

NET 1 UEPS TECHNOLOGIES INC  
Form 10-Q  
November 14, 2018

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **September 30, 2018** 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**  
(State or other jurisdiction  
of incorporation or organization)

**98-0171860**  
(IRS Employer  
Identification No.)

**President Place, 4<sup>th</sup> 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  NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 9, 2018 (the latest practicable date), 56,833,925 shares of the registrant's common stock, par value \$0.001 per share, net of treasury shares, were outstanding.

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## Form 10-Q

## NET 1 UEPS TECHNOLOGIES, INC.

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## Part I. Financial Information

## Item 1. Financial Statements

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

	<b>Unaudited September 30, 2018</b>	<b>As restated<sup>(A)</sup> June 30, 2018</b>
(In thousands, except share data)		
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 98,555	\$ 90,054
Restricted cash (Note 10)	84,778	-
Pre-funded social welfare grants receivable (Note 2)	-	2,965
Accounts receivable, net (Note 3)	113,924	109,683
Finance loans receivable, net (Note 3)	50,811	62,205
Inventory (Note 4)	10,369	12,887
Total current assets before settlement assets	358,437	277,794
Settlement assets (Note 5)	68,566	149,047
Total current assets	427,003	426,841
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of September: \$130,655; June: \$129,185	25,222	27,054
EQUITY-ACCOUNTED INVESTMENTS (Note 7)	94,241	88,331
GOODWILL (Note 8)	279,158	283,240
INTANGIBLE ASSETS, net (Note 8)	121,824	131,132
DEFERRED INCOME TAXES	8,007	6,312
OTHER LONG-TERM ASSETS, including reinsurance assets (Note 7 and Note 9)	245,150	256,380
<b>TOTAL ASSETS</b>	<b>1,200,605</b>	<b>1,219,290</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Short-term credit facilities for ATM funding (Note 10)	84,778	-
Short-term credit facilities (Note 10)	3,313	-
Accounts payable	23,134	35,055
Other payables	82,292	47,994
Current portion of long-term borrowings (Note 10)	33,937	44,695
Income taxes payable	13,898	5,742
Total current liabilities before settlement obligations	241,352	133,486
Settlement obligations (Note 5)	68,566	149,047
Total current liabilities	309,918	282,533
DEFERRED INCOME TAXES	43,567	46,606
LONG-TERM BORROWINGS (Note 10)	11,660	5,469
OTHER LONG-TERM LIABILITIES, including insurance policy liabilities (Note 9)	3,419	38,580
<b>TOTAL LIABILITIES</b>	<b>368,564</b>	<b>373,188</b>
COMMITMENTS AND CONTINGENCIES (Note 19)		

REDEEMABLE COMMON STOCK	107,672	107,672
<b>EQUITY</b>		
COMMON STOCK (Note 11)		
Authorized: 200,000,000 with \$0.001 par value;		
Issued and outstanding shares, net of treasury - September: 56,833,925; June:		
56,685,925	80	80
PREFERRED STOCK		
Authorized shares: 50,000,000 with \$0.001 par value;		
Issued and outstanding shares, net of treasury: September: -; June: -		
ADDITIONAL PAID-IN-CAPITAL	276,865	276,201
TREASURY SHARES, AT COST: September: 24,891,292; June: 24,891,292	(286,951)	(286,951)
ACCUMULATED OTHER COMPREHENSIVE LOSS (Note 1 and 12)	(189,528)	(184,436)
RETAINED EARNINGS (Note 1)	832,426	837,625
TOTAL NET1 EQUITY	632,892	642,519
NON-CONTROLLING INTEREST	91,477	95,911
<b>TOTAL EQUITY</b>	<b>724,369</b>	<b>738,430</b>

**TOTAL LIABILITIES, REDEEMABLE COMMON STOCK**

AND

**SHAREHOLDERS EQUITY**

\$ 1,200,605 \$ 1,219,290

(A) Certain amounts shown here do not correspond to the Company's 2018 financial statements and reflects an adjustment made, refer to Note 1 See Notes to Unaudited Condensed Consolidated Financial Statements

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

	<b>Three months ended</b> <b>September 30,</b> <b>2018                      2017</b>	
	(In thousands, except per share data)	
REVENUE	\$ 125,884	\$ 152,558
EXPENSE		
Cost of goods sold, IT processing, servicing and support	72,316	74,652
Selling, general and administration	41,878	43,934
Depreciation and amortization	10,794	8,966
OPERATING INCOME	896	25,006
INTEREST INCOME	1,876	5,044
INTEREST EXPENSE	2,759	2,121
INCOME BEFORE INCOME TAX EXPENSE	13	27,929
INCOME TAX EXPENSE (Note 18)	6,490	10,277
NET (LOSS) INCOME BEFORE EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	(6,477)	17,652
EARNINGS FROM EQUITY-ACCOUNTED INVESTMENTS	1,373	2,075
NET (LOSS) INCOME	(5,104)	19,727
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	95	244
NET (LOSS) INCOME ATTRIBUTABLE TO NET1	\$ (5,199)	\$ 19,483
<b>Net (loss) income per share, in U.S. dollars</b> (Note 14)		
Basic (loss) earnings attributable to Net1 shareholders	\$(0.09)	\$ 0.34
Diluted (loss) earnings attributable to Net1 shareholders	\$(0.09)	\$ 0.34

See Notes to Unaudited Condensed Consolidated Financial Statements



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

	<b>Three months ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
	(In thousands)	
Net (loss) income	\$ (5,104)	\$ 19,727
Other comprehensive (loss) income		
Movement in foreign currency translation reserve	(13,322)	(13,880)
Movement in foreign currency translation reserve related to equity-accounted investments	5,430	(227)
Total other comprehensive (loss) income, net of taxes	(7,892)	(14,107)
Comprehensive (loss) income	(12,996)	5,620
Add (Less) comprehensive loss (income) attributable to non-controlling interest	2,705	(133)
Comprehensive (loss) income attributable to Net1	\$ (10,291)	\$ 5,487

See Notes to Unaudited Condensed Consolidated Financial Statements

## NET 1 UEPS TECHNOLOGIES, INC.

## Unaudited Condensed Consolidated Statement of Changes in Equity for the three months ended September 30, 2017 (dollar amounts in thousands)

		Net 1 UEPS Technologies, Inc. Shareholders					Accumulated	
		Number		Number		Additional		Other
		of		of		Paid-In		Comprehensive
		Treasury		Shares,		Retained		(Loss) Income
		Shares		Net		Earnings		
		Shares		of		Capital		
		Amount		Treasury		Earnings		
		Shares		Shares		Capital		
Balance July 1, 2017	81,261,029	\$ 80	(24,891,292)	\$ (286,951)	56,369,737	\$ 273,733	\$ 773,276	\$ (162,566)
Restricted stock granted (Note 13)	588,594				588,594			
Stock-based compensation charge (Note 13)						869		
Reversal of stock compensation charge (Note 13)	(30,635)				(30,635)	(42)		
Reversal of stock based-compensation charge related to equity-accounted investment						(207)		
Net income							19,483	
Other comprehensive income								(13,990)
Balance September 30, 2017	81,818,988	\$ 80	(24,891,292)	\$ (286,951)	56,927,696	\$ 274,353	\$ 792,759	\$ (176,566)

See Notes to Unaudited Condensed Consolidated Financial Statements

**NET 1 UEPS TECHNOLOGIES, INC.**

**Unaudited Condensed Consolidated Statement of Changes in Equity for the three months ended September 30, 2018 (dollar amounts in thousands)**

Net 1 UEPS Technologies, Inc. Shareholders						
Number	Number	Number	Additional	Other	Total Non-	Redeemabl
of	of	of	Paid-In	Comprehensive	Retained	
of	Treasury	Treasury	Shares,			
of	Treasury	Net	Net			

The index is also reviewed on an ongoing basis. Corporate actions (including initial public offerings, mergers and takeovers, spin-offs, delistings, and bankruptcy) that affect the index composition are immediately reviewed. Any changes are announced, implemented, and much effective in line with the type of corporate action and the magnitude of the effect.

**Index Calculation**

The index is calculated with the Laspeyres formula, which measures the aggregate price changes in the component stocks against a fixed base quantity weight. The formula for calculating the index value can be expressed as follows:

$$\text{Index} = \frac{\text{free float market capitalization of the index at the time}}{\text{divisor of the index at the time}}$$

The free float market capitalization of the index is equal to the sum of the products of the closing price, number of shares, free float factor, weighting cap factor, and the exchange rate from local currency into the index currency for the component company as of the time that the index is being calculated.

The index is calculated using a divisor that helps to maintain the continuity of the index's value so that corporate actions do not artificially increase or decrease the underlier level or the level of the index.

The divisor of the index is adjusted to maintain the continuity of the index's values across changes due to corporate actions, such as cash dividends, rights offerings, stock dividends from treasury shares, repurchases of shares and self tender, and spin-offs.

The divisor is calculated by starting with the previous divisor in effect (which we call the original divisor value) for the index and multiplying it by a fraction, the numerator of which is the sum for all underlier stocks (calculated on an individual stock basis) of the original divisor value for that underlier stock (as described below), plus or minus the difference between the adjusted free float market capitalization of that stock and the original free float market capitalization of that stock, calculated using the values used to calculate the original divisor value, and the denominator of which is that stock's original divisor value. The adjusted free float market capitalization is calculated for underlier stocks that have experienced a corporate action of the type described above as of the time the new divisor value is being calculated using the free float market capitalization calculated with adjusted closing prices (adjusted to account for such corporate action), the new number of shares, and the free float factor minus the free float market capitalization calculated with that stock's original closing price, number of shares, and free float factor, in each case as used in calculating the original divisor value. The original divisor value is the sum for all underlier stocks (calculated on an individual stock basis using the values at the time the previous calculation of the divisor was made) of the product of (i) the stock price of that underlier stock, times (ii) the number of shares of such underlier stock, times (iii) the free float factor, times (iv) the weighting cap factor. Errors in divisor calculation are corrected on an intraday basis if discovered on the same day the new divisor is published. If the error is discovered later, the error is corrected on an intraday basis if feasible and only if the error is considered significant by the STOXX management board.

**License Agreement**

The Bank expects to enter into a non-exclusive license agreement with STOXX, which grants the Bank a license in exchange for a fee to use the index in connection with the issuance of certain securities, including the Notes.

STOXX has no relationship to the Bank, other than the licensing of the index and its service marks for use in connection with the Notes.

STOXX does not:

sponsor, endorse, sell or promote the Notes;

recommend that any person invest in the Notes or any other financial products;

have any responsibility or liability for or make any decisions about the timing, amount or pricing of the Notes;

have any responsibility or liability for the administration, management or marketing of the Notes; and

consider the needs of the Notes or the owners of the Notes in determining, composing or calculating the index or have any obligation to do so.

STOXX will not have any liability in connection with the Notes. Specifically, STOXX does not make any warranty, express or implied, and the STOXX disclaims any warranty about:

the results to be obtained by the Notes, the owner of the Notes or any other person in connection with the use of the index and the data included in the index;

the accuracy or completeness of the index or its data;

the merchantability and the fitness for a particular purpose or use of the index or its data;

any errors, omissions or interruptions in the index or its data; and

any lost profits or indirect, punitive, special or consequential damages or losses, even if STOXX knows that they might occur.

The licensing relating to the use of the index and trademark referred to above by the Bank will be solely for the benefit of the Bank, and not for any other third parties.

**Historical Information**

The following table sets forth the quarterly high and low closing levels for the Reference Asset, based on daily closing levels. The closing level of the Reference Asset on August 2, 2012 was 2,263.36. *Past performance of the Reference Asset is not indicative of the future performance of the Reference Asset.*

**Quarterly High, Low and Closing Levels of the EURO STOXX 50® Index**

Quarter Begin	Quarter End	Quarterly High	Quarterly Low	Quarterly Close
1/2/2009	3/31/2009	2,578.43	1,809.98	2,071.13
4/1/2009	6/30/2009	2,537.35	2,097.57	2,401.69
7/1/2009	9/30/2009	2,899.12	2,281.47	2,872.63
10/1/2009	12/31/2009	2,992.08	2,712.30	2,964.96
1/4/2010	3/31/2010	3,017.85	2,631.64	2,931.16
4/1/2010	6/30/2010	3,012.65	2,488.50	2,573.32
7/1/2010	9/30/2010	2,827.27	2,507.83	2,747.90
10/1/2010	12/31/2010	2,890.64	2,650.99	2,792.82
1/3/2011	3/31/2011	3,068.00	2,721.24	2,910.91
4/1/2011	6/30/2011	3,011.25	2,715.88	2,848.53
7/1/2011	9/30/2011	2,875.67	1,995.01	2,179.66
10/3/2011	12/31/2011	2,476.92	2,090.25	2,316.55
1/3/2012	3/30/2012	2,608.42	2,286.45	2,477.28
4/2/2012	6/29/2012	2,501.18	2,068.66	2,264.72
7/2/2012*	8/2/2012*	2,340.31	2,151.54	2,263.36

\* As of the date of this pricing supplement, available information for the third calendar quarter of 2012 includes data for the period from July 2, 2012 through August 2, 2012. Accordingly, the Quarterly High, Quarterly Low and Quarterly Close data indicated are for this shortened period only and do not reflect complete data for the third calendar quarter of 2012.

The graph below illustrates the performance of the Reference Asset from January 2, 2002 through August 2, 2012. In addition, below the graph is a table setting forth the year on year percentage gain or loss in the level of the Reference Asset. *Past performance of the Reference Asset is not indicative of the future performance of the Reference Asset.*

Start of Period	End of Period	Percentage Increase or Decrease
8/2/2002	8/2/2003	-3.57%
8/2/2003	8/2/2004	9.77%
8/2/2004	8/2/2005	24.24%
8/2/2005	8/2/2006	10.34%
8/2/2006	8/2/2007	16.02%
8/2/2007	8/2/2008	-23.30%
8/2/2008	8/2/2009	-18.70%
8/2/2009	8/2/2010	5.54%
8/2/2010	8/2/2011	-9.83%
8/2/2011	8/2/2012	-11.06%

We obtained the information regarding the historical performance of the Reference Asset in the tables and graph above from Bloomberg Financial Markets.

We make no representation or warranty as to the accuracy or completeness of the information obtained from Bloomberg Financial Markets. The historical performance of the Reference Asset should not be taken as an indication of its future performance, and no assurance can be given as to the Final Level of the Reference Asset. We cannot give you assurance that the performance of the Reference Asset will result in any positive return on your initial investment.

## **SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)**

Scotia Capital (USA) Inc. or one of our affiliates will purchase the Notes at the Principal Amount and, as part of the distribution of the Notes, will sell the Notes to Goldman, Sachs & Co. at a discount and underwriting commissions of \$2.50 per \$1,000 Principal Amount of Notes in connection with the distribution of the Notes. In accordance with the terms of a distributor accession letter, Goldman, Sachs & Co. has been appointed as a distribution agent under the distribution agreement and may purchase Notes from The Bank of Nova Scotia or its affiliates. Scotia Capital (USA) Inc. will also receive a structuring and development fee of up to \$0.50 per \$1,000 Principal Amount of Notes.

In addition, Scotia Capital (USA) Inc. or another of its affiliates or agents may use the product prospectus supplement to which this pricing supplement relates in market-making transactions after the initial sale of the Notes. While Scotia Capital (USA) Inc. may make markets in the Notes, it is under no obligation to do so and may discontinue any market-making activities at any time without notice. See the sections titled Supplemental Plan of Distribution in the accompanying prospectus supplement and product prospectus supplement.

The price at which you purchase the Notes includes costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the Notes, as set forth above. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the Notes. As a result, you may experience an immediate and substantial decline in the market value of your Notes on the Issue Date.

We expect that delivery of the Notes will be made against payment therefor on or about the fifth Business Day following the date of pricing of the Notes (this settlement cycle being referred to as T+5). Under Rule 15c6-1 of the Securities and Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the Trade Date will be required, by virtue of the fact that each Note initially will settle in five Business Days (T+5), to specify alternate settlement arrangements to prevent a failed settlement.

### **Conflicts of Interest**

Each of Scotia Capital (USA) Inc., and Scotia Capital Inc. is an affiliate of the Bank and, as such, has a conflict of interest in this offering within the meaning of FINRA Rule 5121. In addition, the Bank will receive the gross proceeds from the initial public offering of the Notes, thus creating an additional conflict of interest within the meaning of Rule 5121. Consequently, the offering is being conducted in compliance with the provisions of Rule 5121. Neither Scotia Capital (USA) Inc. nor Scotia Capital Inc. is permitted to sell Notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Bank, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Bank. Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **CERTAIN CANADIAN INCOME TAX CONSEQUENCES**

See Certain Income Tax Consequences Certain Canadian Income Tax Considerations at page S-20 of the Prospectus Supplement dated February 29, 2012.





## **CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The U.S. federal income tax consequences of your investment in the Notes are uncertain. No statutory, judicial or administrative authority directly discusses how the Notes should be treated for U.S. federal income tax purposes. We intend to treat the Notes as pre-paid cash-settled derivative contracts. Pursuant to the terms of the Notes, you agree to treat the Notes in this manner for all U.S. federal income tax purposes. If your Notes are so treated, you should generally recognize capital gain or loss upon the sale, exchange or payment on maturity in an amount equal to the difference between the amount you receive at such time and the amount that you paid for your Notes. Such gain or loss should generally be long-term capital gain or loss if you have held your Notes for more than one year.

For a more detailed discussion of the United States federal income tax consequences with respect to your Notes, you should carefully consider the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences in the accompanying product prospectus supplement and the discussion set forth in Certain United States Income Tax Considerations of the accompanying prospectus supplement. In particular, U.S. holders (as defined in the prospectus supplement) should review the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences Supplemental U.S. Tax Considerations U.S. Holders in the product prospectus supplement and Non-U.S. Holders (as defined in the prospectus supplement) should review the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences Supplemental U.S. Tax Considerations Non-U.S. Holders in the product prospectus supplement. U.S. holders should also review the discussion under Medicare Tax, Treasury Regulations Requiring Disclosure of Reportable Transactions, Information With Respect Foreign Financial Assets and Information Reporting and Backup Withholding under Certain Income Tax Consequences Certain United States Income Tax Considerations in the prospectus supplement.

We will not attempt to ascertain whether the issuer of any of the Reference Asset constituent stocks would be treated as a passive foreign investment company within the meaning of Section 1297 of the Internal Revenue Code of 1986, as amended (the Code) or a United States real property holding corporation within the meaning of Section 897 of the Code. If the issuer of one or more of such stocks were so treated, certain adverse U.S. federal income tax consequences could possibly apply. You should refer to any available information filed with the SEC by the issuers of the Reference Asset constituent stocks and consult your tax advisor regarding the possible consequences to you in this regard.

In this regard and in regard to a potential application of the constructive ownership rules, U.S. Holders (as defined in the Prospectus Supplement) should review the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences Supplemental U.S. Tax Considerations U.S. Holders in the product prospectus supplement.

Because other characterizations and treatments are possible the timing and character of income in respect of the Notes might differ from the treatment described above. You should carefully review the discussion set forth in Alternative Treatments in the product prospectus supplement for the possible tax consequences of different characterizations or treatment of your Notes for U.S. federal income tax purposes. It is possible, for example, that the Internal Revenue Service ( IRS ) might treat the Notes as a series of derivative contracts, each of which matures on the next rebalancing date of the reference asset, in which case you would be treated as disposing of the Notes on each rebalancing date in return for a new derivative contract that matures on the next rebalancing date, and you would recognize capital gain or loss on each rebalancing date.

The IRS has also issued a notice that may affect the taxation of the Notes. According to the notice, the IRS and the Treasury Department are actively considering whether the holder of an instrument such as the Notes should be required to accrue ordinary income on a current basis, and they are seeking comments on the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the Notes will ultimately be required to accrue ordinary income currently and this could be applied on a retroactive basis. Holders are urged to consult their tax advisors concerning the significance, and the potential impact, of the above considerations. We intend to treat the Notes for U.S. federal income tax purposes in accordance with the treatment described above unless and until such time as the Treasury Department and the IRS determine that some other treatment is more appropriate.

*Non-U.S. Holders.* Section 871(m) of the Code requires withholding (up to 30%, depending on the applicable treaty) on certain financial instruments to the extent that the payments or deemed payments on the financial instruments are contingent upon or determined by reference to U.S.-source dividends. Under proposed U.S. Treasury Department regulations, certain payments that are contingent upon or determined by reference to U.S.-source dividends, including payments or adjustments for extraordinary U.S.-source dividends, with respect to equity-linked instruments, including the Notes, may be treated as dividend equivalents subject to U.S. withholding tax. To the effect any final regulations may impose a withholding tax on payments or adjustment made on the Notes on or after January 1, 2013 that are treated as U.S.-source dividend equivalents. We (or the applicable paying agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld. Further, Non-U.S. Holders may be required to provide certifications prior to or upon the sale, redemption or

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maturity of the Notes in order to minimize or avoid U.S. withholding taxes.

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES TO THEM OF ACQUIRING, HOLDING AND DISPOSING OF NOTES AND RECEIVING PAYMENTS UNDER THE NOTES.

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