NET 1 UEPS TECHNOLOGIES INC
Form 10-Q
February 09, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2016

OR

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

For the transition period from ________ To ________

Commission file number: **000-31203**

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

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

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

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

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

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

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

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

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

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

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

As of February 6, 2017 (the latest practicable date), 52,529,345 shares of the registrant s common stock, par value $0.001 per share, net of treasury shares, were outstanding.

Form 10-Q

NET 1 UEPS TECHNOLOGIES, INC.

Table of Contents

EXHIBIT 32

1

Part I. Financial Information

Item 1. Financial Statements

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

	Unaudited December 31, 2016	(A) June 30, 2016
	(In thousands, except share data)	
ASSETS		
CURRENT ASSETS		
Cash, cash equivalents and restricted cash	$ 198,891	$ 223,644
Pre-funded social welfare grants receivable (Note 3)	3,915	1,580
Accounts receivable, net of allowances of December: $3,124; June: $1,669	102,499	107,805
Finance loans receivable, net of allowances of December: $4,203; June: $4,494	36,721	37,009
Inventory (Note 4)	14,063	10,004
Deferred income taxes	6,696	6,956
Total current assets before settlement assets	362,785	386,998
Settlement assets (Note 5)	333,242	536,725
Total current assets	696,027	923,723
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of December: $112,475; June: $99,969	45,876	54,977
EQUITY-ACCOUNTED INVESTMENTS	36,278	25,645
GOODWILL (Note 7)	180,686	179,478
INTANGIBLE ASSETS, net (Note 7)	44,339	48,556
OTHER LONG-TERM ASSETS, including reinsurance assets (Note 6 and Note 8)	39,072	31,121
TOTAL ASSETS	1,042,278	1,263,500
LIABILITIES		
CURRENT LIABILITIES		
Short-term credit facilities (Note 9)	-	-
Accounts payable	10,649	14,097
Other payables	41,180	37,479
Current portion of long-term borrowings (Note 10)	8,288	8,675
Income taxes payable	4,426	5,235
Total current liabilities before settlement obligations	64,543	65,486
Settlement obligations (Note 5)	333,242	536,725
Total current liabilities	397,785	602,211
DEFERRED INCOME TAXES	11,139	12,559
LONG-TERM BORROWINGS (Note 10)	14,872	43,134
OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 8)	2,181	2,376
TOTAL LIABILITIES	425,977	660,280
COMMITMENTS AND CONTINGENCIES (Note 18)		
EQUITY		

COMMON STOCK (Note 11)				
Authorized: 200,000,000 with $0.001 par value; Issued and outstanding shares, net of treasury - December: 52,521,345; June: 55,271,954		74		74
PREFERRED STOCK				
Authorized shares: 50,000,000 with $0.001 par value; Issued and outstanding shares, net of treasury: December: -; June: -		-		-
ADDITIONAL PAID-IN-CAPITAL		223,272		223,978
TREASURY SHARES, AT COST: December: 23,621,541; June: 20,483,932		(273,238)		(241,627)
ACCUMULATED OTHER COMPREHENSIVE LOSS (Note 12)		(188,643)		(189,700)
RETAINED EARNINGS		743,595		700,322
TOTAL NET1 EQUITY		505,060		493,047
REDEEMABLE COMMON STOCK		107,672		107,672
NON-CONTROLLING INTEREST		3,569		2,501
TOTAL EQUITY		616,301		603,220
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	1,042,278	$	1,263,500

(A) Derived from audited financial statements

See Notes to Unaudited Condensed Consolidated Financial Statements

2

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

	Three months ended December 31, 2016	Three months ended December 31, 2015	Six months ended December 31, 2016	Six months ended December 31, 2015
	(In thousands, except per share data)		(In thousands, except per share data)	
REVENUE	$ 151,433	$ 150,281	$ 307,066	$ 304,754
EXPENSE				
Cost of goods sold, IT processing, servicing and support	73,518	78,668	148,298	156,050
Selling, general and administration	41,703	36,248	80,171	72,009
Depreciation and amortization	10,623	10,586	20,827	20,701
OPERATING INCOME	25,589	24,779	57,770	55,994
INTEREST INCOME	5,061	3,664	9,365	7,939
INTEREST EXPENSE	510	1,054	1,306	2,028
INCOME BEFORE INCOME TAX EXPENSE	30,140	27,389	65,829	61,905
INCOME TAX EXPENSE (Note 17)	10,984	10,593	22,087	21,490
NET INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	19,156	16,796	43,742	40,415
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	74	388	733	576
NET INCOME	19,230	17,184	44,475	40,991
LESS NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	589	526	1,202	1,313
NET INCOME ATTRIBUTABLE TO NET1	$ 18,641	$ 16,658	$ 43,273	$ 39,678
Net income per share, in U.S. dollars (Note 14)				
Basic earnings attributable to Net1 shareholders	$ 0.35	$ 0.35	$ 0.81	$ 0.84
Diluted earnings attributable to Net1 shareholders	$ 0.35	$ 0.35	$ 0.81	$ 0.84

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended December 31, 2016	Three months ended December 31, 2015	Six months ended December 31, 2016	Six months ended December 31, 2015
	(In thousands)		(In thousands)	
Net income	$ 19,230	$ 17,184	$ 44,475	$ 40,991
Other comprehensive (loss) income				
Net unrealized income on asset available for sale, net of tax	-	-	-	50
Movement in foreign currency translation reserve	(20,766)	(16,960)	1,536	(60,656)
Total other comprehensive (loss) income, net of taxes	(20,766)	(16,960)	1,536	(60,606)
Comprehensive (loss) income	(1,536)	224	46,011	(19,615)
Less comprehensive income attributable to non-controlling interest	(624)	(345)	(1,681)	(850)
Comprehensive (loss) income attributable to Net1	$ (2,160)	$ (121)	$ 44,330	$ (20,465)

See Notes to Unaudited Condensed Consolidated Financial Statements

NET 1 UEPS TECHNOLOGIES, INC.
Unaudited Condensed Consolidated Statement of Changes in Equity for the six months ended December 31, 2016 (dollar amounts in thousands)

	Net 1 UEPS Technologies, Inc. Shareholders							
	Number of Shares	Amount	Number of Treasury Shares	Treasury Shares	Number of shares, net of treasury	Additional Paid-In Capital	Retained Earnings	Accumulated other comprehensiv (loss) income
Balance July 1, 2016	75,755,886	$ 74	(20,483,932)	$ (241,627)	55,271,954	$ 223,978	$ 700,322	$ (189,70
Repurchase of common stock (Note 11)			(3,137,609)	(31,611)	(3,137,609)			
Restricted stock granted (Note 13)	387,000				387,000			
Stock-based compensation charge (Note 13)						1,138		
Reversal of stock comp charge (Note 13)						(1,827)		
Income tax benefit from vested stock awards						(17)		
Dividends paid to non-controlling interest								
Net income							43,273	
Other comprehensive income (Note 12)								1,05
Balance December 31,	76,142,886	$ 74	(23,621,541)	$ (273,238)	52,521,345	$ 223,272	$ 743,595	$ (188,64

2016

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three months ended December 31, 2016	Three months ended December 31, 2015	Six months ended December 31, 2016	Six months ended December 31, 2015
	(In thousands)		(In thousands)	
Cash flows from operating activities				
Net income	$ 19,230	$ 17,184	$ 44,475	$ 40,991
Depreciation and amortization	10,623	10,586	20,827	20,701
Earnings from equity-accounted investments	(74)	(388)	(733)	(576)
Fair value adjustments	72	1,567	(11)	3,000
Interest payable	(23)	645	9	1,354
(Profit) Loss on disposal of property, plant and equipment	(539)	11	(473)	(84)
Stock-based compensation charge (reversal), net (Note 13)	635	965	(689)	1,691
Facility fee amortized	31	35	67	69
Dividends received from equity accounted investments	-	-	370	-
Decrease (Increase) in accounts receivable, pre-funded social welfare grants receivable and finance loans receivable	6,585	(13,847)	14,351	(31,125)
(Increase) Decrease in inventory	(3,481)	776	(3,585)	(155)
Decrease in accounts payable and other payables	(5,940)	(5,418)	(2,900)	(2,046)
Decrease in taxes payable	(11,815)	(8,859)	(859)	(1,035)
Increase (Decrease) in deferred taxes	386	789	(1,246)	(637)
Net cash provided by operating activities	15,690	4,046	69,603	32,148
Cash flows from investing activities				
Capital expenditures	(3,126)	(9,947)	(6,549)	(20,645)
Proceeds from disposal of property, plant and equipment	945	269	1,014	617
Investment in MobiKwik	-	-	(15,347)	-
Loans to equity accounted investments (Note 6)	(10,044)	-	(10,044)	-
Acquisitions, net of cash acquired (Note 2)	(4,651)	-	(4,651)	-
Net change in settlement assets (Note 5)	258,166	303,810	220,772	282,227
Net cash provided by investing activities	241,290	294,132	185,195	262,199

Cash flows from financing activities				
Acquisition of treasury stock (Note 11)	-	(11,186)	(32,081)	(11,186)
Repayment of long-term borrowings (Note 10)	(1,824)	-	(28,493)	-
Guarantee fee paid (Note 10)	(1,145)	-	(1,145)	-
Dividends paid to non-controlling interest	(58)	-	(613)	-
Long-term borrowings utilized (Note 10)	-	711	247	1,431
Proceeds from issue of common stock	-	-	-	3,762
Net change in settlement obligations (Note 5)	(258,166)	(303,810)	(220,772)	(282,227)
Net cash used in financing activities	(261,193)	(314,285)	(282,857)	(288,220)
Effect of exchange rate changes on cash	(2,225)	(8,086)	3,306	(22,293)
Net decrease in cash, cash equivalents and restricted cash	(6,438)	(24,193)	(24,753)	(16,166)
Cash, cash equivalents and restricted cash beginning of period	205,329	125,610	223,644	117,583
Cash, cash equivalents and restricted cash end of period (1)	$ 198,891	$ 101,417	$ 198,891	$ 101,417

See Notes to Unaudited Condensed Consolidated Financial Statements

(1) Cash, cash equivalents and restricted cash as of December 31, 2016, includes restricted cash of approximately $43.7 million related to the guarantee issued by FirstRand Bank Limited (acting through its Rand Merchant Bank division) as described in Note 10. This cash has been placed into an escrow account and is considered restricted as to use and therefore is classified as restricted cash. The restriction will lapse once the guarantee expires, is utilized or is cancelled.

NET 1 UEPS TECHNOLOGIES, INC.
Notes to the Unaudited Condensed Consolidated Financial Statements
for the three and six months ended December 31, 2016 and 2015
(All amounts in tables stated in thousands or thousands of U.S. Dollars, unless otherwise stated)

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

The accompanying unaudited condensed consolidated financial statements include all majority-owned subsidiaries over which the Company exercises control and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the United States Securities and Exchange Commission for quarterly reports on Form 10-Q and include all of the information and disclosures required for interim financial reporting. The results of operations for the three and six months ended December 31, 2016 and 2015, are not necessarily indicative of the results for the full year. The Company believes that the disclosures are adequate to make the information presented not misleading.

These financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2016. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented.

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

Recent accounting pronouncements adopted

In February 2015, the FASB issued guidance regarding *Amendments to the Consolidation Analysis*. This guidance amends both the variable interest entity and voting interest entity consolidation models. The requirement to assess an entity under a different consolidation model may change previous consolidation conclusions. The guidance is effective for the Company beginning July 1, 2016. The adoption of this guidance did not have a material impact on the Company s financial statements.

In November 2016, the FASB issued guidance regarding *Restricted Cash - a consensus of the FASB Emerging Issues Task Force.* This guidance amends current guidance to add or clarify the classification and presentation of restricted cash in the statement of cash flows. The guidance is effective for the Company beginning July 1, 2018, however the Company has early adopted the guidance, effective December 31, 2016. The adoption of this guidance did not have a material impact on the Company s financial statements.

Recent accounting pronouncements not yet adopted as of December 31, 2016

In May 2014, the FASB issued guidance regarding *Revenue from Contracts with Customers*. This guidance requires an entity to recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance was to be effective for the Company beginning July 1, 2017, however in August 2015, the FASB issued guidance regarding *Revenue from Contracts with Customers, Deferral of the Effective Date*. This guidance defers the required implementation date specified in *Revenue from Contracts with Customers* to December 2017. Public companies may elect to adopt the standard along the original timeline. The guidance is effective for the Company beginning July 1, 2018. The Company expects that this guidance may have a material impact on its financial statements and is currently evaluating the impact of this guidance on its financial statements on adoption.

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

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)
Recent accounting pronouncements not yet adopted as of December 31, 2016 (continued)

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

In November 2015, the FASB issued guidance regarding *Balance Sheet Classification of Deferred Taxes*. This guidance requires that deferred tax liabilities and assets are to be classified as non-current in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this update. This guidance is effective for the Company beginning July 1, 2017, with early adoption permitted on a prospective or retrospective basis. The Company is currently assessing the impact of this guidance on its financial statements disclosures.

In January 2016, the FASB issued guidance regarding *Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. In addition, the guidance clarifies the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. This guidance is effective for the Company beginning July 1, 2018, and early adoption is not permitted, with certain exceptions. The amendments are required to be applied by means of a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

In February 2016, the FASB issued guidance regarding *Leases*. The guidance increases transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet. The amendments to current lease guidance includes the recognition of assets and liabilities by lessees for those leases currently classified as operating leases. The guidance also requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. This guidance is effective for the Company beginning July 1, 2019. Early adoption is permitted. The Company expects that this guidance may have a material impact on its financial statements and is currently evaluating the impact of this guidance on its financial statements on adoption.

In March 2016, the FASB issued guidance regarding *Improvements to Employee Share-Based Payment Accounting*. The guidance simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This guidance is effective for the Company beginning July 1, 2017. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

In June 2016, the FASB issued guidance regarding *Measurement of Credit Losses on Financial Instruments*. The guidance replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade and other receivables, loans, and other financial instruments, an entity is required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. This guidance is effective for the Company beginning July 1, 2020. Early adoption is permitted beginning July 1, 2019. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

In June 2016, the FASB issued guidance regarding *Classification of Certain Cash Receipts and Cash Payments*. The guidance is intended to reduce diversity in practice and explains how certain cash receipts and payments are presented and classified in the statement of cash flows, including beneficial interests in securitization, which would impact the presentation of the deferred purchase price from sales of receivables. This guidance is effective for the Company beginning July 1, 2018, and must be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)
Recent accounting pronouncements not yet adopted as of December 31, 2016 (continued)

In January 2017, the FASB issued guidance regarding *Clarifying the Definition of a Business.* This guidance provides a more robust framework to use in determining when a set of assets and activities is a business. Because the current definition of a business is interpreted broadly and can be difficult to apply, stakeholders indicated that analyzing transactions is inefficient and costly and that the definition does not permit the use of reasonable judgment. The amendments provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The guidance is effective for the Company beginning July 1, 2018. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

In January 2017, the FASB issued guidance regarding *Simplifying the Test for Goodwill Impairment.* This guidance removes the requirement for an entity to calculate the implied fair value of goodwill (as part of step 2 of the current goodwill impairment test) in measuring a goodwill impairment loss. The guidance is effective for the Company beginning July 1, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently assessing the impact of this guidance on its financial statements disclosure.

2. Acquisitions
The cash paid, net of cash received related to the Company s various acquisitions during the six months ended December 31, 2016, are summarized in the table below:

		2016
C4U-Malta Limited (C4U Malta)	$	2,940
Pros Software (Pty) Ltd (Pros Software)		1,711
Total cash paid, net of cash received	$	4,651

C4U Malta

In November 2016, the Company acquired a 100% interest in C4U Malta, a licensed Maltese Financial Services Authority-supervised electronic money institution, for approximately $3.9 million (€3.6 million translated at the foreign exchange rates applicable on the date of acquisition). C4U s license has been passported across all member states of the European Union. The Company intends to apply for a principal membership with the major card associations as soon as possible and to integrate a robust and reliable issuing and acquiring processing platform in C4U to enable the issuance of electronic money instruments, such as electronic money accounts, prepaid cards and virtual cards, after a transitional period of integration and technology adaption. The Company plans to build and reinforce C4U such that it operates as its principal regulated electronic money institution with the ability to cover all of the Company s financial services activities and business in the European Union.

Pros Software

In October 2016, the Company acquired a 100% interest in Pros Software, a software development and consulting services company based near Johannesburg, South Africa, for ZAR 25.0 million ($1.8 million, translated at the foreign exchange rates applicable on the date of acquisition). Pros Software performs software development and consulting services for a number of clients, including for the Company, and has a specialty practice in business intelligence.

The preliminary purchase price allocation of C4U Malta and Pros Software acquisitions, translated at the foreign exchange rates applicable on the date of acquisition, is provided in the table below:

	C4U Malta	**Pros Software**	**Total**

Cash and cash equivalents	$	999	$	110	$	1,109
Accounts receivable		983		165		1,148
Property, plant and equipment, net		30		9		39
Deferred tax assets		-		-		-
Intangible assets (Note 7)		1,078		2,311		3,389
Goodwill (Note 7)		2,475		-		2,475
Accounts payables and other payables		(1,570)		(58)		(1,628)
Income taxes payable		-		(69)		(69)
Deferred tax liabilities		(56)		(647)		(703)
Total purchase price	$	3,939	$	1,821	$	5,760

2. Acquisitions (continued)

The preliminary purchase price allocations are based on management estimates as of December 31, 2016, and may be adjusted up to one year following the closing of the acquisition. The Company expects to finalize the purchase price allocation on or before June 30, 2017. Pro forma results of operations have not been presented because the effect of the C4U Malta and Pros Software acquisitions, individually and in the aggregate, were not material to the Company. During the six months ended December 31, 2016, the Company incurred acquisition-related expenditure of $0.2 million related to these acquisitions. Since the closing of the C4U Malta acquisition on November 1, 2016, it has contributed revenue and a net loss after acquired intangible asset amortization, net of taxation, of $0.1 million and $0.2 million, respectively. Since the closing of the Pros Software acquisition on October 1, 2016, it has contributed revenue and a net loss after acquired intangible asset amortization, net of taxation, of $0.2 million and $0.6 million, respectively.

3. Pre-funded social welfare grants receivable

Pre-funded social welfare grants receivable represents amounts pre-funded by the Company to certain merchants participating in the merchant acquiring system. The January 2017 payment service commenced on January 1, 2017, but the Company pre-funded certain merchants participating in the merchant acquiring system on the last two days of December 2016.

4. Inventory

The Company s inventory comprised the following category as of December 31, 2016 and June 30, 2016.

		December 31, 2016		June 30, 2016
Finished goods	$	14,063	$	10,004
	$	14,063	$	10,004

5. Settlement assets and settlement obligations

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

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

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

Net change in settlement assets and net change in settlement obligations included in the unaudited condensed consolidated statement of cash flows for each of the three and six months ended December 31, 2015, have been increased by $39.4 million as a result of the restatement described in Note 2 (Significant accounting policies Settlement assets and settlement obligations) to the Company s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended June 30, 2016.

6. Fair value of financial instruments

Initial recognition and measurement

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

Risk management

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

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

Currency exchange risk

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

Translation risk

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

Interest rate risk

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

Credit risk

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

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

UEPS-based microlending credit risk

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

Equity price and liquidity risk

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

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

Financial instruments

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

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to Level 1 investments. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly. These investments are included in Level 2 investments. In circumstances in which inputs are generally unobservable, values typically reflect management s estimates of assumptions that market participants would use in pricing the asset or liability.

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

The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. Investments valued using such techniques are included in Level 3 investments.

Derivative transactions - Foreign exchange contracts

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

The Company s outstanding foreign exchange contracts are as follows: As of December 31, 2016 None.

As of June 30, 2016

Notional amount	Strike price	Fair market value price	Maturity
EUR 573,765.00	ZAR 15.9587	ZAR 16.3393	July 20, 2016
EUR 554,494.50	ZAR 16.0643	ZAR 16.4564	August 19, 2016
EUR 465,711.00	ZAR 16.1798	ZAR 16.582	September 20, 2016
EUR 393,675.00	ZAR 16.2911	ZAR 16.7017	October 20, 2016
EUR 302,368.50	ZAR 16.4085	ZAR 16.8301	November 21, 2016

The following table presents the Company s assets measured at fair value on a recurring basis as of December 31, 2016, according to the fair value hierarchy:

	Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Related to insurance business (included in other long-term assets):				
Cash and cash equivalents	$ 572	$ -	$ -	$ 572
Other	-	35	-	35
Total assets at fair value	$ 572	$ 35	$ -	$ 607

12