VISA INC.
Form 10-Q
May 02, 2012

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

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company.)	Smaller Reporting Company ¨

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

As of April 27, 2012, there were 527,991,092 shares of class A common stock, par value $0.0001 per share, 245,513,385 shares of class B common stock, par value $0.0001 per share, and 40,473,739 shares of class C common stock, par value $0.0001 per share, of Visa Inc. outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements
VISA INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2012	September 30, 2011
	(in millions, except par value data)	
Assets		
Cash and cash equivalents	$2,042	$2,127
Restricted cash—litigation escrow (Note 2)	4,282	2,857
Investment securities		
Trading	66	57
Available-for-sale	849	1,214
Settlement receivable	508	412
Accounts receivable	655	560
Customer collateral (Note 5)	898	931
Current portion of client incentives	233	278
Deferred tax assets	430	489
Prepaid expenses and other current assets	332	265
Total current assets	10,295	9,190
Investment securities, available-for-sale	1,696	711
Client incentives	98	85
Property, equipment and technology, net	1,540	1,541
Other assets	112	129
Intangible assets, net	11,437	11,436
Goodwill	11,668	11,668
Total assets	$36,846	$34,760
Liabilities		
Accounts payable	$75	$169
Settlement payable	702	449
Customer collateral (Note 5)	898	931
Accrued compensation and benefits	332	387
Client incentives	750	528
Accrued liabilities	544	562
Accrued litigation (Note 11)	286	425
Total current liabilities	3,587	3,451
Deferred tax liabilities	3,941	4,205
Other liabilities (Note 6)	797	667
Total liabilities	8,325	8,323

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, 2012	September 30, 2011
	(in millions, except par value data)	
Equity		
Preferred stock, $0.0001 par value, 25 shares authorized and none issued	$—	$—
Class A common stock, $0.0001 par value, 2,001,622 shares authorized, 528 and 520 shares issued and outstanding at March 31, 2012, and September 30, 2011, respectively (Note 7)	—	—
Class B common stock, $0.0001 par value, 622 shares authorized, 245 shares issued and outstanding at March 31, 2012, and September 30, 2011 (Note 7)	—	—
Class C common stock, $0.0001 par value, 1,097 shares authorized, 41 and 47 shares issued and outstanding at March 31, 2012, and September 30, 2011, respectively (Note 7)	—	—
Additional paid-in capital	20,009	19,907
Accumulated income	8,688	6,706
Accumulated other comprehensive income (loss), net		
Investment securities, available-for-sale	5	—
Defined benefit pension and other postretirement plans	(194)	(186)
Derivative instruments classified as cash flow hedges	17	18
Foreign currency translation adjustments	(4)	(8)
Total accumulated other comprehensive loss, net	(176)	(176)
Total equity	28,521	26,437
Total liabilities and equity	$36,846	$34,760

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)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
	(in millions, except per share data)			
Operating Revenues				
Service revenues	$1,241	$1,093	$2,392	$2,101
Data processing revenues	922	823	1,873	1,667
International transaction revenues	733	624	1,481	1,254
Other revenues	179	156	357	317
Client incentives	(497)	(451)	(978)	(856)
Total operating revenues	2,578	2,245	5,125	4,483
Operating Expenses				
Personnel	431	351	820	708
Network and processing	103	80	201	160
Marketing	170	183	360	380
Professional fees	82	77	152	138
Depreciation and amortization	80	70	160	137
General and administrative	106	95	208	205
Litigation provision (Note 11)	—	6	—	6
Total operating expenses	972	862	1,901	1,734
Operating income	1,606	1,383	3,224	2,749
Other Income (Expense)				
Interest expense	(7)	(12)	(17)	(8)
Investment income, net	9	9	19	19
Other	1	(3)	—	(1)
Total other income (expense)	3	(6)	2	10
Income before income taxes	1,609	1,377	3,226	2,759
Income tax provision	317	497	907	995
Net income including non-controlling interest	1,292	880	2,319	1,764
Loss attributable to non-controlling interest	—	1	2	1
Net income attributable to Visa Inc.	$1,292	$881	$2,321	$1,765

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

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VISA INC.
CONSOLIDATED STATEMENTS OF OPERATIONS—(Continued)
(UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
	(in millions, except per share data)			
Basic earnings per share (Note 8)				
Class A common stock	$1.92	$1.24	$3.41	$2.47
Class B common stock	$0.82	$0.63	$1.56	$1.26
Class C common stock	$1.92	$1.24	$3.41	$2.47
Basic weighted-average shares outstanding (Note 8)				
Class A common stock	524	505	522	499
Class B common stock	245	245	245	245
Class C common stock	42	80	44	87
Diluted earnings per share (Note 8)				
Class A common stock	$1.91	$1.23	$3.40	$2.46
Class B common stock	$0.81	$0.63	$1.55	$1.26
Class C common stock	$1.91	$1.23	$3.40	$2.46
Diluted weighted-average shares outstanding (Note 8)				
Class A common stock	676	714	683	717
Class B common stock	245	245	245	245
Class C common stock	42	80	44	87

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)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
	(in millions)			
Net income including non-controlling interest	$1,292	$880	$2,319	$1,764
Other comprehensive income (loss), net of tax:				
Investment securities, available-for-sale				
Net unrealized gain (loss)	6	(1)	7	(3)
Income tax effect	(2)	—	(2)	1
Defined benefit pension and other postretirement plans	(13)	—	(8)	2
Income tax effect	2	—	—	(1)
Derivative instruments classified as cash flow hedges				
Net unrealized loss	(5)	(9)	(12)	(23)
Income tax effect	5	3	6	5
Reclassification adjustment for net (income) loss realized in net income including non-controlling interest	(2)	15	4	27
Income tax effect	1	(3)	1	(7)
Foreign currency translation adjustments	4	6	4	11
Other comprehensive (loss) income, net of tax	(4)	11	—	12
Comprehensive income including non-controlling interest	$1,288	$891	$2,319	$1,776
Comprehensive loss attributable to non-controlling interest	—	1	2	1
Comprehensive income attributable to Visa Inc.	$1,288	$892	$2,321	$1,777

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 EQUITY
(UNAUDITED)

	Common Stock			Additional Paid-In Capital	Accumulated Income	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
	Class A	Class B	Class C					
	(in millions, except per share data)							
Balance as of September 30, 2011	520	245	47	$ 19,907	$ 6,706	$ (176)	$ —	$ 26,437
Net income attributable to Visa Inc.					2,321			2,321
Loss attributable to non-controlling interest							(2)	(2)
Other comprehensive income, net of tax								—
Comprehensive income including non-controlling interest								2,319
Issuance of restricted share awards	1							—
Conversion of class C common stock upon sale into public market (Note 7)	6		(6)					—
Share-based compensation				76				76
Excess tax benefit for share-based compensation				27				27
Cash proceeds from exercise of stock options	2			77				77
Restricted stock instruments settled in cash for taxes[(1)]				(39)				(39)
Cash dividends declared and paid, at a quarterly amount of $0.22 per as-converted share (Note 7)					(300)			(300)
Repurchase of class A common stock (Note 7)	(1)			(36)	(39)			(75)
Purchase of non-controlling interest in joint venture				(3)			2	(1)
Balance as of March 31, 2012	528	245	41	$ 20,009	$ 8,688	$ (176)	$ —	$ 28,521

(1) Decrease in class A common stock is less than 1 million shares.

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)

	Six Months Ended March 31, 2012	2011
	(in millions)	
Operating Activities		
Net income including non-controlling interest	$2,319	$1,764
Adjustments to reconcile net income including non-controlling interest to net cash provided by (used in) operating activities:		
Amortization of client incentives	978	856
Share-based compensation	76	90
Excess tax benefit for share-based compensation	(27)	(8)
Depreciation and amortization of intangible assets and property, equipment and technology	160	137
Deferred income taxes	(200)	129
Other	(36)	(11)
Change in operating assets and liabilities:		
Trading securities	(9)	(6)
Settlement receivable	(96)	11
Accounts receivable	(95)	(62)
Client incentives	(724)	(734)
Other assets	(23)	(188)
Accounts payable	(94)	(51)
Settlement payable	253	(88)
Accrued compensation and benefits	(55)	(90)
Accrued and other liabilities	96	(10)
Accrued litigation	(140)	(130)
Net cash provided by operating activities	2,383	1,609
Investing Activities		
Purchases of property, equipment and technology	(127)	(147)
Proceeds from disposal of property, equipment and technology	2	—
Purchases of intangible assets	(35)	—
Investment securities, available-for-sale:		
Purchases	(2,140)	—
Proceeds from sales and maturities	1,530	10
Purchases of/contributions to other investments	(3)	—
Proceeds/distributions from other investments	3	103
Acquisition, net of cash received of $18	—	(162)
Net cash used in investing activities	(770)	(196)

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—(Continued)
(UNAUDITED)

	Six Months Ended March 31, 2012	2011
	(in millions)	
Financing Activities		
Repurchase of class A common stock (Note 7)	(75)	(536)
Dividends paid (Note 7)	(300)	(215)
Deposits into litigation escrow account—retrospective responsibility plan (Note 7)	(1,565)	(1,200)
Payment from litigation escrow account—retrospective responsibility plan (Note 2)	140	140
Cash proceeds from exercise of stock options	77	39
Excess tax benefit for share-based compensation	27	8
Principal payments on debt	—	(7)
Principal payments on capital lease obligations	(6)	(8)
Net cash used in financing activities	(1,702)	(1,779)
Effect of exchange rate changes on cash and cash equivalents	4	11
Decrease in cash and cash equivalents	(85)	(355)
Cash and cash equivalents at beginning of year	2,127	3,867
Cash and cash equivalents at end of period	$2,042	$3,512
Supplemental Disclosure of Cash Flow Information		
Income taxes paid, net of refunds	$1,071	$1,015
Amounts included in accounts payable and accrued and other liabilities related to purchases of intangible assets and property, equipment and technology	$52	$20
Interest payments on debt	$—	$2

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, 2012
(unaudited)

Note 1—Summary of Significant Accounting Policies

Organization. Visa Inc. (“Visa” or the “Company”) is a global payments technology company that connects consumers, businesses, banks and governments around the world, enabling them to use digital currency instead of cash and checks. Visa and its wholly-owned consolidated subsidiaries, including Visa U.S.A. Inc. (“Visa U.S.A.”), Visa International Service Association (“Visa International”), Visa Worldwide Pte. Limited (“VWPL”), Visa Canada Corporation (“Visa Canada”), Inovant LLC (“Inovant”), and CyberSource Corporation (“CyberSource”), operate the world’s largest retail electronic payments network. The Company provides its clients with payment processing platforms that encompass consumer credit, debit, prepaid and commercial payments, and facilitates global commerce through the transfer of value and information among financial institutions, merchants, consumers, businesses and government entities. The Company does not issue cards, set fees, or determine the interest rates consumers will be charged on Visa-branded cards, which are the independent responsibility of the Company’s issuing clients.

Consolidation and basis of presentation. The accompanying unaudited consolidated financial statements include the accounts of Visa Inc. and its consolidated entities and are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Company consolidates its majority-owned and controlled entities, including variable interest entities (“VIEs”) for which the Company is the primary beneficiary. The Company’s VIEs have not been material to its consolidated financial statements as of and for the periods presented. Non-controlling interests are reported as a component of equity. All significant intercompany accounts and transactions are eliminated in consolidation.

The accompanying unaudited consolidated financial statements are presented in accordance with the U.S. Securities and Exchange Commission (“SEC”) requirements for Quarterly Reports on Form 10-Q and, consequently, do not include all of the annual disclosures required by U.S. GAAP. Reference should be made to the Visa Inc. Annual Report on Form 10-K for the year ended September 30, 2011, for additional disclosures, including a summary of the Company’s significant accounting policies.

In the opinion of management, the accompanying unaudited consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the Company's financial position, results of operation and cash flows for the interim period presented.

Recently adopted accounting pronouncements. In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-08, which allows an entity to first assess qualitative factors to determine when it is necessary to perform the two-step quantitative goodwill impairment test. This guidance impacts goodwill impairment testing only and does not impact impairment testing of indefinite-lived intangibles. The Company adopted ASU 2011-08 effective October 1, 2011, and applied the new guidance in its annual impairment review of goodwill as of February 1, 2012 (see Note 3—Fair Value Measurements). The adoption did not have a material impact on the consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, which provides common fair value measurement and disclosure requirements in accordance with U.S. GAAP and International Financial Reporting Standards (“IFRS”). The Company adopted ASU 2011-04 effective January 1, 2012. The adoption did not have a material impact on the consolidated financial statements. See Note 3—Fair Value Measurements.

In December 2010, the FASB issued ASU 2010-29, which provides requirements for pro forma revenue and earnings disclosures related to business combinations. The ASU requires disclosure of revenue and earnings of the combined business as if the combination occurred at the start of the prior annual reporting period only. The Company adopted ASU 2010-29 effective October 1, 2011. The adoption did not have a material impact on the consolidated financial statements.

Recently issued accounting pronouncements. In June 2011, the FASB issued ASU 2011-05, which impacts the presentation of comprehensive income. The guidance requires components of other comprehensive income to be presented with net income to arrive at total comprehensive income. This ASU impacts presentation only and does not impact the underlying components of other comprehensive income or net income. In December 2011, the FASB

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VISA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

issued ASU 2011-12, which defers a component of ASU 2011-05 that requires the presentation of reclassification adjustments for items that are reclassified from other comprehensive income to net income. All other components of ASU 2011-05 are effective October 1, 2012. Adoption is not expected to have a material impact on the consolidated financial statements.

Note 2—Retrospective Responsibility Plan

Under the terms of the retrospective responsibility plan, the Company maintains an escrow account from which settlements of, or judgments in, covered litigation are paid. See Note 11—Legal Matters. On December 29, 2011, using operating cash on hand, the Company made a deposit of $1.57 billion into the litigation escrow. See Note 7—Stockholders' Equity.

The following table sets forth the changes in the escrow account during the six months ended March 31, 2012.

	(in millions)	
Balance at October 1, 2011	$2,857	
Deposit into the litigation escrow account	1,565	
American Express settlement payment	(140	)
Balance at March 31, 2012	$4,282	

The accrual related to covered litigation could be either higher or lower than the escrow account balance. The Company did not record an additional accrual for covered litigation during the six months ended March 31, 2012.

Note 3—Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis.

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VISA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Fair Value Measurements Using Inputs Considered as Level 1		Level 2		Level 3	
	March 31, 2012 (in millions)	September 30, 2011	March 31, 2012	September 30, 2011	March 31, 2012	September 30, 2011
Assets						
Cash equivalents and restricted cash						
Money market funds and time deposits	$5,653	$4,225				
U.S. government-sponsored debt securities			$—	$175		
Investment securities						
U.S. government-sponsored debt securities			2,118	1,568		
U.S. Treasury securities	407	350				
Equity securities	79	57				
Auction rate securities					$7	$7
Prepaid and other current assets						
Foreign exchange derivative instruments			19	30		
	$6,139	$4,632	$2,137	$1,773	$7	$7
Liabilities						
Accrued liabilities						
Visa Europe put option					$145	$145
Earn-out related to PlaySpan acquisition					26	24
Foreign exchange derivative instruments			$6	$7		

There were no transfers between Level 1 and Level 2 assets during the first half of fiscal 2012.

Level 1 assets measured at fair value on a recurring basis. Cash equivalents (money market funds), mutual fund equity securities and U.S. Treasury securities are classified as Level 1 within the fair value hierarchy, as fair value is based on quoted prices in active markets.

Level 2 assets and liabilities measured at fair value on a recurring basis. U.S. government-sponsored debt securities and foreign exchange derivative instruments are classified as Level 2 within the fair value hierarchy. The fair value of the government-sponsored debt securities is based on quoted prices in active markets for similar assets. Foreign exchange derivative instruments are valued using inputs that are observable in the market or can be derived principally from or corroborated with observable market data. There were no changes to the valuation techniques and related inputs used to measure fair value during the first half of fiscal 2012.

Level 3 assets and liabilities measured at fair value on a recurring basis. Auction rate securities are classified as Level 3 due to a lack of trading in active markets and a lack of observable inputs in measuring fair value. There were no changes to the valuation techniques and related inputs used to measure fair value during the first half of fiscal 2012.

The earn-out related to the PlaySpan acquisition is classified as Level 3 due to a lack of observable inputs, such as the likelihood of meeting certain future revenue targets and other milestones. There were no significant changes to the valuation techniques and related inputs used to measure fair value during the first half of fiscal 2012.

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VISA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Visa Europe put option agreement. The Company has granted Visa Europe a perpetual put option (the "put option") which, if exercised, will require Visa Inc. to purchase all of the outstanding shares of capital stock of Visa Europe from its members. The put option provides a formula for determining the purchase price of the Visa Europe shares, which, subject to certain adjustments, applies Visa Inc.’s forward price-to-earnings multiple, or the P/E ratio (as defined in the option agreement), at the time the option is exercised, to Visa Europe’s projected adjusted sustainable income for the forward 12-month period, or the adjusted sustainable income (as defined in the option agreement). The calculation of Visa Europe’s adjusted sustainable income under the terms of the put option agreement includes potentially material adjustments for cost synergies and other negotiated items. Upon exercise, the key inputs to this formula, including Visa Europe’s adjusted sustainable income, will be the result of negotiation between the Company and Visa Europe. The put option provides an arbitration mechanism in the event that the two parties are unable to agree on the ultimate purchase price.

The fair value of the put option represents the value of Visa Europe’s option, which under certain conditions could obligate the Company to purchase its member equity interest for an amount above fair value. While the put option is in fact non-transferable, its fair value represents the Company’s estimate of the amount the Company would be required to pay a third-party market participant to transfer the potential obligation in an orderly transaction at the measurement date. The liability is classified within Level 3, as the assumed probability that Visa Europe will elect to exercise its option, the estimated P/E differential, and other inputs used to value the put option are unobservable. At March 31, 2012 and September 30, 2011, the Company determined the fair value of the put option to be $145 million. While $145 million represents the fair value of the put option at March 31, 2012, it does not represent the actual purchase price that the Company may be required to pay if the option is exercised, which could be several billion dollars or more. During fiscal 2012, there were no changes to the valuation methodology used to estimate the fair value of the put option. At March 31, 2012, the key unobservable inputs include a 40% probability of exercise by Visa Europe at some point in the future and an estimated long-term P/E differential of 1.9x. The use of an assumed probability of exercise that is 5% higher than the Company's estimate would have resulted in an increase of approximately $18 million in the value of the put option. An increase of 1.0x in the assumed P/E differential would have resulted in an increase of approximately $84 million in the value of the put option.

The put option is exercisable at any time at the sole discretion of Visa Europe. As such, the put option liability is included in accrued liabilities on the Company's consolidated balance sheet at March 31, 2012. Classification in current liabilities is not an indication of management’s expectation of exercise and simply reflects the fact that the obligation resulting from the exercise of the instrument could become payable within 12 months. Any non-cash changes in fair value are recorded in other income on the consolidated statements of operations.

A separate roll-forward of Level 3 investments measured at fair value on a recurring basis is not presented because activity was immaterial during the six months ended March 31, 2012 and 2011, respectively.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis.

Non-marketable equity investments and investments accounted for under the equity method. These investments are classified as Level 3 due to the absence of quoted market prices, the inherent lack of liquidity, and the fact that inputs used to measure fair value are unobservable and require management judgment. The Company applies fair value measurement to these investments when certain events or circumstances indicate that these investments may be impaired. The Company revalues the investments using various assumptions, including financial metrics and ratios of comparable public companies. There were no events or circumstances that indicated these investments became impaired during the first half of fiscal 2012 or 2011. At March 31, 2012, and September 30, 2011, these investments totaled $92 million and $100 million, respectively, and were classified as other assets on the consolidated balance sheets.

Non-financial assets and liabilities. Long-lived assets such as goodwill, indefinite-lived intangible assets, finite-lived intangible assets, and property, equipment and technology are considered non-financial assets. The Company does not have any non-financial liabilities. The Company measures fair value of indefinite-lived intangible assets on a non-recurring basis for purpose of initial recognition, and testing for and recording impairment, if any. Goodwill is measured at fair value upon initial recognition, and subsequent fair value measurements are only performed if an impairment test is required. Finite-lived intangible assets primarily consist of customer relationships, reseller relationships and trade names, all of which were obtained through acquisitions.

The Company primarily uses an income approach for estimating the fair value of goodwill and indefinite-lived intangible assets, if such measurement is required. As the assumptions employed to measure these assets on a non-recurring basis are based on management's judgment using internal and external data, these fair value determinations are classified in Level 3 of the fair value hierarchy. The Company completed its annual impairment review of its indefinite-lived intangible assets and goodwill as of February 1, 2012, and concluded that there was no impairment. No recent events or changes in circumstances indicate that impairment existed at March 31, 2012.

Other Financial Instruments Not Measured at Fair Value

The following financial instruments are not measured at fair value on the Company's consolidated balance sheet at March 31, 2012, but require disclosure of their fair values: cash, accounts receivable, customer collateral, accounts payable, and settlement receivable and payable. The estimated fair value of such instruments at March 31, 2012 approximates their carrying value as reported on the consolidated balance sheets except as otherwise disclosed. The fair values of such financial instruments are determined using the income approach based on the present value of estimated future cash flows. There have been no changes in our valuation technique during first half of fiscal 2012. The fair value of all of these instruments would be categorized as Level 2 of the fair value hierarchy, with the exception of cash, which would be categorized as Level 1.

Investments

Available-for-sale investments. The Company had $7 million in gross unrealized gains and no gross unrealized losses on available-for-sale investment securities at March 31, 2012. There were no gross unrealized gains or gross unrealized losses at September 30, 2011. For both periods presented, amortized cost approximates fair value. Long-term available-for-sale securities are scheduled to mature by October 2014.

Note 4—Pension and Other Postretirement Benefits

The Company sponsors various qualified and non-qualified defined benefit pension and other postretirement benefit plans that provide for retirement and medical benefits for substantially all employees residing in the United States. The components of net periodic benefit cost are as follows:

	Pension Benefits				Other Postretirement Benefits			
	Three Months Ended March 31,		Six Months Ended March 31,		Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011	2012	2011	2012	2011
	(in millions)							
Service cost	$9	$11	$19	$20	$—	$—	$—	$—
Interest cost	10	9	20	19	1	1	1	1
Expected return on assets	(13)	(13)	(27)	(27)	—	—	—	—
Amortization of:								
Prior service credit	(3)	(2)	(5)	(4)	(1)	(1)	(2)	(2)
Actuarial loss	8	4	16	9	—	—	—	—
Total net periodic benefit cost	$11	$9	$23	$17	$—	$—	$(1)	$(1)

Note 5—Settlement Guarantee Management

The indemnification for settlement losses that Visa provides to its customers creates settlement risk for the Company due to the difference in timing between the date of a payment transaction and the date of subsequent settlement. The Company’s settlement exposure is limited to the amount of unsettled Visa payment transactions at any point in time. The Company requires certain customers that do not meet its credit standards to post collateral to offset potential loss from their estimated unsettled transactions. The Company’s estimated maximum settlement exposure was $49.9 billion at March 31, 2012, compared to $47.5 billion at September 30, 2011. Of these settlement exposure amounts, $3.4 billion at March 31, 2012, and $3.2 billion at September 30, 2011, were covered by collateral.

The Company maintained collateral as follows:

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	March 31, 2012	September 30, 2011
	(in millions)	
Cash equivalents	$898	$931
Pledged securities at market value	286	296
Letters of credit	962	902
Guarantees	1,886	1,845
Total	$4,032	$3,974

The total available collateral balances presented in the table above are greater than the settlement exposure covered by customer collateral due to instances in which the available collateral exceeds the total settlement exposure for certain financial institutions at each date presented.

The fair value of the settlement risk guarantee is estimated based on a proprietary probability-weighted model and was approximately $1 million at March 31, 2012 and September 30, 2011. These amounts are reflected in accrued liabilities on the consolidated balance sheets.

Note 6—Other Liabilities

Other long-term liabilities consisted of the following:

	March 31, 2012	September 30, 2011
	(in millions)	
Accrued income taxes	$521	$468
Employee benefits	136	106
Accrued interest on income taxes	80	66
Other	60	27
Total	$797	$667

Note 7—Stockholders' Equity

The number of shares of each class and the number of shares of class A common stock on an as-converted basis at March 31, 2012, are as follows:

(in millions, except conversion rate)	Shares Outstanding at March 31, 2012	Conversion Rate Into Class A Common Stock	As-converted Class A Common Stock[(1)]
Class A common stock	528	—	528
Class B common stock	245	0.4254	104
Class C common stock	41	1.0000	41
Total			673

(1) Figures may not sum due to rounding. As-converted class A common stock count calculated based on whole numbers.

Reduction in as-converted shares. There was no reduction in as-converted class A common stock shares during the three months ended March 31, 2012. During the first quarter of fiscal 2012, the Company used $1.6 billion of our operating cash on hand to reduce total as-converted class A common stock by 16.2 million shares. Of the $1.6 billion, $75 million was used to repurchase class A common stock in the open market. In addition, the Company deposited $1.57 billion$0.00 billionof operating cash into the litigation escrow account previously established under the retrospective responsibility plan. This deposit has the same economic effect on earnings per share as repurchasing the Company's class A common stock because it reduces the as-converted class B common stock share count.

In February 2012, the Company announced a new $500 million share repurchase program authorized by the

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board of directors. The authorization will be in effect through February 1, 2013, and the terms of the program are subject to change at the discretion of the board of directors. The Company did not repurchase any shares under this plan during the three months ended March 31, 2012.
The following table presents share repurchases in the open market for the six months ended March 31, 2012:

(in millions, except per share data)	March 31, 2012
Shares repurchased in the open market [1]	0.8
Weighted-average repurchase price per share	$89.81
Total cost	$75

(1) All shares repurchased in the open market have been retired and constitute authorized but unissued shares.
Under the terms of the retrospective responsibility plan, when the Company makes a deposit into the escrow account, the shares of class B common stock are subject to dilution through an adjustment to the conversion rate of the shares of class B common stock to shares of class A common stock.
The following table presents as-converted class B common stock after the deposit of $1.57 billion into the litigation escrow account during the six months ended March 31, 2012:

(in millions, except per share data)	March 31, 2012
Deposit under the retrospective responsibility plan	$1,565
Effective price per share[1]	$101.75
Reduction in equivalent number of shares of class A common stock	15.4
Conversion rate of class B common stock to class A common stock after deposit	0.4254
As-converted class B common stock after deposit	104

(1) Effective price per share calculated using the volume-weighted average price of the Company's class A common stock over a pricing period in accordance with the Company's amended and restated certificate of incorporation.
The deposit reduced funds previously allocated to the amended July 2011 share repurchase program, which had no remaining authorized funds as of March 31, 2012.
Class B common stock. Under the Company’s amended and restated certificate of incorporation, shares of class B common stock are subject to transfer restrictions until the date on which certain covered litigation has been finally resolved. See Note 11—Legal Matters.
Accelerated class C share release programs. Of the 152 million shares of class C common stock released from transfer restrictions under the Company’s 2009, 2010 and 2011 accelerated class C share release programs, 110 million shares have been converted from class C to class A common stock upon their sale into the public market through March 31, 2012. Approximately 3 million and 6 million of those shares were converted during the three and six months ended March 31, 2012, respectively.
Dividends. On April 26, 2012, the Company’s board of directors declared a dividend in the amount of $0.22 per share of class A common stock (determined in the case of class B and class C common stock on an as-converted basis), which will be paid on June 5, 2012 to all holders of record of the Company's class A, class B and class C common stock as of May 18, 2012. The Company paid $300 million in dividends during the first half of fiscal 2012.
Note 8—Earnings Per Share
The following table presents basic and diluted earnings per share for the three months ended March 31, 2012.

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	Basic Earnings Per Share (in millions, except per share data)				Diluted Earnings Per Share				
	Income Allocation (A)		Weighted Average Shares Outstanding (B)	Earnings per Share = (A)/(B)[1]	Income Allocation (A)		Weighted Average Shares Outstanding (B)		Earnings per Share = (A)/(B)[1]
Common Stock:									
Class A	$1,006		524	$1.92	$1,292		676	(2)	$1.91
Class B	200	(3)	245	0.82	200	(3)	245		0.81
Class C	81		42	1.92	80		42		1.91
Participating securities[4]	5		Not presented	Not presented	5		Not presented		Not presented
Net income attributable to Visa Inc.	$1,292								

The following table presents basic and diluted earnings per share for the six months ended March 31, 2012.

	Basic Earnings Per Share (in millions, except per share data)				Diluted Earnings Per Share				
	Income Allocation (A)		Weighted Average Shares Outstanding (B)	Earnings per Share = (A)/(B)[1]	Income Allocation (A)		Weighted Average Shares Outstanding (B)		Earnings per Share = (A)/(B)[1]
Common Stock:									
Class A	$1,780		522	$3.41	$2,321		683	(2)	$3.40
Class B	382	(3)	245	1.56	381	(3)	245		1.55
Class C	151		44	3.41	150		44		3.40
Participating securities[4]	8		Not presented	Not presented	8		Not presented		Not presented
Net income attributable to Visa Inc.	$2,321								

The following table presents basic and diluted earnings per share for the three months ended March 31, 2011.

	Basic Earnings Per Share (in millions, except per share data)				Diluted Earnings Per Share				
	Income Allocation (A)		Weighted Average Shares Outstanding (B)	Earnings per Share = (A)/(B)[1]	Income Allocation (A)		Weighted Average Shares Outstanding (B)		Earnings per Share = (A)/(B)[1]
Common Stock:									
Class A	$625		505	$1.24	$881		714	(2)	$1.23
Class B	155	(3)	245	0.63	154	(3)	245		0.63
Class C	98		80	1.24	98		80		1.23
Participating securities[4]	3		Not presented	Not presented	3		Not presented		Not presented
Net income attributable to Visa	$881								

Inc.
The following table presents basic and diluted earnings per share for the six months ended March 31, 2011.

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	Basic Earnings Per Share (in millions, except per share data)			Diluted Earnings Per Share		
	Income Allocation (A)	Weighted Average Shares Outstanding (B)	Earnings per Share = (A)/(B)[1]	Income Allocation (A)	Weighted Average Shares Outstanding (B)	Earnings per Share = (A)/(B)[1]
Common Stock:						
Class A	$1,234	499	$2.47	$1,765	717 [2]	$2.46