments related to our 2008 tax year of $2.9 million (ZAR28.7 million) in South Africa. We made second provisional payments of $1.0 million (ZAR 9.9 million) related to our 2008 tax year in Europe, primarily Austria. In addition, we paid Secondary Tax on Companies, or STC, of $2.2 million (ZAR 22.3 million) related to dividends paid by New Aplitec to Net1.

Taxes paid during the second quarter of fiscal 2010 and 2009 were as follows:

Table 20	**Three months ended December 31,**			
	2009	**2008**	**2009**	**2008**
	$	**$**	**ZAR**	**ZAR**
	000	**000**	**000**	**000**
First provisional payments	15,809	9,899	118,788	99,092
Second provisional payments	-	993	-	9,940
Third provisional payments	239	2,868	1,789	28,704
Taxation refunds received	(3)	-	(13)	-
Secondary taxation on companies	-	2,230	-	22,318
Total tax paid	16,045	15,990	120,564	160,054

We expect to pay additional first provisional payments in South Africa related to our 2010 tax year in the third quarter of fiscal 2010 of ZAR 16.6 million.

Six months ended December 31, 2009

Net cash provided by operating activities for the first half of fiscal 2010 was $50.7 million (ZAR 389.3 million) compared to $12.9 million (ZAR 113.5 million) for the first half of fiscal 2009. The difference was due mainly to the elimination of our obligation to provide prefunded social welfare grant payments on behalf of provincial governments.

During the first half of fiscal 2010 we made an additional second provisional tax payment of $3.9 million (ZAR 29.6 million) related to our 2009 tax year in South Africa. In addition, we made a first provisional payment of $15.8 million (ZAR 118.8 million) related to our 2010 tax year in South Africa. See the table below for a summary of all taxes paid (refunded).

During the first half of fiscal 2009 we made a third provisional payment of $2.9 million (ZAR28.7 million) and an additional second provisional payment of $8.6 million (ZAR 66.9 million) related to our 2008 tax year in South Africa. In addition, we paid our first provisional tax payments of $9.9 million (ZAR 99.1 million) related to our 2009 tax year in South Africa. We paid taxes of $1.2 million related to our 2008 tax year in the United States and $1.0 million (ZAR 9.9 million) related to our 2008 tax year in Europe, primarily Austria. Finally, we paid Secondary Tax on Companies of $2.2 million (ZAR 22.3 million) related to dividends paid by New Aplitec to Net1.

Taxes paid during the first half of fiscal 2010 and 2009 were as follows:

Table 21	**Six months ended December 31,**			
	2008 **$** **000**	**2008** **$** **000**	**2008** **ZAR** **000**	**2008** **ZAR** **000**
First provisional payments	15,809	9,899	118,788	99,092
Second provisional payments	-	9,595	-	76,826
Third provisional payments	239	2,868	1,789	28,704
Taxation paid related to prior years	3,929	-	29,611	-
Taxation refunds received	(241)	(61)	(1,913)	(471)
Secondary taxation on companies	-	2,230	-	22,318
Total tax paid	19,736	24,531	148,275	226,469

Cash flows from investing activities

Three months ended December 31, 2009

Cash used in investing activities for the second quarter of fiscal 2010 includes capital expenditure of $0.7 million (ZAR 5.2 million), primarily for the acquisition of POS devices to service our merchant acquiring system, improvements to leasehold property and the acquisition of computer equipment.

Cash used in investing activities for the second quarter of fiscal 2009 includes capital expenditure of $0.4 million (ZAR 4.3 million), related to equipment acquired for our card manufacturing facility. We were required to relocate the card manufacturing facility because our landlord gave us notice and cancelled our lease. We were required to upgrade the new premises and install new support equipment, including air-conditioning and networking, in order to commission our card manufacturing equipment.

During the second quarter of fiscal 2009 we paid $0.5 million (ZAR 4.9 million) to consultants related to the Net1 UAT acquisition. In November 2008, we acquired additional shares of VTU Colombia for approximately $0.1 million.

Six months ended December 31, 2009

Cash used in investing activities for the first half of fiscal 2010 includes capital expenditure of $1.3 million (ZAR 10.2 million), primarily for the acquisition of POS devices to service our merchant acquiring system, improvements to leasehold property and the acquisition of computer equipment.

Cash used in investing activities for the first half of fiscal 2009 includes capital expenditure of $3.3 million (ZAR 28.9 million), related to six backend processing machines to maintain and expand current operations, equipment acquired for our card manufacturing facility and modifications to vehicles acquired to distribute social welfare grants.

During the first half of fiscal 2009 we paid $95.8 million (ZAR 748.2 million), net of cash received, for 80.1% of the outstanding ordinary capital of Net1 UAT, which includes approximately $0.5 million paid to consultants. During the first half of 2009 we acquired additional shares of VinaPay for approximately $0.3 million. During the first half of 2009 we acquired additional shares of VTU Colombia for approximately $0.3 million.

Cash flows from financing activities

Three months ended December 31, 2009

There were no significant cash flows from financing activities during the three months ended December 31, 2009.

During the second quarter of fiscal 2009, we repaid the $110 million short-term loan facility we obtained during August 2008 to fund the Net1 UAT acquisition. In addition, during the second quarter of fiscal 2009 we acquired 2,419,581 shares of our common stock in open market purchases for an aggregate of $24.8 million. These shares were allocated to our treasury stock.

Six months ended December 31, 2009

During the first half of fiscal 2010 we repurchased, using our ZAR reserves, 9,221,526 shares of our common stock from Brait S.A. and its investment entities affiliates for $13.50 (ZAR 105.98) per share, for an aggregate repurchase price of $124.5 million (ZAR 977.3 million). In addition, we incurred costs of approximately $0.5 million (ZAR 3.9 million) related to the repurchase of these shares. During the first half of fiscal 2010, we also paid $1.3 million on account of shares we repurchased on June 30, 2009, under our share buy-back program.

During the first quarter of fiscal 2010 and 2009 we received $0.7 (ZAR 5.5 million) and $0.2 (ZAR 1.2 million), respectively, from employees exercising stock options and repaying loans.

During the first half of fiscal 2009, we received and repaid the $110 million short-term loan facility described above. In addition we paid the $1.1 million facility fee related to this facility. During the first half of fiscal 2009 we acquired 2,419,581 shares of our common stock for $24.8 million.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Capital Expenditures

All of our capital expenditures for the past three fiscal years have been funded through internally generated funds. We had outstanding capital commitments of $0.2 million as of December 31, 2009. We anticipate that capital spending for the third quarter of fiscal 2010 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.

We discuss our capital expenditures during the second quarter of fiscal 2010 under Liquidity and capital resources Cash flows from investing activities.

Contingent Liabilities, Commitments and Contractual Obligations

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

Table 22	Payments due by Period, as at December 31, 2009(in $ 000s)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	$ 9,977	$ 9,977	-	-	-

Acquire MediKredit instruments					
Interest-bearing liabilities	4,200	-	-	-	$ 4,200
Operating lease obligations	4,806	2,414	$ 2,310	$ 82	-
Purchase obligations	2,785	2,785	-	-	-
Capital commitments	164	164	-	-	-
Total	$ 21,932	$ 15,340	$ 2,310	$ 82	$ 4,200

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We seek to reduce our exposure to currencies other than the South African rand, or ZAR, 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 equity price and liquidity risks as well as 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 US dollar. We have used forward contracts to limit our exposure in these transactions to fluctuations in exchange rates between the ZAR, on the one hand, and the US dollar and the euro, on the other hand. As of December 31, 2009 and 2008, our outstanding foreign exchange contracts were as follows:

As of December 31, 2009

Notional amount		Strike price		Fair market value price		Maturity
USD	1,000,000	EUR	1.4391	EUR	1.4318	January 4, 2010
EUR	719,400	ZAR	10.9306	ZAR	10.7468	January 29, 2010

As of December 31, 2008

Notional amount		Strike price		Fair market value price		Maturity
EUR	67,251	ZAR	13.6059	ZAR	13.3618	January 30, 2009
USD	656,000	ZAR	10.8230	ZAR	9.6020	March 13, 2009

Translation Risk

Translation risk relates to the risk that our results of operations will vary significantly as the US dollar is our reporting currency, but we earn most of our revenues and incur most of our expenses in ZAR. The US 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. The interest earned on our bank balances and short term cash investments is dependent on the prevailing interest rates in the jurisdictions where our cash reserves are invested.

Credit Risk

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

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

Equity Price and Liquidity Risk

Equity price risk relates to the risk of loss that we would incur as a result of the volatility in the exchange-traded price of equity securities that we hold and the risk that we may not be able to liquidate these securities. We have invested in approximately 22% of the issued share capital of Finbond Group Limited, or Finbond, which are exchange-traded equity securities. The fair value of these securities as of December 31, 2009, represented approximately 2% of our total assets, including these securities. We expect to hold these securities for an extended period of time and we are 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.

The market price of these securities may fluctuate for a variety of reasons, consequently, the amount we 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 we would incur as a result of the lack of liquidity on the exchange on which these securities are listed. We 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.

The following table summarizes our exchange traded equity securities with equity price risk as of December 31, 2009. The effects of a hypothetical 10% increase and a 10% decrease in market prices as of December 31, 2009 is also shown. The selected 10% hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned liquidity risk.

Table 23

	As of December 31, 2009			
	Fair value ($ 000)	**Hypothetical price change**	**Estimated fair value after hypothetical change in price ($ 000)**	**Hypothetical Percentage Increase (Decrease) in Shareholders Equity**
Exchange-traded equity securities	6,732	10%	7,405	0.22%
		(10)%	6,059	(0.22)%

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) promulgated under the Securities Exchange Act of 1934, as amended, as of December 31, 2009. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2009.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2009, 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, 2009, for a discussion of the Company s risk factors. We do not believe that there have been any material changes to these risk factors.

Item 4. Submission of Matters to a Vote of Security Holders

Our Annual Meeting of Shareholders was held on November 25, 2009 to consider the following proposals:

Proposal 1. Election of directors;
Proposal 2. Amend and restate our 2004 Stock Incentive Plan:
Proposal 3. Ratification of appointment of independent registered public accounting firm.

The following proposals were adopted by the votes indicated: Proposal 1:

	For	Withheld
Dr. Serge C.P. Belamant	35,997,429	2,029,767
Herman G. Kotze	36,837,393	1,189,803
Christopher S. Seabrooke	24,086,506	13,940,690
Anthony C. Ball	27,716,708	10,310,488
Alasdair J. K. Pein	27,378,081	10,649,115
Paul Edwards	27,716,708	10,310,488
Tom Tinsley	26,241,711	11,785,485

Proposal 2:

	For	Against	Abstained
Amend and restate our 2004 Stock Incentive Plan	21,314,852	11,395,806	68,526

Proposal 3:

	For	Against	Abstained
Deloitte & Touche (South Africa)	37,910,089	104,690	12,417

Item 6. Exhibits

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

Exhibit Number		Description
31.1		Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Exchange Act
31.2		Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Exchange Act
32		Certification pursuant to 18 USC Section 1350

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 February 9, 2010.

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