Visa Inc.
Form 10-Q
May 13, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from to

Commission file number 001-33977

VISA INC.

(Exact name of Registrant as specified in its charter)

Delaware	**26-0267673**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
P.O. Box 8999 San Francisco, California	**94128-8999**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (415) 932-2100

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 þ

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer þ 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 þ

As of May 12, 2008, there were 447,889,462 shares of class A, 369,038,802 shares of class B and 267,014,729 shares of class C common stock of Visa Inc. issued and outstanding.

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VISA INC.

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Unless the context requires otherwise, reference to Company, Visa, we, us or our refers to Visa Inc. and its subsidiaries.

The registered trademarks of Visa Inc. and its subsidiaries include: All It Takes; Bands Design Blue, White & Gold; Dove Design; Interlink; Takes Visa; PLUS; Verified by Visa; Visa; Visa Classic; Visa Corporate; Porque La Vida es Ahora; The World s Best Way to Pay; Electron; Visa Europe; Visa Fleet; Visa Infinite; Visa Mobile; VisaNet; Visa Platinum; Visa Purchasing; Visa Resolve OnLine; Visa Signature; Visa Signature Business; Visa Vale; and Winged V Design. Other trademarks used in this report are the property of their respective owners.

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PART I

ITEM 1. Financial Statements

VISA INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2008	September 30, 2007[(1)]
	(in millions, except share data)	
Assets		
Cash and cash equivalents	**$ 5,041**	$ 275
Restricted cash litigation escrow	**1,285**	
Restricted cash tax escrow	**116**	
Investment securities, available-for-sale	**598**	747
Settlement receivable	**1,157**	10
Accounts receivable	**321**	245
Customer collateral	**500**	68
Current portion of volume and support incentives	**227**	96
Current portion of deferred tax assets	**541**	795
Prepaid expenses and other current assets	**300**	271
Total current assets	**10,086**	2,507
Restricted cash litigation escrow	**770**	
Investment securities, available-for-sale	**194**	737
Volume and support incentives	**79**	44
Investment in Visa International		227
Property, equipment, and technology, net	**1,018**	313
Deferred tax assets		471
Other assets	**623**	91
Intangible assets	**10,883**	
Goodwill	**10,216**	
Total assets	**$ 33,869**	$ 4,390
Liabilities		
Accounts payable	**$ 111**	$ 99
Settlement payable	**916**	50
Customer collateral	**500**	68
Accrued compensation and benefits	**317**	244
Volume and support incentives	**305**	188
Accrued liabilities	**540**	356
Current portion of long-term debt	**72**	41
Current portion of accrued litigation	**1,572**	2,236
Redeemable class C (series III) common stock, 35,263,585 shares outstanding at March 31, 2008	**1,508**	
Total current liabilities	**5,841**	3,282
Long-term debt	**40**	
Accrued litigation	**1,349**	1,446

Deferred tax liabilities	**3,563**	
Other liabilities	**761**	125
Total liabilities	**11,554**	4,853

(1) Historical balances for periods prior to October 1, 2007 represent balances for Visa U.S.A. Inc., deemed the accounting acquirer in the business combination.

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED BALANCE SHEETS (Continued)

(Unaudited)

	March 31, 2008	September 30, 2007[1]
	(in millions, except share and par value data)	
Temporary Equity and Minority Interest		
Class C (series II) common stock, $0.0001 par value, 79,748,857 shares outstanding at March 31, 2008, net of subscription receivable	**$ 1,127**	$
Minority interest		38
Total temporary equity and minority interest	**1,127**	38
Commitments and contingencies see Note 14		
Stockholders Equity		
Preferred stock, $0.0001 par value, 25,000,000 shares authorized and none issued		
Class A common stock, $0.0001 par value, 2,001,622,245,209 shares authorized, 447,889,803 shares issued and outstanding		
Class B common stock, $0.0001 par value, 622,245,209 shares authorized, 245,513,385 shares issued and outstanding		
Class C (series I) common stock, $0.0001 par value, 813,582,801 shares authorized and 124,503,084 shares issued and outstanding		
Class C (series III) common stock, $0.0001 par value, 64,000,000 shares authorized and 26,949,616 shares issued and outstanding		
Class C (series IV) common stock, $0.0001 par value, 1,000,000 shares authorized and 549,587 shares issued and outstanding		
Additional paid-in capital	**20,970**	
Accumulated income (deficit)	**223**	(501)
Accumulated other comprehensive loss, net	**(5)**	
Total stockholders equity and accumulated income (deficit)	**21,188**	(501)
Total liabilities, temporary equity and minority interest, and stockholders equity	**$ 33,869**	$ 4,390

(1) Historical balances for periods prior to October 1, 2007 represent balances for Visa U.S.A. Inc., deemed the accounting acquirer in the business combination.

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2008	2007[1]	2008	2007[1]
	(in millions except per share data)			
Operating Revenues				
Service fees	**$ 792**	$ 460	**$ 1,524**	$ 911
Data processing fees	**494**	321	**986**	652
Volume and support incentives	**(338)**	(137)	**(588)**	(234)
International transaction fees	**379**	105	**760**	211
Other revenues	**126**	64	**259**	118
Total operating revenues	**1,453**	813	**2,941**	1,658
Operating Expenses				
Personnel	**289**	174	**572**	345
Network, EDP and communications	**78**	54	**161**	109
Advertising, marketing and promotion	**215**	105	**425**	219
Visa International fees		43		86
Professional and consulting fees	**96**	79	**194**	150
Depreciation and amortization	**59**	28	**121**	57
Administrative and other	**75**	46	**149**	97
Litigation provision	**292**	13	**292**	15
Total operating expenses	**1,104**	542	**1,914**	1,078
Operating income	**349**	271	**1,027**	580
Other Income (Expense)				
Equity in earnings of unconsolidated affiliates		13	**1**	25
Interest expense	**(41)**	(20)	**(86)**	(40)
Investment income, net	**34**	24	**75**	46
Other	**28**		**36**	
Total other income	**21**	17	**26**	31
Income before income taxes and minority interest	**370**	288	**1,053**	611
Income tax expense	**56**	106	**315**	225
Income before minority interest	**314**	182	**738**	386
Minority interest		(2)		(1)
Net income	**$ 314**	$ 180	**$ 738**	$ 385
Basic net income per share (Note 11)[2]				
Class A common stock	**$ 0.39**		**$ 0.93**	

Class B common stock	**$ 0.37**	**$ 0.92**
Class C (series I) common stock	**$ 0.39**	**$ 0.93**
Class C (series II) common stock	**$ 0.30**	**$ 0.81**
Class C (series III and IV) common stock	**$ 0.39**	**$ 0.93**

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VISA INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(Unaudited)

	For the Three Months Ended March 31, 2008	For the Three Months Ended March 31, 2007[1]	For the Six Months Ended March 31, 2008	For the Six Months Ended March 31, 2007[1]
	(in millions except per share data)			
Basic weighted average shares outstanding, in thousands (Note 11)[2]				
Class A common stock	**63,800**		**31,726**	
Class B common stock	**415,280**		**420,866**	
Class C (series I) common stock	**255,313**		**256,675**	
Class C (series II) common stock	**35,311**		**31,587**	
Class C (series III and IV) common stock	**57,725**		**60,258**	
Diluted net income per share (Note 11)[2]				
Class A common stock	**$ 0.39**		**$ 0.93**	
Class B common stock	**$ 0.37**		**$ 0.92**	
Class C (series I) common stock	**$ 0.39**		**$ 0.93**	
Class C (series II) common stock	**$ 0.30**		**$ 0.81**	
Class C (series III and IV) common stock	**$ 0.39**		**$ 0.93**	
Diluted weighted average shares outstanding, in thousands (Note 11)[2]				
Class A common stock	**777,738**		**762,374**	
Class B common stock	**415,280**		**420,866**	
Class C (series I) common stock	**255,313**		**256,675**	
Class C (series II) common stock	**35,311**		**31,587**	
Class C (series III and IV) common stock	**57,725**		**60,258**	

(1) Historical balances for periods prior to October 1, 2007 represent balances for Visa U.S.A. Inc., deemed the accounting acquirer in the business combination.

(2) For the three and six months ended March 31, 2007, Visa U.S.A. Inc. was a non-stock corporation and therefore there was no comparable metric for net income per share and no common stock outstanding.

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock								
	Class A	**Class B**	**Class C (series I)**	**Class C (series II)**	**Class C (series III and series IV) (in millions)**	**Additional Paid in Capital**	**Accumulated Income (Deficit)**	**Accumulated Other Comprehensive (Loss) Income**	**Total Equity (Deficit)**
Balance as of September 30, 2007[(1)]						**$**	**$ (501)**	**$**	**$ (501)**
Tax adjustment as a result of adoption of FIN 48							8		8
Net income							738		738
Other comprehensive loss, net of tax								(5)	(5)
Comprehensive income									733
Issuance of class USA common stock		426							
Issuance of class EU (series I) common stock					62	3,041			3,041
Issuance of class EU (series II) common stock				28		1,104			1,104
Issuance of class EU (series III) common stock					1	27			27
Issuance of class Canada common stock			22			1,077			1,077
Issuance of class AP common stock			119			5,822			5,822
Issuance of class LAC common stock			80			3,917			3,917
Issuance of class CEMEA common stock			37			1,797			1,797
Conversion of regional common stock in the true-up (Note 10):									
Class USA converted to Class B		(26)							
Class EU (series I) converted to class C (series III)									
Class EU (series II) converted to class C (series II)									
Class EU (series III) converted to class C (series IV)									
Class Canada converted to class C (series I)						(19)			(19)
Class AP converted to class C (series I)			23			997			997
Class LAC converted to class C (series I)			6			251			251
Class CEMEA converted to class C (series I)			(2)			(79)			(79)
Issuance of class C (series II) common stock				52					
Reclassification of common stock upon IPO:									
Class C (series III) common stock to liabilities (Note 10)					(35)	(1,508)			(1,508)
Class C (series II) common stock to temporary equity (Note 10)				(80)		(1,104)	(21)		(1,125)
Proceeds from issuance of class A common stock, net of offering expenses of $582	447					19,068			19,068
Issuance of restricted share awards	1								
Redemption of class B common stock		(155)				(6,618)			(6,618)
Redemption of class C (series I) common stock			(160)			(6,828)			(6,828)
Accretion of class C (series II) common stock (Note 10)							(1)		(1)
Share-based compensation (Note 12)						25			25
Balance as of March 31, 2008	**448**	**245**	**125**		**28**	**$ 20,970**	**$ 223**	**$ (5)**	**$ 21,188**

(1) Historical balances for periods prior to October 1, 2007 represent balances for Visa U.S.A. Inc., deemed the accounting acquirer in the business combination.

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2008	2007	2008	2007
	(in millions)		(in millions)	
Net income	**$ 314**	$ 180	**$ 738**	$ 385
Other comprehensive income (loss), net of tax:				
Investment Securities, available-for-sale				
Net unrealized gain		1		3
Income tax effect	**1**	(1)	1	(1)
Reclassification adjustment for net (gain)/loss realized in net income	**(1)**	1	(1)	(2)
Income tax effect		(1)		1
Derivative Instruments				
Net unrealized loss			(2)	
Income tax effect	**(2)**		(1)	
Reclassification adjustment for net gain realized in net income	**(2)**			
Income tax effect	**1**			
Foreign currency translation loss	**(2)**		(2)	
Other comprehensive (loss) income, net of tax	**(5)**		(5)	1
Comprehensive income	**$ 309**	$ 180	**$ 733**	$ 386

(1) Historical balances for periods prior to October 1, 2007 represent balances for Visa U.S.A. Inc., deemed the accounting acquirer in the business combination.

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended March 31, 2008	For the Six Months Ended March 31, 2007[1]
	(in millions)	
Operating Activities		
Net income	**$ 738**	$ 385
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, equipment and technology	**121**	57
Amortization of intangibles, investments, debt issuance costs, and accretion of member deposits		6
Share-based compensation (Note 12)	**19**	
Fair value adjustment for liability under the framework agreement (Note 4)	**(36)**	
Net recognized (gain) loss on investment securities, including other-than-temporary impairment	**8**	(2)
Loss on disposal of property, equipment and technology		1
Minority interest		1
Amortization of volume and support incentives	**588**	234
Accrued litigation and accretion	**370**	51
Equity in earnings of unconsolidated affiliates	**(1)**	(25)
Deferred income taxes	**124**	
Change in operating assets and liabilities:		
Accounts receivable	**(3)**	(1)
Settlement receivable	**(569)**	5
Volume and support incentives	**(676)**	(243)
Other assets	**(61)**	21
Accounts payable	**(54)**	(55)
Settlement payable	**273**	(4)
Accrued compensation and benefits	**(154)**	(34)
Accrued and other liabilities	**195**	61
Accrued litigation	**(1,131)**	(1)
Member deposits	**(3)**	(71)
Net cash provided by (used in) operating activities	**(252)**	386
Investing Activities		
Investment securities, available-for-sale:		
Purchases	**(1,500)**	(1,427)
Proceeds from sales and maturities	**2,279**	1,222
Cash acquired through reorganization	**1,002**	
Contributions to joint ventures		(1)
Distributions from partnership investment	**1**	
Purchases of property, equipment, and technology	**(237)**	(45)
Proceeds from sale of property, equipment, and technology	**4**	
Net cash provided by (used in) investing activities	**1,549**	(251)
Financing Activities		
Proceeds from short-term borrowing	**2**	
Payments on short-term borrowing	**(2)**	
Proceeds from sale of common stock, net of issuance costs of $550	**19,100**	

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VISA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

	For the Six Months Ended March 31, 2008 (in millions)	For the Six Months Ended March 31, 2007[1] (in millions)
Funding of litigation escrow account Retrospective Responsibility Plan	**(3,000)**	
Funding from litigation escrow account Retrospective Responsibility Plan	**945**	
Funding of tax escrow account for income tax withheld on stock proceeds	**(116)**	
Payment for redemption of stock	**(13,446)**	
Principal payments on debt	**(12)**	(17)
Principal payments on capital lease obligations	**(2)**	(2)
Net cash provided by (used in) financing activities	**3,469**	(19)
Increase in cash and cash equivalents	**4,766**	116
Cash and cash equivalents at beginning of year	**275**	270
Cash and cash equivalents at end of period	**$ 5,041**	$ 386
Supplemental Disclosure of Cash Flow Information		
Income taxes paid, net of refunds	**$ 250**	$ 177
Decrease in accounts payable and accrued and other liabilities related to purchases of property, equipment and technology	**$ (10)**	$ (15)
Interest payments on debt	**$ 4**	$ 2
Common stock issued in reorganization	**$ 17,935**	

(1) Historical balances for periods prior to October 1, 2007 represent balances for Visa U.S.A. Inc., deemed the accounting acquirer in the business combination.

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(unaudited)

(In millions, except as noted)

Note 1 Organization

Visa Inc. (Visa or the Company) is a stock corporation incorporated under the laws of the state of Delaware, United States of America. Visa Inc. and its consolidated subsidiaries, including Visa U.S.A. Inc. (Visa U.S.A.), Visa International Service Association (Visa International), Visa Canada Inc. (Visa Canada) and Inovant LLC (Inovant) (hereafter referred to as the Company) operate the world s largest retail electronic payments network. Visa Inc. facilitates global commerce through the transfer of value and information among financial institutions, merchants, consumers, businesses and government entities. Visa Inc. provides financial institutions, its primary customers, with product platforms encompassing consumer credit, debit, prepaid and commercial payments. VisaNet, a secure, centralized, global processing platform, enables Visa Inc. to provide financial institutions and merchants with a wide range of product platform, transaction processing and related value added-services.

The Company does not issue cards, set fees, or determine the interest rates consumers will be charged on Visa-branded cards. The Company s issuing customers have the independent responsibility to individually determine these and most other competitive card features. These functions are performed by the Company s customer financial institutions in competition with one another.

Prior to the October 2007 Reorganization

Prior to the October 2007 reorganization, Visa operated as five corporate entities related by ownership and membership: Visa U.S.A., Visa International (comprising the operating regions of Asia Pacific (AP), Latin America and Caribbean (LAC), and Central and Eastern Europe, Middle East and Africa (CEMEA)), Visa Canada, Visa Europe Limited (Visa Europe) and Inovant, a majority owned subsidiary of Visa U.S.A., which operated the VisaNet transaction processing system and other related processing systems. Each of Visa U.S.A., Visa Canada, Visa Europe, Visa AP, Visa LAC and Visa CEMEA operated as a separate geographic region, serving its member financial institutions and administering Visa programs in its respective region.

October 2007 Reorganization

In order to respond to industry dynamics and enhance Visa s ability to compete, in a series of transactions occurring from October 1 to October 3, 2007, Visa undertook a reorganization, as more fully described in *Note 3 The Reorganization*, in which Visa U.S.A., Visa International, Visa Canada and Inovant became direct or indirect subsidiaries of Visa Inc. For financial accounting and reporting purposes, the Company has reflected the reorganization as a single transaction occurring on October 1, 2007 (the reorganization date), the date all contractual conditions to the closing, other than those of a perfunctory nature, were met. Visa Europe did not become a subsidiary of Visa Inc., but rather remained owned and governed by its European member financial institutions and entered into a set of contractual arrangements with the Company in connection with the reorganization. In the reorganization, the Company issued different classes and series of common stock reflecting the different rights and obligations of the Visa financial institution members and Visa Europe based on the geographic region in which they are located. In addition to common stock, the Company provided other consideration to Visa Europe, as more fully described in *Note 4 Visa Europe,* in exchange for its ownership interest in Visa International and Inovant.

Prior to the reorganization, at September 30, 2007, Visa U.S.A. held a 69% ownership interest in its consolidated subsidiary, Inovant, and an estimated 26% membership interest in Visa International. The remaining 31% ownership interest in Inovant was held by Visa International, Visa Canada and Visa Europe. The remaining

VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

estimated 74% membership interest in Visa International was held by the financial institution members of the unincorporated regions (consisting of Visa AP, Visa LAC, and Visa CEMEA), Visa Europe and Visa Canada. The reorganization was accounted for using the purchase method of accounting under the guidelines of Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations,* (SFAS No. 141) with Visa U.S.A. deemed to be the accounting acquirer of Visa Canada and the remaining ownership interest in Visa International and Inovant not previously held (the acquired interests). The net assets underlying the acquired interests were recorded at fair value at the reorganization date with the excess purchase price over this value attributed to goodwill.

The results of operations of Visa International and Visa Canada have been included in the consolidated statements of operations of the Company beginning October 1, 2007.

Initial Public Offering

In March 2008, the Company executed its initial public offering (the IPO), issuing 446,600,000 shares of Class A common stock at an IPO price of $44 per share. The Company closed the transaction on March 25, 2008. The Company received $19.1 billion in net proceeds from the offering which reflects underwriting discounts and commissions of $1.23 per share. The Company used $13.4 billion of the net proceeds to redeem 154,738,487 shares of class B common stock and 159,657,751 shares of class C (series I) common stock. In October 2008, the Company intends to use $1.5 billion of the proceeds for the required redemption of 35,263,585 shares of class C (series III) common stock and intends to use $1.146 billion of the proceeds to redeem all shares of class C (series II) common stock outstanding. See further discussion at *Note 4 Visa Europe* and *Note 10 Stockholders Equity and Redeemable Shares.* As determined by the litigation committee and under the Retrospective Responsibility Plan, the Company deposited $3.0 billion of the net IPO proceeds into an escrow account from which settlements of, or judgments in, the covered litigation will be payable, see *Note 5 Retrospective Responsibility Plan*.

The Company has one operating and reportable segment, Payment Services. The Company s activities are interrelated and each activity is dependent upon and supportive of the other. Accordingly all significant operating decisions are based on analysis of Visa Inc. as a single global business.

Note 2 Summary of Significant Accounting Policies

Basis of presentation The accompanying unaudited interim consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America and reflect all normal recurring adjustments that, in the opinion of management, are necessary to present fairly the results for the interim periods presented. Certain information and footnote disclosures normally included in annual financial statements have been omitted. Accordingly these unaudited interim consolidated financial statements should be read in conjunction with the financial statements included in the Company s final prospectus filed with the Securities and Exchange Commission under Rule 424(b)(4) on March 19, 2008, including Visa Inc. s audited consolidated balance sheet and related footnotes at October 1, 2007, unaudited consolidated financial statements and related notes for the three months ended December 31, 2007 and the audited consolidated financial statements and related notes of Visa U.S.A. for the fiscal year ended September 30, 2007.

Comparative consolidated balance sheet information at September 30, 2007 and consolidated statements of operations information for the three and six months ended March 31, 2007 is that of Visa U.S.A., the accounting acquirer in the reorganization, as further described in *Note 3 The Reorganization* and is presented in accordance with accounting principles generally accepted in the United States of America.

Revenues, expenses, assets, and liabilities can vary during each quarter of the year. Therefore, the results and trends in these unaudited interim consolidated financial statements may not be indicative of results for any other interim period or for the entire year.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Principles of consolidation The Company consolidates all entities that are controlled by ownership of a majority voting interest as well as variable interest entities for which the Company is the primary beneficiary. All significant intercompany accounts and transactions are eliminated in consolidation.

Reclassifications Certain reclassifications, not affecting net income, have been made to prior period information to conform to the current period presentation format.

Use of estimates The preparation of the accompanying unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated balance sheets. Such estimates include purchase consideration, valuation of goodwill and intangible assets, valuation of the Visa Europe put option, legal contingencies, assumptions used to determine share based compensation expense, guarantees and indemnifications, and assumptions used in the calculation of income taxes, among others. These estimates and assumptions are based on management s best estimates and judgment. Actual results could differ from these estimates.

Share Based Compensation In March 2008, the Company granted non-qualified stock options, restricted stock awards and restricted stock units to its employees and non-employee directors. Upon granting the awards, the Company applied Statement of Financial Accounting Standards (SFAS) Statement No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R requires that the fair value of all share-based payments to employees be recognized in the financial statements. See *Note 12 Share-based Compensation*.

Restricted Cash Litigation Escrow In accordance with the Retrospective Responsibility Plan (See *Note 5 Retrospective Responsibility Plan*) and following the Company s IPO, the Company deposited $3.0 billion of the proceeds of the offering into an escrow account from which settlements of, or judgments in, the covered litigation will be paid. The escrow funds are held in money market investments with the income earned, less the applicable taxes, classified as restricted cash on the Company s consolidated balance sheet. The amount of the escrow funds equivalent to the actual, undiscounted amount of payments expected to be made beyond one year from the balance sheet date is classified as a non-current asset. Interest earned on escrow funds is included in investment income, net, on the Company s consolidated statement of operations.

Accrued Litigation Accrued litigation associated with settled obligations to be paid over periods longer than one year is accounted for using the present value of actual and estimable future payment obligations, discounted at the estimated rate of sources of credit that could be used to finance the payment of such obligations with similar terms. The current portion of accrued litigation represents the present value of payments to be made over the next twelve months. See *Note 16 Legal Matters.*

Recently Adopted Accounting Pronouncements

On October 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). FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. The initial adoption of FIN 48 resulted in a decrease in accumulated deficit of approximately $8 million and a decrease in goodwill of approximately $6 million at October 1, 2007.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 The Reorganization

Description of the Reorganization

In a series of transactions from October 1 to October 3, 2007, Visa undertook a reorganization in which Visa U.S.A., Visa International, Visa Canada and Inovant became direct or indirect subsidiaries of Visa Inc. and the retrospective responsibility plan was established (see *Note 5 Retrospective Responsibility Plan*). For financial accounting and reporting purposes, the Company has reflected the reorganization as a single transaction occurring on the reorganization date. Visa Europe did not become a subsidiary of Visa Inc., but rather remained owned and governed by its European member financial institutions and entered into a set of contractual arrangements with the Company in connection with the reorganization. In the reorganization, the Company issued different classes and series of common stock reflecting the different rights and obligations of the Visa financial institution members and Visa Europe based on the geographic region in which they are located. In addition to common stock, the Company provided other consideration, as more fully described in *Note 4 Visa Europe,* to Visa Europe in exchange for its ownership interest in Visa International and Inovant.

At September 30, 2007, Visa U.S.A. held a 69% ownership interest in its consolidated subsidiary, Inovant, and an estimated 26% membership interest in Visa International. The remaining 31% ownership interest in Inovant was held by Visa International, Visa Canada and Visa Europe. The remaining estimated 74% membership interest in Visa International was held by Visa Europe, Visa Canada and the financial institution members of Visa AP, Visa LAC, and Visa CEMEA.

The reorganization was accounted for using the purchase method of accounting under the guidelines of SFAS No. 141 with Visa U.S.A. deemed to be the accounting acquirer of the acquired interests. The net assets underlying the acquired interests were recorded at fair value at the reorganization date with the excess purchase price over this value attributed to goodwill.

At the time of the reorganization, the allocation of the Company s common stock to each of Visa AP, Visa LAC, Visa CEMEA, Visa Canada (collectively the acquired regions) and Visa U.S.A. (collectively the participating regions) was based on each entity s relative contribution to the Company s projected net income estimated for fiscal 2008, after giving effect to negotiated adjustments. The allocation of Company common stock and other consideration conveyed to Visa Europe in exchange for its membership interest in Visa International and its ownership interest in Inovant was determined based on the fair value of each element exchanged in the reorganization. To effect the reorganization and in exchange for the interests held in Visa U.S.A., Visa International, Visa Canada and Inovant, the Company authorized and issued to Visa Europe and the financial institution member groups of the participating regions the following shares of common stock (in whole numbers):

Regional Classes and Series of Common Stock	Shares Issued and Outstanding in the Reorganization
Class USA	426,390,481
Class EU (series I)	62,213,201
Class EU (series II)	27,904,464
Class EU (series III)	549,587
Class Canada	22,034,685
Class AP	119,100,481
Class LAC	80,137,915
Class CEMEA	36,749,698
	775,080,512

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Purchase Consideration

Total purchase consideration of approximately $17.3 billion was exchanged in October 2007 for the acquired interests. The consideration was comprised of the following:

	in millions
Visa Inc. common stock	$ 16,785
Visa Europe put option	346
Liability under framework agreement	132
Total purchase consideration	$ 17,263

See *Note 4 Visa Europe* for more information related to the Visa Europe put option and the liability under framework agreement.

Visa Inc. Common Stock Issued in Exchange for the Acquired Regions

The value of the purchase consideration conveyed to each of the member groups of the acquired regions was determined by valuing the underlying businesses contributed by each, after giving effect to negotiated adjustments. The value of the purchase consideration, consisting of all outstanding shares of class Canada, class AP, class LAC and class CEMEA common stock, was measured at June 15, 2007 (the measurement date), the date on which all parties entered into the global restructuring agreement, and was determined to have a fair value of approximately $12.6 billion.

The Company primarily relied upon the analysis of comparable companies with similar industry, business model and financial profiles. This analysis considered a range of metrics including the forward multiples of revenue; earnings before interest, depreciation and amortization; and net income of comparable companies. Ultimately, the Company determined that the forward net income multiple was the most appropriate measure to value the acquired regions and reflect anticipated changes in the Company s financial profile prospectively. This multiple was applied to the corresponding forward net income of the acquired regions to calculate their value. The most comparable company identified was MasterCard Inc. Therefore, the most significant input into this analysis was MasterCard s forward net income multiple of 27 times net income at the measurement date.

The Company additionally performed discounted cash flow analyses for each region. This analysis considered the Company s forecast by region and incorporated market participant assumptions for growth and profitability. The cash flows were discounted using rates ranging from 12-16%, reflecting returns for investments times EBITDA to ascribe value to periods beyond the Company s forecast, consistent with recent payment processing, financial exchange and credit card precedent transactions.

True-Up of Purchase Consideration

Under the terms of the reorganization, on March 17, 2008 each regional class and series of common stock was converted into class C common stock (except in the case of class USA common stock which was converted into class B common stock) resulting in a reallocation of ownership among the participating regions (the true-up). The conversion rate was based on each participating region s relative under- or over-achievement of its net revenue targets during the four quarters ended December 31, 2007. The shares held by Visa Europe were not subject to the true-up.

As a result of the true-up the ownership interest of the Visa U.S.A. member group in the Company was reduced by approximately 7%, with a corresponding increase in the collective ownership interest of the other

VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

stockholders in the form of 26 million additional shares of class C (series I) common stock received net in the conversion. Under the guidelines of SFAS 141 the additional shares issued to these members was recorded as additional purchase consideration. These shares were recorded at the true-up date at their fair value of $44 per share resulting in the recognition of $1.2 billion of additional purchase consideration as an increase to goodwill and additional paid-in capital. The fair value of these shares was determined based on the price per share in the IPO. See *Note 10 Stockholders Equity and Redeemable Shares*.

Visa Inc. Common Stock Issued to Visa Europe

Visa Europe remained a separate entity owned and governed by its European member banks. Under the terms of the reorganization, Visa Europe exchanged its membership interest in Visa International and Inovant for a put-call option agreement, a framework agreement (as described below) and the following consideration:

An 8.1% ownership interest in the form of all outstanding class EU (series I) and class EU (series III) common stock. The class EU (series I) and class EU (series III) common stock participate equally and have the same rights as the class AP, class LAC, class CEMEA, and class Canada common stock, except that it does not participate in the true-up of purchase consideration. The Company determined the fair value of this common stock to be approximately $3.1 billion at the measurement date based on the value of the common stock issued to the acquired regions in exchange for their historical membership interest in Visa International and ownership interest in Visa Canada. Concurrent with the true-up of purchase consideration, on March 17, 2008, the EU (series I) and EU (series III) common stock was converted into class C (series III) and class C (series IV) common stock, respectively, on a one-to-one basis.

A 3.6% ownership interest in the form of all outstanding class EU (series II) common stock. This stock is redeemable by Visa Inc. at any time after the later of its IPO and October 10, 2008 at a price of $1.146 billion adjusted for dividends and certain other adjustments. Visa Europe also has the option to require the Company to redeem the class C (series II) common stock by December 4, 2008. At the time of the reorganization in October 2007, the Company determined the fair value of this common stock to be approximately $1.104 billion by discounting the redemption price using a risk-free rate of 4.90% and a 95% probability of the successful completion of an IPO prior to October 10, 2008. Completion of the Company s IPO triggered the redemption feature of this stock. As a result, in accordance with EITF Topic D-98, *Classification and Measurement of Redeemable Securities,* in March 2008, the Company reclassified all outstanding shares of the class C (series II) common stock at its then fair value of $1.125 billion to temporary or mezzanine level equity on the Company s consolidated balance sheet with a corresponding reduction in additional paid-in-capital of $1.104 billion and accumulated income of $21 million. Over the period from March 2008 to on or about October 10, 2008, the date the Company intends to redeem these shares, the Company will accrete this stock to its redemption price through accumulated income. The fair value of the class C (series II) shares at March 31, 2008 was $1.127 billion. For the three and six months ended March 31, 2008, the Company recorded total accretion on the class C (series II) shares through its accumulated income of $22 million.

Visa Europe Put-Call Option Agreement

Under the put-call option agreement between the Company and Visa Europe, the Company has granted Visa Europe a put option under which the Company is required to purchase from its members all of the share capital of Visa Europe. This option is exercisable beginning on March 25, 2009. The Company is required to repurchase the shares of Visa Europe no later than 285 days after exercise of the put option. The purchase price of the Visa Europe shares under the put option is based upon a formula that, subject to certain adjustments, applies the 12-month forward price-to-earnings multiple applicable to the Company s common stock at the time the option is

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VISA INC.

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exercised to Visa Europe s projected sustainable adjusted net operating income for the same 12-month period. At the date of reorganization and at March 31, 2008, the fair value of the put option was approximately $346 million. Refer to *Note 4 Visa Europe* for more information related to the Visa Europe put-call option agreement.

Liability Under Framework Agreement

The relationship between the Company and Visa Europe subsequent to the reorganization is governed by the framework agreement, which provides for trademark and technology licenses and bilateral services.

Visa Inc., Visa U.S.A., Visa International and Inovant, as licensors, granted Visa Europe exclusive, irrevocable and perpetual licenses to use the Visa trademarks and technology intellectual property owned by the licensors and certain affiliates within the Visa Europe region for use in the field of financial services, payments, related information technology and information processing services and participation in the Visa system. The Company determined that the base license fee (the fee), as adjusted in future periods based on the growth of the gross domestic product of the European Union, approximated fair value. The Company made this determination through an analysis of the fee rates implied by the economics of the licenses. The first and second fee reduction components, as more fully described in *Note 4 Visa Europe,* reduce this base fee by an amount and for a period of time dependent on the timing and results of the IPO. At October 1, 2007, the Company calculated its liability to provide these licenses at below fair value to be approximately $132 million, based on the Company s initial registration statement filing on November 9, 2007, an assumed offering closing date of March 31, 2008 and the applicable three-month LIBOR rate at September 30, 2007 of 5.23%.

Refer to *Note 4 Visa Europe* for more information related to the liability under the framework agreement.

Fair Value of Assets Acquired and Liabilities Assumed

Total purchase consideration has been allocated to the tangible and identifiable intangible assets and liabilities assumed underlying the acquired interests based on their fair value on the date of the reorganization. The excess of purchase consideration over the tangible and identifiable intangible assets and liabilities assumed was recorded as goodwill.

The following table summarizes the allocation of total purchase consideration to tangible and intangible assets acquired, liabilities assumed and goodwill at October 1, 2007:

	in millions
Tangible assets and liabilities	
Current assets	$ 1,733
Non-current assets	610
Property, equipment, and technology, net	512
Current liabilities	(1,194)
Non-current liabilities	(4,351)
Pension and post-retirement benefits	(45)
Long-term debt	(30)
Intangible assets	
Tradename	2,564
Customer relationships	6,799
Visa Europe franchise right	1,520
Goodwill	9,145
Net assets acquired	$ 17,263

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The following table reflects activity related to Goodwill from September 30, 2007 to March 31, 2008:

	in millions
Balance at September 30, 2007	$
Goodwill acquired	9,145
Additional consideration paid by Visa U.S.A. in connection with the true-up of ownership among participating regions	1,150
Deferred tax liability adjustments	(90)
Adjustment to liability under the framework agreement	7
Other tax adjustments	4
Balance at March 31, 2008	$ 10,216

As discussed above under *True-Up of Purchase Consideration*, under the guidelines of SFAS No. 141 the ownership interest of the Visa U.S.A. member group in the Company was reduced as a result of the true-up, with a corresponding increase in the collective ownership interest of the other stockholders, resulting in additional purchase consideration. The additional purchase consideration of $1.15 billion was recorded as an increase in additional paid-in capital and goodwill.

Goodwill was adjusted by $90 million due to the release of the deferred tax liability related to Visa U.S.A. s historical equity ownership interest in Visa International, a $7 million adjustment to the liability under the framework agreement and $4 million due to the adoption of FIN 48 and other tax adjustments.

The purchased intangibles and goodwill are not deductible for tax purposes. Substantially all of the identifiable intangible assets have an indefinite life and accordingly are not subject to amortization. The Company has determined that all goodwill is attributable to its single reportable segment.

Pro Forma Results of Operations

The following Visa Inc. pro forma results of operations for the three and six months ended March 31, 2007 have been prepared to give effect to the reorganization described above assuming it occurred on October 1, 2006, the beginning of the periods presented.

The pro forma results of operations are presented for illustrative purposes only and are not necessarily indicative of the results of operations that would have been obtained had these events actually occurred on October 1, 2006, nor do they intend to be a projection of future results of operations. The pro forma results of operations have been prepared by applying adjustments to the historical unaudited consolidated statements of operations of Visa U.S.A., Visa International and Visa Canada for the three and six months ended March 31, 2007.

(in millions except per share and net income per share data)	Three Months Ended March 31, 2007	Six Months Ended March 31, 2007
	(unaudited)	
Operating Revenues		
Service fees	$ 614	$ 1,191
Data processing fees	370	747
Volume and support incentives	(187)	(323)
International transaction fees	281	529

Other revenues	113	221
Total operating revenues	1,191	2,365

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VISA INC.

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(in millions except per share and net income per share data)	Three Months Ended March 31, 2007	Six Months Ended March 31, 2007
	(unaudited)	
Operating Expenses		
Personnel	269	542
Network, EDP and communications	69	137
Advertising, marketing, and promotion	182	387
Professional and consulting fees	136	237
Depreciation and amortization	54	109
Administrative and other	74	150
Litigation provision	13	15
Total operating expenses	797	1,577
Operating income	394	788
Other Income (Expenses)		
Interest expense, net	(24)	(48)
Investment income, net	36	76
Total other income	12	28
Income before income taxes	406	816
Income tax expense	160	321
Net income	$ 246	$ 495
Basic and diluted income per share	$ 0.32	$ 0.64
Shares used in basic and diluted income per share	775,080,512	775,080,512

California Special Deduction

The pro forma statements of operations presented above reflect the Company s continuing eligibility to claim the special deduction afforded to companies that operate on a cooperative or mutual basis under California Revenue and Taxation Code §24405 (referred to hereafter as the special deduction). The State of California, where both Visa U.S.A. and Visa International are headquartered, historically has not taxed a substantial portion of the reported income of these companies on the basis that both operate on a cooperative or mutual basis and are therefore eligible for the special deduction. As taxpayers eligible for the special deduction, Visa U.S.A. and Visa International were generally only subject to California taxation on interest and investment income. Therefore, the majority of each company s income has not historically been taxed in California.