NET 1 UEPS TECHNOLOGIES INC
Form 8-K/A
November 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 6, 2008 (August 27, 2008)

NET 1 UEPS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida	**000-31203**	**98-0171860**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

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

011-27-11-343-2000
Registrant s telephone number, including area code

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a -12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d -2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e -4(c))

Explanatory Note

On August 27, 2008, we acquired 80.1% of the issued share capital of BGS Smartcard Systems AG (BGS). In the Acquisition, we paid the selling shareholders approximately $101.6 million in cash and issued certain selling shareholders an aggregate of 40,134 shares of our common stock. We financed the cash portion of the purchase price with the proceeds of bank financing which we repaid in full on October 16, 2008.

On August 27, 2008, we filed a Current Report on Form 8-K (the Form 8-K) under Item 2.01 to report the completion of the Acquisition. In response to parts (a) and (b) of Item 9.01 of the Form 8-K, we stated that we would file the required financial information by amendment, as permitted by Item 9.01. This Form 8-K amendment is being filed to provide certain historical financial statements of BGS and pro forma financial information.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

(b) Pro forma financial information.

Unaudited Pro Forma Combined Financial Statements for Net 1 UEPS Technologies, Inc. comprising:

(d) Exhibits

Exhibits	Description
23.1	Consent of Deloitte & Touche (AT)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of BGS Smartcard Systems AG:

We have audited the accompanying consolidated balance sheet of BGS Smartcard Systems AG (an Austrian corporation) and its subsidiaries (collectively, the "Company") as of December 31, 2007, and the related consolidated statements of operations, movements in shareholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte Wirtschaftsprüfungs GmbH

Deloitte Wirtschaftsprüfungs GmbH
Vienna, Austria
November 6, 2008

BGS SMARTCARD SYSTEMS AKTIENGESELLSCHAFT
CONSOLIDATED BALANCE SHEET
as of December 31, 2007

		2007 (In thousands, except share data)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	€	3,862
Restricted cash		722
Accounts receivable, net		5,277
Inventory		1,018
Deferred tax		43
Total current assets		10,922
LONG-TERM RECEIVABLES		25
PROPERTY, PLANT AND EQUIPMENT, net		274
INVESTMENT AVAILABLE FOR SALE		968
INTANGIBLE ASSETS, net		5
DEFERRED TAX		4,399
TOTAL ASSETS		16,593
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable		30
Other payables		2,713
Income taxes payable		542
Total current liabilities		3,285
COMMITMENTS AND CONTINGENCIES		-
TOTAL LIABILITIES		3,285
SHAREHOLDERS EQUITY		
COMMON STOCK		
Authorized shares: 26,800 with zero par value;		
Issued and outstanding shares: 26,800		2,000
ADDITIONAL PAID-IN CAPITAL		7,128
ACCUMULATED OTHER COMPREHENSIVE INCOME		34
RETAINED EARNINGS		4,146
TOTAL SHAREHOLDERS EQUITY		13,308
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	€	16,593

See accompanying notes to consolidated financial statements.

BGS SMARTCARD SYSTEMS AKTIENGESELLSCHAFT
CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended December 31, 2007

		2007 (In thousands)
REVENUE	€	17,244
EXPENSES		
Cost of goods sold, IT processing, servicing and support		2,912
Selling, general and administration		7,396
Depreciation and amortization		136
OPERATING INCOME		6,800
INTEREST INCOME, net		142
INCOME BEFORE INCOME TAXES		6,942
INCOME TAX EXPENSE		1,627
NET INCOME BEFORE LOSS FROM EQUITY ACCOUNTED INVESTMENTS		5,315
LOSS FROM EQUITY ACCOUNTED INVESTMENTS		(278)
NET INCOME	€	5,037

See accompanying notes to consolidated financial statements.

BGS SMARTCARD SYSTEMS AKTIENGESELLSCHAFT
CONSOLIDATED STATEMENT OF MOVEMENTS IN SHAREHOLDERS EQUITY
for the year ended December 31, 2007

	Common stock						
	Number of shares	**Amount**	**Additional paid in capital**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Total**	**Comprehensive income (loss)**
	000	**000**	**000**	**000**	**000**	**000**	**000**
Balance January 1, 2007	26,800	€ 2,000	€ 7,128	€ 2,912	€ 60	€ 12,100	
Net income				5,037		5,037	€ 5,037
Dividends paid				(3,803)		(3,803)	
Movement in foreign currency translation reserve					(26)	(26)	(26)
Balance December 31, 2007	26,800	€ 2,000	€ 7,128	€ 4,146	€ 34	€ 13,308	€ 5,011

BGS SMARTCARD SYSTEMS AKTIENGESELLSCHAFT
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2007

		2007 (In thousands)
Cash flows from operating activities		
Net income	€	5,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		136
Profit on sale of property, plant and equipment		(1)
Loss from equity accounted investment		278
Increase in accounts receivable		(1,630)
Increase in inventory		(808)
Increase in accounts payable and other payables		1,323
Increase in taxes payable		244
Decrease in deferred taxes		550
Net cash provided by operating activities		5,129
Cash flows from investing activities		
Capital expenditures		(159)
Movement in restricted cash		(722)
Proceeds from disposal of property, plant and equipment		19
Net cash used in investing activities		(862)
Cash flows from financing activities		
Repayment of bank overdraft		(637)
Dividends paid		(3,803)
Net cash used in financing activities		(4,440)
Net decrease in cash and cash equivalents		(173)
Cash and cash equivalents beginning of year		4,035
Cash and cash equivalents at end of year	€	3,862

See accompanying notes to consolidated financial statements.

BGS SMARTCARD SYSTEMS AKTIENGESELLSCHAFT
Notes to the Consolidated Financial Statements
for the year ended December 31, 2007
(All amounts stated in thousands of euro, unless otherwise stated)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

BGS Smartcard Systems AG (the Company) was founded in July 1997 in Vienna, Austria. The Company is a provider of software solutions for electronic payments based on micro-controller cards (so-called smart cards). The Company s products are marketed under the direct universal electronic transactions (DUET) brand name. The Company s product line ranges from solutions for banks to payroll systems for companies and Internet banking as well as egovernment, micro finance and social services.

The Company focuses on the developing markets of the Commonwealth of Independent States (CIS) and the Arabian region including North Africa as well as Asia and Latin America. These markets are developed directly by the Company and its subsidiaries in the Russian Federation and India as well as by sales partners in other countries. An Austrian subsidiary of the Company develops the Company s software products.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying consolidated financial statements include all majority owned subsidiaries over which the Company exercises control and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries, which are generally majority owned. The accounts of variable interest entities (VIEs) as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46(R), *Accounting for Variable Interest Entities*, (FIN 46R), are included in the consolidated financial statements, if required. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property, plant and equipment

Property, plant and equipment are shown at cost less accumulated depreciation. Property, plant and equipment are depreciated on the straight-line basis at rates which are estimated to amortize the assets to their anticipated residual values over their useful lives. Within the following asset classifications, the expected economic lives are approximately:

Computer and office equipment	3 to 5 years
Motor vehicles	5 to 8 years

Furniture and fittings	5 to 10 years
Plant and equipment	10 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income.

BGS SMARTCARD SYSTEMS AKTIENGESELLSCHAFT
Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasehold improvement costs

Costs incurred in the adaptation of leased properties to serve the requirements of the Company are capitalized and amortized over the shorter of the term of the lease and the contract for which the lease has been entered into.

Sales taxes

Revenue and expenses are presented net of sales, use and value added taxes, as the case may be.

Income taxes

The Company provides for income taxes using the asset and liability method. This approach recognizes the amount of taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequence of events recognized in the financial statements and tax returns. Deferred income taxes are adjusted to reflect the effects of changes in tax laws or enacted tax rates. The income tax rate during the year ended December 31, 2007 was 25%.

In establishing the appropriate income tax valuation allowances, the Company assesses the realizability of its net deferred tax assets, and based on all available evidence, both positive and negative, determines whether it is more likely than not that the net deferred tax assets or a portion thereof will be realized.

The Company has adopted FIN 48 for the period beginning January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. Uncertain tax positions are recognized in the financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the financial statements is based upon the largest amount of tax benefit that, in management s judgement, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes. The Company has analyzed its uncertain tax positions and no adjustment is required.

The Company s policy is to include interest related to unrecognized tax benefits in interest income, net and penalties in selling, general and administration in the consolidated statements of operations.

Intangible assets

Intangible assets are shown at cost less accumulated amortization and are amortized over their useful lives, which vary between two and five years. Intangible assets are periodically evaluated for recoverability, and those evaluations take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists.

Inventory

Inventory is valued at the lower of cost and market value. Cost is determined on a first-in, first-out basis.

Translation of foreign currencies

The functional currency of the Company s foreign subsidiaries is the local currency of the country in which the subsidiary operates. The reporting currency of the Company is the euro. The current rate method is used to translate the financial statements of the Company to euro. Under the current rate method, assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the period. Translation gains and losses are reported in accumulated other comprehensive income in shareholders equity.

Foreign exchange transactions are translated at the spot rate ruling at the date of the transaction. Monetary items are translated at the closing spot rate at the balance sheet date. Transactional gains and losses are recognized in income for the period.

BGS SMARTCARD SYSTEMS AKTIENGESELLSCHAFT
Notes to the Consolidated Financial Statements
for the year ended December 31, 2007
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Company recognizes revenue when:

- there is persuasive evidence of an agreement or arrangement;
- delivery of products has occurred or services have been rendered;
- the seller s price to the buyer is fixed or determinable;
- collectibility is reasonably assured.

The Company s principal revenue streams and their respective accounting treatments are discussed below:

Hardware sales

Revenue from hardware sales is recognized when risk of loss has transferred to the customer and there are no unfulfilled company obligations that affect the customer s final acceptance of the arrangement.

To the extent that sales of hardware are made in an arrangement that includes software that is more than incidental, the Company applies the guidance in American Institute of Certified Public Accountants Statement of Position 97-2, *Software Revenue Recognition, as amended* (SOP 97-2). This requires consideration of post contract maintenance and technical support or other future obligations which could impact the timing and amount of revenue recognized.

Software

Revenue from the sale of software is recognized if all revenue recognition criteria have been met. Post contract maintenance and technical support in respect of software is negotiated and sold as a separate service and is recognized over the period such items are delivered.

Other income

Revenue from service and maintenance activities is charged to customers on a time-and-materials basis and is recognized in the statement of operations as services are delivered to customers.

Research and development expenditure

Research and development expenditures are charged to net income in the periods in which they are incurred. During the year ended December 31, 2007, the Company incurred research and development expenditures of €2,2 million.

Computer software development

Costs in respect of the development of software intended for sale to licensees is accounted for in accordance with Financial Accounting Standards Board (FASB) Statement No. 86, *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed* (FAS 86). FAS 86 requires product development costs to be charged to expenses as incurred until technological feasibility is attained. Technological feasibility is attained when the Company s software has completed system testing and has been determined viable for its intended use. The time between the attainment of technological feasibility and completion of software development is generally short with immaterial amounts of development costs incurred during this period.

Costs in respect of the development of software for the Company s internal use are accounted for in accordance with Statement of Position 98-1 *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1), issued by the American Institute of Certified Public Accountants.

BGS SMARTCARD SYSTEMS AKTIENGESELLSCHAFT
Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncements not yet adopted as of December 31, 2007

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier adoption is permitted. The Company is currently assessing FAS 157 and does not expect the adoption of this standard to have a material impact on its financial position or results of operations.

In February 2008, the FASB issued FASB Statement of Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2) which delays the effective date of FAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. Entities are encouraged to adopt FAS 157 for measurements of nonfinancial assets and nonfinancial liabilities in its entirety as long as they have not yet issued financial statements during that year. An entity that chooses to adopt FAS 157 in its entirety must do so for all nonfinancial assets and nonfinancial liabilities within its scope. The Company is currently reviewing the impact of the adoption of FAS 157 for all non-financial assets and liabilities on its financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities -Including an Amendment of FASB Statement No. 115 (FAS 159). FAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. The unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. FAS 159 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. The Company is currently assessing FAS 159 and does not expect the adoption of this standard to have a material impact on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(revised 2007), *Business Combinations* (FAS 141R). FAS 141R replaces SFAS No. 141, *Business Combinations* (FAS 141). FAS 141R retains the fundamental requirements in FAS 141 that the acquisition method of accounting (defined in FAS 141 as the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. FAS 141R requires the acquiring entity in a business combination to recognize the assets acquired and liabilities assumed at the acquisition date. FAS 141R also requires acquisition-related costs to be recognized separately from the business combination. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently assessing FAS 141R and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). FAS 160 establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that does not result in deconsolidation. FAS 160 clarifies that all of those transactions are equity transactions if the parent retains its controlling financial interest in the subsidiary. FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. However, FAS 160 shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is currently assessing FAS 160 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB No. 133* (FAS 161). FAS 161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. FAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently assessing FAS 161 and has not yet determined the impact that the adoption of this standard will have on its financial position or results of operations.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (FAS 162). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements under US GAAP. FAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The adoption of FAS 162 is not expected to change current practice.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (FAS 142). The intent of FSP 142-3 is to improve the consistency between the useful life of an intangible asset determined under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently assessing FSP FAS 157-2 and has not yet determined the impact that its adoption will have on the Company s financial position or results of operations.

3. ACCOUNTS RECEIVABLE

	2007
Accounts receivable, trade	€5,016
Other receivables	261 -
Total accounts receivable, net	€5,277

4. INVENTORY

The Company s inventory comprised of the following as of December 31, 2007.

	2008
Finished goods	€1,018

5. PROPERTY, PLANT AND EQUIPMENT

	2007
Cost:	
Computer equipment	€465
Furniture and office equipment	115
Motor vehicles	77
Plant and equipment	70
	727
Accumulated depreciation:	
Computer equipment	296
Furniture and office equipment	92

Motor vehicles	10
Plant and equipment	55
	453
Carrying amount:	
Computer equipment	169
Furniture and office equipment	23
Motor vehicles	67
Plant and equipment	15
	€274

BGS SMARTCARD SYSTEMS AKTIENGESELLSCHAFT
Notes to the Consolidated Financial Statements
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6. INTANGIBLE ASSETS

Summarized below is the carrying value and accumulated amortization of the intangible assets as of December 31, 2007:

	As of December 31, 2007		
	Gross carrying value	Accumulated amortization	Net carrying value
Finite-lived intangible assets:			
Software licenses and rights	€75	€(70)	€5
Total finite-lived intangible assets	€75	€(70)	€5

Aggregate amortization expense on the rights and licenses for the year ended December 31, 2007 was approximately €0.01 million.

Future annual amortization expense is estimated at €0.01 million per annum. Actual annual amortization expense to be reported in future periods could differ from this estimate as a result of new intangible asset acquisitions, changes in useful lives and other relevant factors.

7. OTHER PAYABLES

	2007
Advance payments received on order (client deposits)	€817
Payroll-related payables	593
Accruals	179
Provisions	1,124
	€2,713

8. CAPITAL STRUCTURE

The Company s balance sheet reflects one class of equity, namely common stock.

Common stock

Holders of shares of the Company s common stock are entitled to receive dividends and other distributions when declared by the Company s supervisory board out of funds available.

Upon voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of common stock share ratably in the assets remaining after payments to creditors. There are no pre-emptive or other subscription rights, conversion rights or redemption or scheduled installment payment provisions relating to shares of common stock. All of the outstanding shares of common stock are fully paid and non-assessable.

Each holder of common stock is entitled to one vote per share for the election of the supervisory board and for all other matters to be voted on by shareholders.. The shares of Company common stock are not subject to redemption.

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BGS SMARTCARD SYSTEMS AKTIENGESELLSCHAFT
Notes to the Consolidated Financial Statements
for the year ended December 31, 2007
(All amounts stated in thousands of euro, unless otherwise stated)

9. INCOME TAXES

Presented below is the analysis of the income tax provision for the year ended December 31, 2007 and the reconciliation of income taxes, calculated at the statutory income tax rate, to the income tax provision included in the accompanying statement of operations for the year ended December 31, 2007:

	2007
Income tax provision:	
Current income tax provision	
Austria	€1,180
Other international	-
Current income tax provision	1,180
Deferred taxation charge (benefit)	447
Income tax provision	€1,627
Income tax rate reconciliation	
Income taxes at statutory tax rates	25.00%
Permanent items	2.00%
Income tax provision	23.00%
Current	17.00%
Deferred	6.00%

9. INCOME TAXES (continued)

The following table shows the significant components included in deferred income taxes as at December 31, 2007:

	2007
Deferred tax assets	
Assessed losses	€155
Provisions and accruals	43
License rights	11,421
Total deferred tax assets before valuation allowance	11,619
Valuation allowances	(7,177)
Total deferred tax assets, net of valuation allowance	4,442
Reported as	
Current deferred tax	43
Long term deferred tax	€4,399

Tax status

The Company is registered for taxation in Austria, Vienna and final assessments are available for the years up to and including 2006. The last audit conducted by the Austrian tax authorities covered the tax period from 2001 to 2003 and was completed in 2005. The Company has no significant appeals pending.

Tax loss carry-forwards

As of December 31, 2007, a subsidiary of the company has a net operating loss carry forward of €0.5 million.

Acquisition of license rights previously owned by BGS Switzerland

The license rights previously held by BGS Switzerland were transferred to the Company as of June 30, 2006, as a result of the liquidation of BGS Switzerland. The license rights, termed software for taxation purposes, were not capitalized under GAAP because it was generated internally. However the license rights were valued for tax purposes based on previous license payments at €50.76 million in June 2006. The Company expects to amortize the license rights in its tax returns over a period of 15 years. Accordingly, as of December 31, 2007, the Company has recognized a deferred tax asset of approximately €11.4 million related to the license rights which have been recognized for tax purposes but not in terms of GAAP.

BGS SMARTCARD SYSTEMS AKTIENGESELLSCHAFT
Notes to the Consolidated Financial Statements
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9. INCOME TAXES (continued)

Valuation allowance

The utilization of deferred tax assets is dependent on the Company s future operating profits. Management is not aware of any trends, events, or transactions that are expected to affect future levels of taxable income. Management is of the opinion that based on the weight of available positive and negative evidence it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets above, except for certain tax losses discussed below.

Management has provided a valuation allowance for the net operating loss carry forwards and the license rights.

The net operating loss was incurred by a subsidiary which is currently in the start-up phase and the Company s management believes that due to the status of the subsidiary it may not be able to utilize these tax loss carry forwards in future. Accordingly, a valuation allowance of €0.2 million has been provided for the full amount of the tax loss carry forward.

The tax deduction for the license rights is claimable over a 15 year period beginning in the tax year ended December 31, 2006. Management has considered all available evidence, both positive and negative, including forecasts of taxable income over its five-year forecasting period, and determined based on the weight of that evidence, that as at December 31, 2007, a valuation allowance is needed for approximately 61% of the deduction claimable related to the license rights as there may not be sufficient taxable income in the future to offset this deduction.

During the year ended December 31, 2007, the Company utilized €0.3 million of its valuation allowance.

10. COMPREHENSIVE INCOME (LOSS)

The Company s comprehensive income consists of net income and foreign currency translation gains and losses which, under GAAP, are excluded from net income. Total comprehensive income for the year ended December 31, 2007 was:

	2007
Net income	€5,037
Foreign currency translation adjustments	(26)
Total comprehensive income	€5,011

11. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information:

The following table presents the supplemental cash flow disclosures for the year ended December 31, 2007:

	2007
Cash received from interest	€149
Cash paid for interest	€7
Cash paid for income taxes	€603

12. 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 subsequent to initial recognition. These instruments are measured as set out below:

Trade and other receivables

Trade and other receivables originated by the Company are stated at cost. The fair value of trade and other receivables approximate their carrying value due to their short-term nature.

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for the year ended December 31, 2007
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12. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Trade and other payables

The fair values of trade and other payables approximates their carrying amounts, due to their short-term nature.

Risk management

The Company seeks to reduce its exposure to currencies other than the euro 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 our operations.

Currency Exchange Risk