VISA INC.
Form 10-Q
May 05, 2011
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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, 2011

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	**(IRS Employer**
of incorporation or organization)	**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 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. (Check one):

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, 2011, there were 523,238,860 shares of class A common stock, par value $.0001 per share, 245,513,385 shares of class B common stock, par value $.0001 per share, and 61,319,195 shares of class C common stock, par value $.0001 per share, of Visa Inc. outstanding.

VISA INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

VISA INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	March 31, 2011	September 30, 2010
	(in millions, except par value data)	
Assets		
Cash and cash equivalents	**$ 3,512**	$ 3,867
Restricted cash litigation escrow (Note 2)	**2,997**	1,866
Investment securities (Note 3)		
Trading	**66**	60
Available-for-sale	**131**	124
Settlement receivable	**397**	402
Accounts receivable	**538**	476
Customer collateral (Note 6)	**870**	899
Current portion of client incentives	**152**	175
Current portion of deferred tax assets	**497**	623
Prepaid expenses and other current assets	**446**	242
Total current assets	**9,606**	8,734
Restricted cash litigation escrow (Note 2)		70
Investment securities, available-for-sale (Note 3)	**7**	24
Client incentives	**115**	101
Property, equipment and technology, net	**1,453**	1,357
Other assets	**189**	197
Intangible assets, net	**11,464**	11,478
Goodwill	**11,588**	11,447
Total assets	**$ 34,422**	$ 33,408
Liabilities		
Accounts payable	**$ 86**	$ 137
Settlement payable	**325**	406
Customer collateral (Note 6)	**870**	899
Accrued compensation and benefits	**281**	370
Client incentives	**531**	418
Accrued liabilities	**780**	625
Current portion of long-term debt	**12**	12
Current portion of accrued litigation (Note 11)	**580**	631
Total current liabilities	**3,465**	3,498
Long-term debt	**25**	32
Accrued litigation (Note 11)		66
Deferred tax liabilities	**4,205**	4,181

Other liabilities	**573**	617
Total liabilities	**8,268**	8,394

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, 2011	September 30, 2010
	(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, 521 and 493 shares issued and outstanding at March 31, 2011, and September 30, 2010, respectively (Note 7)		
Class B common stock, $0.0001 par value, 622 shares authorized, 245 shares issued and outstanding at March 31, 2011, and September 30, 2010 (Note 7)		
Class C common stock, $0.0001 par value, 1,097 shares authorized, 64 and 97 shares issued and outstanding at March 31, 2011, and September 30, 2010, respectively (Note 7)		
Additional paid-in capital	**20,583**	20,794
Accumulated income	**5,707**	4,368
Accumulated other comprehensive loss, net		
Investment securities, available-for-sale	**1**	3
Defined benefit pension and other postretirement plans	**(114)**	(115)
Derivative instruments classified as cash flow hedges	**(38)**	(40)
Foreign currency translation gain	**12**	1
Total accumulated other comprehensive loss, net	**(139)**	(151)
Total Visa Inc. stockholders equity	**26,151**	25,011
Non-controlling interest	**3**	3
Total equity	**26,154**	25,014
Total liabilities and equity	**$ 34,422**	$ 33,408

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,	
	2011	**2010**	**2011**	**2010**
	(in millions except per share data)			
Operating Revenues				
Service revenues	**$ 1,093**	$ 885	**$ 2,101**	$ 1,712
Data processing revenues	**823**	728	**1,667**	1,493
International transaction revenues	**624**	545	**1,254**	1,097
Other revenues	**156**	173	**317**	363
Client incentives	**(451)**	(372)	**(856)**	(746)
Total operating revenues	**2,245**	1,959	**4,483**	3,919
Operating Expenses				
Personnel	**351**	310	**708**	584
Network and processing	**80**	98	**160**	203
Marketing	**183**	238	**380**	454
Professional fees	**77**	50	**138**	101
Depreciation and amortization	**70**	62	**137**	124
General and administrative	**95**	77	**205**	155
Litigation provision (Note 11)	**6**	2	**6**	(41)
Total operating expenses	**862**	837	**1,734**	1,580
Operating income	**1,383**	1,122	**2,749**	2,339
Other Income (Expense)				
Interest expense	**(12)**	(28)	**(8)**	(44)
Investment income, net	**9**	23	**19**	28
Other	**(3)**	(4)	**(1)**	(2)
Total other (expense) income	**(6)**	(9)	**10**	(18)
Income before income taxes	**1,377**	1,113	**2,759**	2,321
Income tax provision	**497**	401	**995**	846
Net income including non-controlling interest	**880**	712	**1,764**	1,475
Loss attributable to non-controlling interest	**1**	1	**1**	1
Net income attributable to Visa Inc.	**$ 881**	$ 713	**$ 1,765**	$ 1,476

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, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
	(in millions except per share data)			
Basic earnings per share (Note 8)				
Class A common stock	**$ 1.24**	$ 0.97	**$ 2.47**	$ 1.99
Class B common stock	**$ 0.63**	$ 0.56	**$ 1.26**	$ 1.16
Class C common stock	**$ 1.24**	$ 0.97	**$ 2.47**	$ 1.99
Basic weighted-average shares outstanding (Note 8)				
Class A common stock	**505**	472	**499**	470
Class B common stock	**245**	245	**245**	245
Class C common stock	**80**	122	**87**	125
Diluted earnings per share (Note 8)				
Class A common stock	**$ 1.23**	$ 0.96	**$ 2.46**	$ 1.99
Class B common stock	**$ 0.63**	$ 0.56	**$ 1.26**	$ 1.16
Class C common stock	**$ 1.23**	$ 0.96	**$ 2.46**	$ 1.99
Diluted weighted-average shares outstanding (Note 8)				
Class A common stock	**714**	742	**717**	743
Class B common stock	**245**	245	**245**	245
Class C common stock	**80**	122	**87**	125

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,	
	2011	**2010**	**2011**	**2010**
		(in millions)		
Net income including non-controlling interest	**$ 880**	$ 712	**$ 1,764**	$ 1,475
Other comprehensive income (loss), net of tax:				
Investment securities, available-for-sale				
Net unrealized loss	**(1)**	(5)	**(3)**	(4)
Income tax effect		2	**1**	2
Reclassification adjustment for net loss realized in net income including non-controlling interest		3		2
Income tax effect		(1)		(1)
Defined benefit pension and other postretirement plans		102	**2**	106
Income tax effect		(40)	**(1)**	(41)
Derivative instruments classified as cash flow hedges				
Net unrealized loss	**(9)**	(5)	**(23)**	(8)
Income tax effect	**3**	2	**5**	3
Reclassification adjustment for net loss realized in net income including non-controlling interest	**15**	21	**27**	36
Income tax effect	**(3)**	(7)	**(7)**	(12)
Foreign currency translation gain	**6**	4	**11**	6
Other comprehensive income, net of tax	**11**	76	**12**	89
Comprehensive income including non-controlling interest	**$ 891**	$ 788	**$ 1,776**	$ 1,564
Comprehensive loss attributable to non-controlling interest	**1**	1	**1**	1
Comprehensive income attributable to Visa Inc.	**$ 892**	$ 789	**$ 1,777**	$ 1,565

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

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VISA INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

	Class A	Class B	Class C	Additional Paid-In Capital	Accumulated Income	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
				(in millions, except per share data)				
Balance as of September 30, 2010	**493**	**245**	**97**	**$ 20,794**	**$ 4,368**	**$ (151)**	**$ 3**	**$ 25,014**
Net income attributable to Visa Inc.					1,765			1,765
Loss attributable to non-controlling interest							(1)	(1)
Other comprehensive income, net of tax						12		12
Comprehensive income including non-controlling interest								1,776
Issuance of restricted share awards	1							
Vesting of restricted stock units and performance shares	1							
Conversion of class C common stock upon sale into public market (Note 7)	33		(33)					
Share-based compensation				90				90
Excess tax benefit for share-based compensation				8				8
Cash proceeds from exercise of stock options	1			39				39
Restricted stock instruments settled in cash for taxes[1]				(22)				(22)
Cash dividends declared and paid, at a quarterly amount of $0.15 per as-converted share (Note 7)					(215)			(215)
Repurchase of class A common stock (Note 7)	(8)			(325)	(211)			(536)
Investment in partially owned consolidated subsidiary				(1)			1	
Balance as of March 31, 2011	**521**	**245**	**64**	**20,583**	**5,707**	**(139)**	**3**	**26,154**

(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, 2011	2010
	(in millions)	
Operating Activities		
Net income including non-controlling interest	**$ 1,764**	$ 1,475
Adjustments to reconcile net income including non-controlling interest to net cash provided by (used in) operating activities:		
Amortization of client incentives	**856**	746
Share-based compensation	**90**	61
Excess tax benefit for share-based compensation	**(8)**	(8)
Depreciation and amortization of property, equipment and technology and intangible assets	**137**	124
Litigation provision and accretion (Note 11)	**13**	(25)
Net recognized gain on investment securities, including other-than-temporary impairment	**(4)**	(14)
Net recognized (gain) loss on other investments, including other-than-temporary impairment	**(1)**	1
Deferred income taxes	**129**	185
Other	**(19)**	(11)
Change in operating assets and liabilities:		
Trading securities	**(6)**	(4)
Settlement receivable	**11**	(61)
Accounts receivable	**(62)**	(58)
Client incentives	**(734)**	(712)
Other assets	**(188)**	(141)
Accounts payable	**(51)**	(78)
Settlement payable	**(88)**	(16)
Accrued compensation and benefits	**(90)**	(120)
Accrued and other liabilities	**(10)**	62
Accrued litigation	**(130)**	(826)
Net cash provided by operating activities	**1,609**	580
Investing Activities		
Acquisition, net of cash received of $18 (Note 4)	**(162)**	
Purchases of property, equipment and technology	**(147)**	(79)
Proceeds from disposal of property, equipment and technology		1
Distributions from money market investment		85
Investment securities, available-for-sale:		
Purchases		(1)
Proceeds from sales and maturities	**10**	45
Purchases of/contributions to other investments		(1)
Proceeds/distributions from other investments	**103**	2
Net cash (used in) provided by investing activities	**(196)**	52

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, 2011	Six Months Ended March 31, 2010
	(in millions)	
Financing Activities		
Repurchase of class A common stock (Note 7)	**(536)**	(664)
Dividends paid (Note 7)	**(215)**	(185)
Deposit into litigation escrow account retrospective responsibility plan (Note 2)	**(1,200)**	
Payment from litigation escrow account retrospective responsibility plan (Note 2)	**140**	140
Cash proceeds from exercise of stock options	**39**	21
Excess tax benefit for share-based compensation	**8**	8
Principal payments on debt	**(7)**	(6)
Principal payments on capital lease obligations	**(8)**	(9)
Net cash used in financing activities	**(1,779)**	(695)
Effect of exchange rate changes on cash and cash equivalents	**11**	6
Decrease in cash and cash equivalents	**(355)**	(57)
Cash and cash equivalents at beginning of year	**3,867**	4,617
Cash and cash equivalents at end of period	**$ 3,512**	$ 4,560
Supplemental Disclosure of Cash Flow Information		
Income taxes paid, net of refunds	**$ 1,015**	$ 759
Amounts included in accounts payable and accrued and other liabilities related to purchases of property, equipment and technology	**$ 20**	$ 10
Interest payments on debt	**$ 2**	$ 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, 2011

(unaudited)

(in millions, except as noted)

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. On March 1, 2011, the Company acquired PlaySpan Inc. (PlaySpan), and its results are included in the Company s consolidated results of operations from the acquisition date. See *Note 4 PlaySpan Acquisition*.

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 (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. Beginning with the first quarter of fiscal 2011, equity in earnings of unconsolidated affiliates is combined with other in the other income (expense) line on the consolidated statements of operations. Prior period information has been reclassified to conform to this presentation. The Company also updated selected captions within the consolidated financial statements beginning with the first quarter of fiscal 2011 to better reflect underlying activities; however, the grouping of underlying financial accounts remains unchanged.

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 GAAP. Reference should be made to the Visa Inc. Annual Report on Form 10-K for the year ended September 30, 2010, for additional disclosures, including a summary of the Company s significant accounting policies.

Goodwill and indefinite-lived intangible assets. The Company has historically performed its annual impairment testing of goodwill and indefinite-lived intangible assets as of July 1 of each year. During the second quarter of fiscal 2011, the Company changed the annual impairment testing date from July 1 to February 1. The Company believes this change, which represents a change in the method of applying an accounting principle, is preferable as the earlier date allows the Company additional time to perform the annual impairment testing after its annual forecast and budget are completed and approved. A preferability letter from the Company s independent registered public accounting firm regarding this change in the method of applying an accounting principle has been filed as an exhibit to this quarterly report on Form 10-Q for the quarter ended March 31, 2011.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company performed its annual impairment review of goodwill and indefinite-lived intangible assets as of February 1, 2011, and concluded there was no impairment as of that date. Subsequent to this annual assessment, the Company acquired PlaySpan, which resulted in additional goodwill. No recent events or changes in circumstances indicate that impairment existed as of March 31, 2011.

Note 2 Retrospective Responsibility Plan

The Company deposited $1.2 billion into the litigation escrow account during the first half of fiscal 2011. Under the terms of the retrospective responsibility plan, when the Company makes deposits 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. This has the same effect on earnings per share as repurchasing the Company s class A common stock, by reducing the as-converted class B common stock share count. *See Note 7 Stockholders Equity.*

The following table sets forth the changes in the escrow account during the six months ended March 31, 2011.

	(in millions)
Balance at October 1, 2010	$ 1,936
Deposits into the litigation escrow account	1,200
American Express settlement payments	(140)
Interest earned, less applicable taxes	1
Balance at March 31, 2011	$ 2,997

An accrual for covered litigation is recorded when loss is deemed to be probable and reasonably estimable. In making this determination, the Company evaluates information, including but not limited to actions taken by the litigation committee. 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, 2011.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Fair Value Measurements

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

	Fair Value Measurements Using Inputs Considered as					
	Level 1		Level 2		Level 3	
	March 31, 2011	September 30, 2010	March 31, 2011	September 30, 2010	March 31, 2011	September 30, 2010
	(in millions)					
Assets						
Cash equivalents and restricted cash						
Money market funds and time deposits	**$ 6,097**	$ 5,448				
Investment securities						
U.S. government-sponsored debt securities			**$ 131**	$ 135		
Equity securities	**66**	60				
Auction rate securities					**$ 7**	$ 13
Prepaid and other current assets						
Foreign exchange derivative instruments			**4**	5		
	$ 6,163	$ 5,508	**$ 135**	$ 140	**$ 7**	$ 13
Liabilities						
Accrued liabilities						
Visa Europe put option					**$ 267**	$ 267
Earn-out related to PlaySpan acquisition					**$ 24**	$
Foreign exchange derivative instruments			**$ 44**	$ 56		

There were no transfers between Level 1 and Level 2 assets during the first half of fiscal 2011.

Level 2 assets and liabilities measured at fair value on a recurring basis. 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 was no substantive change to the valuation techniques and related inputs used to measure fair value during the first half of fiscal 2011.

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. During the three months ended March 31, 2011, one of the auction rate securities was called. As a result, the Company received proceeds of $10 million and recorded a pre-tax gain of $4 million in investment income, net, on the consolidated statements of operations. There was no change to the valuation techniques and related inputs used to measure fair value during the first half of fiscal 2011.

Visa Europe put option agreement. The Company has granted Visa Europe a perpetual 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

VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. At March 31, 2011 and September 30, 2010, the Company determined the fair value of the put option to be $267 million. In determining the fair value of the put option on these dates, the Company assumed a 40% probability of exercise by Visa Europe at some point in the future and an estimated long-term differential of 3.5x between the P/E ratio and the P/E ratio applicable to Visa Europe on a standalone basis at the time of exercise, which the Company refers to as the P/E differential . While $267 million represents the fair value of the put option at March 31, 2011, 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.

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 our consolidated balance sheet at March 31, 2011. 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. 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. Changes in fair value are included in other income (expense) on the Company s consolidated statements of operations. There was no change to the fair value of the put option during the first half of fiscal 2011.

Earn-out related to PlaySpan acquisition. In connection with the PlaySpan acquisition, the Company recorded a liability of $24 million to reflect the fair value of a potential earn-out provision included in the purchase agreement. The liability 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 was no change to the fair value as of March 31, 2011. Changes in fair value will be included in general and administrative expense on the consolidated statements of operations. See *Note 4 PlaySpan Acquisition.*

A separate roll-forward of Level 3 investments measured at fair value on a recurring basis is not presented because the only activities during the first half of fiscal 2011 are related to the auction rate securities and the addition of the PlaySpan earn-out liability already described above. Activity in the prior year comparable period was immaterial.

Assets measured at fair value on a nonrecurring basis. Certain financial assets are measured at fair value on a nonrecurring basis.

Non-marketable equity investments and investments accounted for under the equity method. Strategic investments are classified as Level 3 due to the absence of quoted market prices, inherent

VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 its strategic 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 have become impaired during the first half of fiscal 2011, compared with a $1 million impairment loss recognized during the prior year comparable period. At March 31, 2011 and September 30, 2010, non-marketable equity security investments and investments accounted for under the equity method totaled $93 million and $114 million, respectively, and were classified as other assets on the consolidated balance sheets.

On January 24, 2011, the Company s wholly-owned subsidiary, Visa International, sold its 10 percent investment in Visa Vale issuer Companhia Brasileira de Soluções e Serviços, or CBSS, to Banco do Brasil and Bradesco. The Company received gross proceeds of $103 million. Prior to the sale, the Company accounted for the investment under the cost method with a book value of $17 million. The sale is subject to regulatory approval by Brazil s Conselho Administrativeo de Defesa Econômica, which we expect to receive in the third quarter of fiscal 2011. Upon this approval, the Company will recognize an estimated pre-tax gain, net of transaction costs, of $85 million in investment income, net on the consolidated statements of operations. The amount of the gain net of tax is estimated to be $44 million.

Debt. The estimated fair value of the Company s debt at March 31, 2011 and September 30, 2010 was $43 million and $50 million, respectively, based on credit ratings for similar notes.

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 significant non-financial liabilities. Indefinite-lived intangible assets consist of Visa s tradename, customer relationships, and Visa Europe franchise right acquired in the October 2007 reorganization. Finite-lived intangible assets primarily consist of customer relationships, reseller relationships and tradenames acquired in the July 2010 acquisition of CyberSource and the March 2011 acquisition of PlaySpan. See *Note 4 PlaySpan Acquisition*. The Company completed its annual impairment review of its indefinite-lived intangible assets and goodwill as of February 1, 2011, and concluded there was no impairment. No recent events or changes in circumstances indicate that impairment existed at March 31, 2011.

Note 4 PlaySpan Acquisition

On March 1, 2011, the Company acquired PlaySpan, a privately held company whose payments platform processes transactions for digital goods in online games, digital media and social networks around the world. The acquisition of PlaySpan complements Visa s acquisition of CyberSource in July 2010 and extends the Company s capabilities in digital, e-Commerce and mobile commerce.

The following table summarizes the allocation of the accounting purchase consideration, which is preliminary pending finalization of the valuation analysis.

	Fair Value (in millions)
Tangible assets, net[1]	$ 67
Finite-lived intangible assets with a weighted-average useful life of 2.8 years	15
Goodwill	141
Net deferred tax liabilities	(19)
Net assets acquired	**$ 204**

(1)

Tangible assets, net include $56 million of technology assets acquired, which have a weighted-average useful life of 5 years, and are recognized in property, equipment and technology, net on the consolidated balance sheets.

The following table presents the total purchase consideration for the PlaySpan acquisition.

	Potential Purchase Consideration	Accounting Purchase Consideration
	(in millions)	
Cash paid	$ 180	$ 180
Earn-out provision[(1)]	40	40
Less: Employee compensation[(2)]		(12)
Valuation adjustment[(3)]		(4)
Fair value of earn-out provision (See *Note 3 Fair Value Measurements)*		24
Fair value of stock options issued[(4)]	5	
Total purchase consideration	**$ 225**	**$ 204**

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) The acquisition agreement includes a potential earn-out provision of up to $40 million, should PlaySpan achieve certain future revenue targets and other milestones.

(2) The amount reflects personnel expense related to the earn-out provision that will be recognized over the performance period.

(3) Adjustment to reflect the earn-out provision at fair value based on the assumed likelihood of the future revenue targets and other milestones being met.

(4) The Company issued non-qualified stock options to replace unvested, in-the-money stock options held by PlanSpan employees. See *Note 9 Share-based Compensation.*

Note 5 Pension and Other Postretirement Benefits

The Company sponsors various qualified and non-qualified defined benefit pension and other postretirement benefit plans which provide retirement and health 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			
	3 months ended March 31,		6 months ended March 31,		3 months ended March 31,		6 months ended March 31,	
	2011	2010	2011	2010	2011	2010	2011	2010
	(in millions)							
Service cost	**$ 11**	$ 10	**$ 20**	$ 23	**$**	$	**$**	$
Interest cost	**9**	10	**19**	20	**1**	1	**1**	1
Expected return on assets	**(13)**	(13)	**(27)**	(25)				
Amortization of:								
Prior service credit	**(2)**	(2)	**(4)**	(4)	**(1)**	(2)	**(2)**	(2)
Actuarial loss	**4**	3	**9**	9				
Total net periodic benefit cost	**$ 9**	$ 8	**$ 17**	$ 23	**$**	$ (1)	**$ (1)**	$ (1)

Note 6 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 exposure is limited to the amount of unsettled Visa payment transactions. The Company requires certain customers that do not meet its credit standards to post collateral equivalent to their estimated unsettled transactions. The Company s estimated maximum settlement exposure was $44.5 billion at March 31, 2011, compared to $38.7 billion at September 30, 2010. Of these settlement exposure amounts, $3.3 billion at March 31, 2011, and $3.0 billion at September 30, 2010, were covered by collateral.

VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company maintained collateral as follows:

	March 31, 2011	September 30, 2010
	(in millions)	
Cash equivalents	**$ 870**	$ 899
Pledged securities at market value	**409**	470
Letters of credit	**851**	869
Guarantees	**2,008**	1,803
Total	**$ 4,138**	$ 4,041

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 less than $1 million at March 31, 2011, and September 30, 2010. These amounts are reflected in accrued liabilities on the consolidated balance sheets.

Note 7 Stockholders Equity

The number of shares of each class and the number of shares of class A common stock outstanding on an as-converted basis at March 31, 2011 are as follows:

(in millions, except conversion rate)	Shares Outstanding at March 31, 2011	Conversion Rate Into Class A Common Stock	Class A Common Stock As Converted[1]
Class A common stock	521		521
Class B common stock	245	0.4881	120
Class C common stock	64	1.0000	64
Total			704

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

Share repurchases. During the first half of fiscal 2011, the Company effectively repurchased 24.0 million shares at an average price of $72.26 per share, for a total cost of $1.7 billion. Of the $1.7 billion, $536 million was executed through the repurchase of class A common stock in the open market, and $1.2 billion was effectively executed through two separate deposits into the litigation escrow account previously established under the retrospective responsibility plan.

The open market repurchases were made under the repurchase program previously authorized by the board of directors in October 2010. All repurchased shares have been retired and constitute authorized but unissued shares.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents share repurchases in the open market for the three months ended:

	March 31, 2011	December 31, 2010
	(in millions, except per share data)	
Shares repurchased in the open market	3.3	4.3
Weighted-average repurchase price per share	$ 70.53	$ 70.40
Total cost	$ 230	$ 306

The Company made deposits into the litigation escrow account of $800 million and $400 million on October 8, 2010, and March 31, 2011, respectively. Under the terms of the retrospective responsibility plan, when the Company makes deposits 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. This has the same effect on earnings per share as repurchasing the Company s class A common stock, by reducing the as-converted class B common stock share count as shown in the table below.

	Fiscal 2011	
	March 2011	October 2010
	(in millions, except per share data and conversion rate)	
Deposits under the retrospective responsibility plan	**$ 400**	$ 800
Effective price per share(1)	**$ 73.81**	$ 72.74
Equivalent shares of class A common stock effectively repurchased	**5.4**	11.0
Conversion rate of class B common stock to class A common stock after deposits	**0.4881**	0.5102
As-converted class B common stock outstanding after deposits	**120**	125

(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.

In accordance with the authorization from the board of directors, the $400 million deposit into the litigation escrow in March 2011 reduced funds previously allocated to the Company s October 2010 share repurchase program by an equivalent amount. At March 31, 2011, the October 2010 share repurchase program had remaining authorized funds of $64 million. This authorization will be in effect through September 30, 2011, and the terms of the program are subject to change at the discretion of the board of directors.

On May 5, 2011, the Company announced an additional $1.0 billion share repurchase program as authorized by the board of directors. The authorization will be in effect through April 20, 2012, and the terms of the program are subject to change at the discretion of the board of directors.

Class B common stock. Under the Company s 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. On January 26, 2011, the Company s board of directors approved an accelerated class C share release program, as permitted under Visa s certificate of incorporation. Such approval by the Company s board of directors permitted an early release of the

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

remaining 55 million shares of class C common stock on February 7, 2011, which would have otherwise become automatically eligible for public sale on March 25, 2011, under the Company s certificate of incorporation. Pursuant to the terms of the accelerated class C share release program, class C common stock sold in the public market automatically converts to class A common stock without a separate shareholder application process. The early release of the class C common stock did not increase the number of outstanding shares on an as-converted basis, and there was no dilutive effect to the outstanding class A common stock share count on an as-converted basis from these transactions.

Of the 152 million shares of class C common stock released from transfer restrictions under the Company s 2009, 2010 and the most recent accelerated class C share release programs, 88 million shares have been converted from class C to class A common stock upon their sale into the public market through March 31, 2011. Approximately 29 million and 33 million shares were converted during the three and six months ended March 31, 2011, respectively.

Dividends. On April 21, 2011, the Company s board of directors declared a dividend in the amount of $0.15 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 7, 2011, to all holders of record of the Company s class A, class B and class C common stock as of May 20, 2011. The Company paid $215 million in dividends during the first half of fiscal 2011.

Note 8 Earnings Per Share

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]**
Class A	$ 625	505	$1.24	$ 881	714[2]	$1.23
Class B	155[3]	245	0.63[3]	154[3]	245	0.63[3]
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 Inc.	$ 881					

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents basic and diluted earnings per share for the six 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]
Class A	$ 1,234	499	$2.47	$1,765	717[2]	$2.46
Class B	310[3]	245	1.26	309[3]	245	1.26
Class C	215	87	2.47	214	87	2.46
Participating Securities[4]	6	Not presented	Not presented	6	Not presented	Not presented
Net income attributable to Visa Inc.	$ 1,765					

The following table presents basic and diluted earnings per share for the three months ended March 31, 2010.

	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]
Class A	$ 456	472	$0.97	$713	742[2]	$0.96
Class B	138[3]	245	0.56	138[3]	245	0.56
Class C	117	122	0.97	117	122	0.96
Participating Securities[4]	2	Not presented	Not presented	2	Not presented	Not presented
Net income attributable to Visa Inc.	$ 713					

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents basic and diluted earnings per share for the six months ended March 31, 2010.

	Basic Earnings Per Share			Diluted Earnings Per Share		
	(in millions, except per share data)					
	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]
Class A	$937	470	$1.99	$ 1,476	743[2]	$1.99
Class B	285[3]	245	1.16	284[3]	245	1.16
Class C	250	125	1.99	249	125	1.99
Participating Securities[4]	4	Not presented	Not presented	4	Not presented	Not presented
Net income attributable to Visa Inc.	$ 1,476					

(1) Earnings per share calculated based on whole numbers, not rounded numbers.

(2) The computation of weighted-average dilutive shares outstanding excluded stock options to purchase 2 million shares of common stock for the three and six months ended March 31, 2011, and March 31, 2010, respectively, because their effect would have been anti-dilutive.

(3) Net income attributable to Visa Inc. is allocated to each class of common stock on an as-converted basis. On an as-converted basis and for the purpose of calculating net income attributable to Visa Inc. allocated to each class of common stock, the weighted-average numbers of shares of class B common stock outstanding on an as-converted basis used in the allocation were 125 million and 126 million for the three and six months ended March 31, 2011, and 143 million for the three and six months ended March 31, 2010, respectively.

(4) Participating securities are unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, such as the Company s restricted stock awards, restricted stock units, and earned performance-based shares.

Note 9 Share-based Compensation

During the six months ended March 31, 2011, the Company granted the following awards to Company employees and non-employee directors under the 2007 Equity Incentive Compensation Plan:

	Granted	Weighted Average Grant Date Fair Value	Weighted Average Exercise Price
Non-qualified stock options[1]	916,772	$ 27.62	$ 73.88
Restricted stock awards (RSA)	930,690	79.75	
Restricted stock units (RSU)	276,719	79.78	

(1) Includes 76,822 options granted during the three months ended March 31, 2011 in connection with the acquisition of PlaySpan. See *Note 4 PlaySpan Acquisition*.

The Company s non-qualified stock options, RSAs and RSUs are equity awards with service-only conditions and are accordingly expensed on a straight-line basis over the vesting period. Compensation expense is recorded net of estimated forfeitures, which are adjusted as appropriate.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock-based compensation expense recorded in the first half of fiscal 2011 included $6 million related to the immediate recognition of expense on newly granted awards for employees who had reached eligible retirement age.

The Company also granted performance-based shares during the first quarter of fiscal 2011. The ultimate number of performance shares to be earned will be between zero and 331,800, depending on (1) the Company s achievement of specified cumulative net income performance targets, and (2) the Company s total shareholder return ranked against that of other companies that are included in the Standard & Poor s 500 Index (the market condition), during the approximate two-year period beginning October 7, 2010. These performance-based shares will vest in two equal installments on November 30, 2012 and 2013, subject to earlier vesting in full under certain conditions. The grant-date fair value of the performance-based shares, incorporating the market condition using a Monte Carlo simulation model, was $85.05 per share. Compensation expense for the performance awards is initially estimated based on the target net income performance and is adjusted as appropriate throughout the performance period. For awards with performance conditions, the Company uses the graded-vesting method of expense attribution. Compensation expense is recorded net of estimated forfeitures, which are adjusted as appropriate.

Note 10 Income Taxes

The effective income tax rate was 36% for the three and six months ended March 31, 2011 and 2010.

During the second quarter of fiscal 2011, the Company s unrecognized tax benefits increased by $12 million, all of which would impact the effective tax rate if recognized. During the same period, the Company accrued $6 million of interest related to uncertain tax positions.

During the six months ended March 31, 2011, total unrecognized tax benefits decreased by $29 million, primarily due to the effective settlement of uncertainties related to the timing of certain deductions in the fiscal first quarter, partially offset by the aforementioned increase in the second quarter of fiscal 2011. The effective settlement did not impact the effective tax rate. During the six months ended March 31, 2011, total reserves for potential interest and penalties decreased by $6 million and $2 million, respectively.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Legal Matters

The Company is party to various legal and regulatory proceedings. Some of these proceedings involve complex claims that are subject to substantial uncertainties and unascertainable damages. Accordingly, except as disclosed, the Company has not established reserves or ranges of possible loss related to these proceedings, as at this time in the proceedings, the matters do not relate to a probable loss and/or amounts are not reasonably estimable. Although the Company believes that it has strong defenses for the litigation and regulatory proceedings described below, it could in the future incur judgments or fines or enter into settlements of claims that could have a material adverse effect on the Company s consolidated results of operations, financial position or cash flows. From time to time, the Company may engage in settlement discussions or mediations with respect to one or more of its outstanding litigation matters, either on its own behalf or collectively with other parties.

There was no significant provision activity for the three and six months ended March 31, 2011. The Company s litigation provision was ($41) million for the six months ended March 31, 2010. The credit to the provision for the six months ended March 31, 2010, was primarily the result of a $41 million pre-tax gain recognized related to the prepayment of the remaining obligations under the Retailers litigation. The litigation accrual is an estimate and is based on management s understanding of its litigation profile, the specifics of each case, advice of counsel to the extent appropriate and management s best estimate of incurred loss at the balance sheet date.

The following table summarizes the activity related to accrued litigation for both covered and non-covered litigation for the six months ended March 31:

	2011	2010
	(in millions)	
Balance at October 1	**$ 697**	$ 1,717
Provision for settled matters(1)	**6**	(41)
Reclassification of settled matters(2)	**12**	
Interest accretion on settled matters	**7**	16
Payments on settled matters(3)	**(142)**	(826)
Balance at March 31	**$ 580**	$ 866

(1) The amount for the six months ended March 31, 2010 includes the reduction to the provision for the $41 million pre-tax gain recognized related to the prepayment of the remaining obligations under the Retailers litigation.

(2) Reclassification of amount previously recorded in accrued liabilities.

(3) The amount for the six months ended March 31, 2010 includes the Company s October 2009 prepayment of its remaining $800 million in payment obligations in the Retailers litigation at a discounted amount of $682 million.

Covered Litigation

Visa Inc., Visa U.S.A. and Visa International are parties to certain legal proceedings that are subject to the retrospective responsibility plan, which the Company refers to as the covered litigation. See *Note 2 Retrospective Responsibility Plan*. An accrual for covered litigation is recorded when loss is deemed to be probable and reasonably estimable. In making this determination the Company evaluates available information, including funding decisions made by the litigation committee. The accrual related to covered litigation could be either higher or lower than the escrow account balance. The Company has not recorded an additional accrual for covered litigation during fiscal 2011.

VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Attridge Litigation. On January 12, 2011, the court issued an order reassigning the case to the Honorable John E. Munter. On February 15, 2011, the court ordered that the case be stayed until 30 days following the final resolution of the appeals in the California *Credit/Debit Card Tying Cases*.

The Interchange Litigation.

Multidistrict Litigation Proceedings (MDL). On February 7, 2011, Visa entered into an omnibus agreement that confirmed and memorialized the signatories intentions with respect to the loss sharing agreement, the judgment sharing agreement and other agreements relating to certain interchange litigation. Under the omnibus agreement, the monetary portion of any settlement of the interchange litigation covered by the omnibus agreement would be divided into a MasterCard portion at 33.3333% and a Visa portion at 66.6667%. In addition, the monetary portion of any judgment assigned to Visa-related claims in accordance with the omnibus agreement would be treated as a Visa portion. Visa would have no liability for the monetary portion of any judgment assigned to MasterCard-related claims in accordance with the omnibus agreement, and if a judgment is not assigned to Visa-related claims or MasterCard-related claims in accordance with the Omnibus agreement, then any monetary liability would be divided into a MasterCard portion at 33.3333% and a Visa portion at 66.6667%. The Visa portion of a settlement or judgment covered by the omnibus agreement would be allocated in accordance with specified provisions of the Company s retrospective responsibility plan. The litigation provision on the consolidated statements of operations is not impacted by the execution of the omnibus agreement.

On February 11, 2011, the parties filed motions for summary judgment on a number of issues. Visa, jointly with other defendants, moved for summary judgment against the claims in the Supplemental Complaint and the Second Consolidated Amended Class Action Complaint. Visa and other defendants also moved for summary judgment against the claims in the individual plaintiffs complaints. The class plaintiffs sought summary judgment on all of their intra-network damages claims under Section 1 of the Sherman Act in the Second Consolidated Amended Class Action Complaint, including by arguing that Visa s post-IPO conduct constitutes a continuing conspiracy. Finally, the individual plaintiffs moved for partial summary judgment on their claims that (i) agreements by banks to enforce certain Visa rules are *per se* unlawful under Section 1 of the Sherman Act, and (ii) Visa s imposition of those rules post-IPO constitutes a continuing conspiracy under Section 1 of the Sherman Act.

On February 17, 2011, the Court ordered that the parties identify any objections to a trial date of September 12, 2012.

Other Litigation

Morgan Stanley Dean Witter/Discover Litigation. On April 14, 2011, the European Union General Court denied Visa s appeal of the 10.2 million fine levied in 2007. As previously reported, pursuant to existing agreements, Visa Europe has acknowledged full responsibility for the defense of this action, including any fines that may be payable.

Merchant Acceptance Rules Investigations. On October 4, 2010, Visa announced a settlement with the United States Department of Justice and the attorneys general of seven states to resolve their investigations. On December 20, 2010, eleven additional states joined the settlement. As part of the settlement, Visa will allow U.S. merchants to offer discounts or other incentives to steer customers to a

VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

particular form of payment including to a specific network brand or to any card product, such as a non-reward Visa credit card. Visa s rules always have allowed U.S. merchants to steer customers to other forms of payment and offer discounts to customers who choose to pay with cash, check or PIN debit. The new rules will expand U.S. merchants ability to discount for their preferred form of payment, though they will not be able to pick and choose amongst issuing banks. The settlement agreement does not address Visa s rule prohibiting U.S. merchants from surcharging consumers. Apart from a partial reimbursement to some of the state attorneys general of their attorneys fees and expenses, there is no monetary obligation associated with the settlement. The reimbursement amount is not considered material to the consolidated financial statements.

The consent decree setting forth the terms of settlement is subject to court approval. Visa will make formal rule changes after the court enters a final judgment following a public comment period, but will refrain from enforcing its current discounting rules in the interim.

Venezuela Interchange Proceedings. On December 29, 2010, the Superintendencia para la Promoción y Protección de la Libre Competencia (Competition Authority) of Venezuela issued a decision, subject to appeal, that it had found no violation of Venezuelan competition law by Visa or any of the other defendants.

European Interchange Proceedings. After public consultation, on December 8, 2010, the European Commission concluded that the proposed agreement with Visa Europe addressed its competition concerns, made the agreement legally binding upon Visa Europe, and closed its investigation with regard to interchange fees for debit card transactions. For credit card and deferred debit card payments, the European Commission announced that it will continue to investigate. Meanwhile, it has issued further requests for information to Visa Europe, Visa Inc. and Visa International and commissioned a cost-of-cash study. Pursuant to existing agreements among the parties, Visa Europe is obligated to indemnify Visa International and Visa Inc. in connection with this proceeding, including payment of any fines that may be imposed.

Canadian Competition Proceedings.

Competition Bureau. On December 15, 2010, the Commissioner of Competition filed a Notice of Application against Visa Canada Corporation (Visa Canada) and MasterCard. The proceeding challenges certain Visa policies regarding merchant acceptance practices, including Visa s no-surcharge and honour all cards policies under the Competition Act. Visa Canada filed a Response to the Notice of Application on January 31, 2011. On February 10, 2011, Toronto Dominion Bank and the Canadian Bankers Association sought leave to intervene in the proceeding; Visa supported such requests. Following a hearing on March 7, 2011, the Competition Tribunal granted the intervention requests.

Merchant Litigation. On December 17, 2010, a purported civil follow-on case to the Competition Bureau s proceeding was filed against Visa Canada and MasterCard in the Superior Court of Québec, Canada, on behalf of a class of merchants and a class of consumers. The action, *9085-4886 Quebec Inc. et al. v. Visa Canada et al.*, asserts claims under Section 76 of the Competition Act, which does not provide for a civil cause of action. Plaintiff seeks unspecified money damages and injunctive relief.

On March 28, 2011, Mary Watson filed a class action lawsuit in the Supreme Court of British Columbia, Canada, on behalf of merchants and others in Canada that accept payment by Visa and

VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MasterCard. The suit, filed against Visa Canada, MasterCard, and ten financial institutions, alleges conduct contrary to section 45 of the Competition Act and also asserts claims of civil conspiracy, interference with economic interests, and unjust enrichment, among others. Plaintiff alleges that Visa and MasterCard each conspired with their member financial institutions to set supra-competitive default interchange rates and merchant discount fees, and that Visa and MasterCard s respective no-surcharge and honour all cards rules had the anticompetitive effect of increasing merchant discount fees. The lawsuit seeks unspecified monetary damages and injunctive relief.

CyberSource securities litigation. The court held a final approval hearing on January 14, 2011 and issued an order and final judgment approving the settlement on January 21, 2011. The settlement amount is not considered material to the Company s consolidated financial statements.

Dynamic Currency Conversion. In New Zealand, the Commerce Commission completed its investigation and concluded that Visa s actions relating to Dynamic Currency Conversion had not breached New Zealand s competition law.

Data pass litigation. On November 19, 2010, the plaintiff filed an amended complaint, adding GameStop Corporation as a defendant, asserting additional claims against Visa under federal and state consumer protection statutes and state common law, and seeking certification of a class of persons and entities whose credit card or debit card data was improperly accessed by Webloyalty.com since October 1, 2008. On December 23, 2010, Webloyalty.com, GameStop, and Visa each filed motions to dismiss the amended complaint. Webloyalty.com also has asked the Judicial Panel on Multi-district Litigation to consolidate with this case, for pretrial proceedings, a case pending in federal district court in California in which Webloyalty.com and Movietickets.com (but not Visa) are named as defendants. On February 8, 2011, the Judicial Panel on Multi-district Litigation denied Webloyalty.com s application to consolidate the case.

Call center litigation. On April 28, 2011, Francisco Marenco filed a request in the U.S. District Court for the Central District of California to amend his class action complaint to name Visa Inc. as the defendant. The lawsuit alleges that Visa recorded telephone calls to call center representatives without providing a disclosure that the calls may be recorded, in alleged violation of state law in California and several other states. Together with the proposed complaint, the plaintiff filed notice that the parties had reached a settlement, which is subject to court approval, in an amount that is not material to Visa s consolidated financial statements. This matter relates to and resolves the previously reported contractual indemnity claim tendered to Visa by a processing client in October 2010.

Intellectual Property Litigation

Restricted Spending Solutions, LLC Prepaid and Commercial Cards. On December 22, 2010, Visa moved to recover its attorneys fees incurred in the litigation on grounds that, at the outset of the case, plaintiff improperly refused to acknowledge the invalidity of its patent when presented with Visa s evidence. On January 27, 2011, plaintiff and Visa filed a stipulation of settlement, whereby plaintiff agreed to withdraw its appeal and pay Visa s litigation costs in exchange for Visa s withdrawal of its fee petition.

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ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This management s discussion and analysis provides a review of the results of operations, financial condition and the liquidity and capital resources of Visa Inc. and its subsidiaries (Visa, we, our or the Company) on a historical basis and outlines the factors that have affected recent earnings, as well as those factors that may affect future earnings. The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and related notes included elsewhere in this report.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements can be identified by the terms believe, continue, could, estimate, expect, intend, may, potential, pro will and similar references to the future.

Examples of such forward-looking statements include, but are not limited to, statements we make about our response to the recent U.S. financial regulatory reform legislation; the global alignment of our pricing strategy; our operating revenues and expenses; the number of transactions we process; our belief that there will be a global secular shift to electronic payments and our growth in that category; the growth rate of consumer and commercial spending; our liquidity needs and our ability to meet them; our online payment, fraud and security management capabilities; the strength of the U.S. dollar; incentive payments; income tax expenses; and dividend payments.

By their nature, forward-looking statements: (i) speak only as of the date they are made, (ii) are neither statements of historical fact nor guarantees of future performance and (iii) are subject to risks, uncertainties, assumptions and changes in circumstances that are difficult to predict or quantify. Therefore, actual results could differ materially and adversely from those forward-looking statements because of a variety of factors, including the following:

- the impact of new laws, regulations and marketplace barriers, particularly the Wall Street Reform and Consumer Protection Act, including those affecting:
  - issuers and retailers choice among debit payment networks;
  - debit interchange rates;
  - the spread of regulation of debit payments to credit and other product categories;
  - the spread of U.S. regulations to other countries;
  - consumer privacy and data use and security; and
  - designation as a systemically important payment system;
- developments in current or future disputes and our ability to absorb their impact, including: interchange; currency conversion; and tax;
- macroeconomic factors such as:

- global economic, political, health, environmental and other conditions;
- cross-border activity and currency exchange rates; and
- material changes in our clients performance compared to our estimates;

industry and systemic developments, such as:

- competitive pressure on client pricing and in the payments industry generally;
- bank and merchant consolidation and their increased focus on payment card costs;

- disintermediation from the payments value stream through government actions or bilateral agreements;
- adverse changes in our relationships and reputation;
- our clients failure to fund settlement obligations we have guaranteed;
- disruption of our transaction processing systems or the inability to process transactions efficiently;
- rapid technological developments;
- account data breaches and increased fraudulent and other illegal activity involving our cards;
- issues arising at Visa Europe, including failure to maintain interoperability between our systems;
- costs arising if Visa Europe were to exercise its right to require us to acquire all of its outstanding stock;
- loss of organizational effectiveness or key employees;
- failure to successfully integrate CyberSource, PlaySpan or other acquisitions;
- changes in accounting principles or treatment; and

the other factors discussed under the heading Risk Factors herein and in our 2010 Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the first quarter of our 2011 fiscal year on file with the Securities and Exchange Commission. You should not place undue reliance on such statements. Unless required to do so by law, we do not intend to update or revise any forward-looking statement, because of new information or future developments or otherwise.

Overview

Visa is a global payments technology company that connects consumers, businesses, banks and governments around the world, enabling them to use digital currency instead of checks and cash. We provide our clients with payment processing platforms that encompass consumer credit, debit, prepaid and commercial payments. We facilitate global commerce through the transfer of value and information among financial institutions, merchants, consumers, businesses and government entities. Each of these constituencies has played a key role in the ongoing worldwide migration from paper-based to electronic forms of payment, and we believe that this transformation continues to yield significant growth opportunities, particularly outside the United States. We continue to explore additional opportunities to enhance our competitive position by expanding the scope of payment services to benefit our existing clients and to position Visa to serve more and different constituencies.

Overall economic conditions and regulatory environment. Our business is affected by overall economic conditions and consumer spending. Our business performance during the first two quarters of fiscal 2011 reflects the impacts of a modest global economic recovery.

We are evaluating the proposed regulations released by the U.S. Federal Reserve in December 2010 relating to the Wall Street Reform and Consumer Protection Act (Reform Act) passed by the last Congress. We do not know the extent to which the final regulations will conform to or deviate from the proposed regulations, which are subject to comment and change before final adoption, or whether the current Congress will leave the legislation intact. We also cannot quantify with certainty the impact the

Reform Act and its final regulations will have on our business. However, we would expect the draft regulations to have a negative impact on our debit revenues in the United States, if implemented as presented and not offset by other permitted business practices, which impact we would begin to see in the fourth quarter of fiscal 2011.

The Reform Act does not directly regulate the network fees we charge (other than to prohibit them from being used to evade the interchange regulations). However, we believe the Reform Act could create negative pressure on our pricing in the United States. The Federal Reserve has recommended caps on debit interchange rates. If these caps are implemented, our clients revenue from our U.S. debit products could be adversely affected, if not offset by other permitted business practices, potentially causing our clients to seek to reduce our fees. Moreover, if our clients experience decreased profitability from debit cards in the United States, this may cause our clients to issue fewer debit cards, which could have a negative effect on the volume and number of U.S, debit payments we process and the revenue we receive. The Reform Act will also likely affect U.S. network industry practices, including the retailers ability to route debit transactions to competitive networks. We cannot precisely quantify the impact of these industry changes in part because The Federal Reserve has not yet settled on a specific position on many of these issues in the proposed regulations but we would expect them to have an adverse impact on our U.S. debit business and associated revenues, if not offset by other permitted business practices.

Furthermore, the timing of implementation of these measures is in question. The Federal Reserve has delayed issuance of the final regulations under the Reform Act, previously expected to have been issued by April 21, 2011. In addition, the U.S. Congress is considering legislation that would delay implementation in order to enable further study of the consequences of certain sections of the Reform Act, with the potential that parts might be significantly delayed. As a consequence, our ability to measure the full impact on our business is limited.

We believe that we will be able to mitigate the negative impacts from the Reform Act to some extent. Our broad platform of payment products continues to provide substantial value to both retailers and consumers. We believe that the continuing worldwide secular shift to digital currency may help buffer the impacts of the Reform Act, as reflected in our overall payments volume growth, particularly outside the United States. As a leader in the U.S. debit industry, we also believe we will be able to develop revised business models that comply with the Reform Act while mitigating some of the negative impacts the act would have on our current business models. We remain committed and prepared to adapt to and to compete effectively under this new U.S. debit regulatory environment.

Share repurchases. During the first half of fiscal 2011, we effectively repurchased 24.0 million shares at an average price of $72.26 per share, for a total cost of $1.7 billion. Of the $1.7 billion, $536 million was executed through the repurchase of class A common stock in the open market, and $1.2 billion was effectively executed through deposits into the litigation escrow account previously established under the retrospective responsibility plan.

The open market repurchases were made under the repurchase program previously authorized by our board of directors in October 2010. This authorization will be in effect through September 30, 2011, and the terms of the program are subject to change at the discretion of our board of directors. At March 31, 2011, the October 2010 share repurchase program had remaining authorized funds of $64 million. See *Note 2 Retrospective Responsibility Plan* and *Note 7 Stockholders Equity* to our unaudited consolidated financial statements.

On May 5, 2011, we announced an additional $1.0 billion share repurchase program as authorized by our board of directors. The authorization will be in effect through April 20, 2012, and the terms of the program are subject to change at the discretion of the board of directors.

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PlaySpan Acquisition. On March 1, 2011, we acquired PlaySpan, a privately held company whose payments platform processes transactions for digital goods in online games, digital media and social networks around the world, for total potential purchase consideration of up to $225 million. The acquisition of PlaySpan complements Visa s July 2010 acquisition of CyberSource and extends our capabilities in digital, e-Commerce and mobile commerce. See *Note 4 PlaySpan Acquisition* to our unaudited consolidated financial statements. The PlaySpan acquisition had a dilutive impact to earnings per share of $0.01 for the second quarter of fiscal 2011, and we anticipate a dilutive impact to earnings per share of $0.04 for the full 2011 fiscal year.

Sale of Investment in Companhia Brasileira de Soluções e Serviços (CBSS). On January 24, 2011, our wholly-owned subsidiary, Visa International, sold its 10 percent stake in Visa Vale issuer CBSS to Banco do Brasil and Bradesco. CBSS will continue to issue Visa Vale prepaid cards in Brazil and Visa expects no disruption to cardholder service as a result of this transaction. Visa s gross proceeds from the sale were U.S. $103 million. The sale is subject to regulatory approval by Brazil s Conselho Administrativo de Defesa Econômica, which we expect to receive in the third quarter of fiscal 2011. Upon regulatory approval, we will recognize an estimated pre-tax gain, net of transaction costs, of $85 million in investment income, net on our consolidated statements of operations. The amount of the gain net of tax is estimated to be $44 million.

Nominal payments volume and transaction counts. We believe that payments volume and processed transactions are key drivers of our business. Payments volume is the basis for service revenues and processed transactions are the basis for data processing revenues. Compared to the same prior year period, nominal payments volume benefited from double-digit growth in consumer credit, debit and commercial, resulting in an increase in overall nominal payments volume. The number of processed transactions continues to increase reflecting the continued shift to electronic payments globally.

The following tables set forth nominal payments volume for the periods presented in nominal dollars[(1)] .

	U.S.A.			Rest of World			Visa Inc.		
	3 months ended December 31, 2010[(4)]	3 months ended December 31, 2009[(4)]	% Change	3 months ended December 31, 2010[(4)]	3 months ended December 31, 2009[(4)]	% Change	3 months ended December 31, 2010[(4)]	3 months ended December 31, 2009[(4)]	% Change
	(in billions, except percentages)								
Nominal Payments Volume									
Consumer credit	$ 166	$ 156	6%	$ 306	$ 255	20%	$ 472	$ 411	15%
Consumer debit[(2)]	258	223	16%	68	51	34%	326	274	19%
Commercial and other[(2)]	69	59	18%	30	25	21%	99	84	18%
Total Nominal Payments Volume	**$ 493**	**$ 438**	**12%**	**$ 405**	**$ 331**	**22%**	**$ 897**	**$ 769**	**17%**
Cash volume	98	92	6%	431	376	15%	530	468	13%
Total Nominal Volume[(3)]	**$ 591**	**$ 531**	**11%**	**$ 836**	**$ 707**	**18%**	**$ 1,427**	**$ 1,237**	**15%**

	U.S.A.			Rest of World			Visa Inc.		
	6 months ended December 31, 2010[(4)]	6 months ended December 31, 2009[(4)]	% Change	6 months ended December 31, 2010[(4)]	6 months ended December 31, 2009[(4)]	% Change	6 months ended December 31, 2010[(4)]	6 months ended December 31, 2009[(4)]	% Change
	(in billions, except percentages)								
Nominal Payments Volume									
Consumer credit	$ 323	$ 306	5%	$ 577	$ 488	18%	$ 900	$ 794	13%
Consumer debit[(2)]	506	432	17%	127	95	34%	632	526	20%
Commercial and other[(2)]	138	118	17%	56	51	10%	195	169	15%
Total Nominal Payments Volume	**$ 966**	**$ 856**	**13%**	**$ 760**	**$ 634**	**20%**	**$ 1,727**	**$ 1,489**	**16%**
Cash volume	199	186	7%	822	702	17%	1,021	888	15%

Total Nominal Volume[3]	**$ 1,165**	**$ 1,041**	**12%**	**$ 1,582**	**$ 1,336**	**18%**	**$ 2,748**	**$ 2,377**	**16%**

(1) Figures may not sum due to rounding. Percentage change calculated based on whole numbers, not rounded numbers.
(2) Includes prepaid volume.

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(3) Total nominal volume is the sum of total nominal payments volume and cash volume. Total nominal payments volume is the total monetary value of transactions for goods and services that are purchased. Cash volume generally consists of cash access transactions, balance access transactions, balance transfers and convenience checks. Total nominal volume is provided by our financial institution clients, subject to verification by Visa. From time to time, previously submitted volume information may be updated. Prior year volume information presented in these tables has not been updated, as subsequent adjustments were not material.

(4) Service revenues in a given quarter are assessed based on payments volume in the prior quarter. Therefore, service revenues reported with respect to the three and six months ended March 31, 2011, and March 31, 2010, were based on payments volume reported by our financial institution clients for the three and six months ended December 31, 2010, and December 31, 2009, respectively.

The table below provides the number of transactions processed by our VisaNet system, and billable transactions processed by CyberSource s network during the periods presented.

	Three months ended March 31,			Six months ended March 31,		
	2011	2010	% Change[1]	2011	2010	% Change[1]
	(in millions)			(in millions)		
Visa processed transactions[2]	**12,040**	10,648	13%	**24,621**	21,572	14%
CyberSource billable transactions[3]	**1,018**	738	38%	**2,004**	1,445	39%

(1) Percentage change calculated based on whole numbers, not rounded numbers.

(2) Represents transactions involving Visa, Visa Electron, Interlink and PLUS cards processed on Visa s networks.

(3) Transactions include, but are not limited to, authorization, settlement payment network connectivity, fraud management, payment security management, tax services and delivery address verification. CyberSource activity primarily contributes to our data processing revenues beginning after our July 2010 acquisition.

Results of Operations

Operating Revenues

The following table sets forth our operating revenues earned in the U.S., in the rest of the world and from Visa Europe. Revenues earned from Visa Europe are a result of our contractual arrangement with Visa Europe, as governed by the framework agreement that provides for trademark and technology licenses and bilateral services.

	Three months ended March 31,		2011 vs. 2010		Six months ended March 31,		2011 vs. 2010	
	2011	2010	$ Change	% Change[1]	2011	2010	$ Change	% Change[1]
	(in millions, except percentages)							
U.S. operating revenues	$ 1,243	$ 1,134	$ 109	10%	$ 2,522	$ 2,308	$ 214	9%
Rest of world operating revenues	951	773	178	23%	1,860	1,507	353	23%
Visa Europe operating revenues	51	52	(1)	(2%)	101	104	(3)	(3%)
Total Operating Revenues	**$ 2,245**	**$ 1,959**						