VISA INC.
Form 10-Q
May 01, 2013

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, 2013
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: (650) 432-3200
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

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As of April 26, 2013, there were 517,954,609 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 28,531,541 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, 2013	September 30, 2012
	(in millions, except par value data)	
Assets		
Cash and cash equivalents	$1,377	$2,074
Restricted cash—litigation escrow (Note 2)	49	4,432
Investment securities		
Trading	72	66
Available-for-sale	1,270	677
Income tax receivable	1,163	179
Settlement receivable	488	454
Accounts receivable	802	723
Customer collateral (Note 6)	846	823
Current portion of client incentives	215	209
Deferred tax assets	421	2,027
Prepaid expenses and other current assets	211	122
Total current assets	6,914	11,786
Investment securities, available-for-sale	2,974	3,283
Client incentives	100	58
Property, equipment and technology, net	1,674	1,634
Other assets	331	151
Intangible assets, net	11,385	11,420
Goodwill	11,681	11,681
Total assets	$35,059	$40,013
Liabilities		
Accounts payable	$118	$152
Settlement payable	722	719
Customer collateral (Note 6)	846	823
Accrued compensation and benefits	358	460
Client incentives	890	830
Accrued liabilities	599	584
Accrued litigation (Note 11)	6	4,386
Total current liabilities	3,539	7,954
Deferred tax liabilities	4,046	4,058
Other liabilities	579	371
Total liabilities	8,164	12,383

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, 2013	September 30, 2012
	(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, 519 and 535 shares issued and outstanding at March 31, 2013, and September 30, 2012, respectively (Note 7)	—	—
Class B common stock, $0.0001 par value, 622 shares authorized, 245 shares issued and outstanding at March 31, 2013, and September 30, 2012 (Note 7)	—	—
Class C common stock, $0.0001 par value, 1,097 shares authorized, 29 and 31 shares issued and outstanding at March 31, 2013, and September 30, 2012, respectively (Note 7)	—	—
Additional paid-in capital	19,305	19,992
Accumulated income	7,723	7,809
Accumulated other comprehensive income (loss), net		
Investment securities, available-for-sale	35	3
Defined benefit pension and other postretirement plans	(183)	(186)
Derivative instruments classified as cash flow hedges	16	13
Foreign currency translation adjustments	(1)	(1)
Total accumulated other comprehensive loss, net	(133)	(171)
Total equity	26,895	27,630
Total liabilities and equity	$35,059	$40,013

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

VISA INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
	(in millions, except per share data)			
Operating Revenues				
Service revenues	$1,369	$1,241	$2,669	$2,392
Data processing revenues	1,150	922	2,265	1,873
International transaction revenues	831	733	1,636	1,481
Other revenues	175	179	354	357
Client incentives	(567)	(497)	(1,120)	(978)
Total operating revenues	2,958	2,578	5,804	5,125
Operating Expenses				
Personnel	486	431	940	820
Marketing	195	170	388	360
Network and processing	119	103	229	201
Professional fees	91	82	179	152
Depreciation and amortization	98	80	190	160
General and administrative	108	106	214	208
Litigation provision (Note 11)	1	—	4	—
Total operating expenses	1,098	972	2,144	1,901
Operating income	1,860	1,606	3,660	3,224
Non-operating (expense) income	(3)	3	(2)	2
Income before income taxes	1,857	1,609	3,658	3,226
Income tax provision	587	317	1,095	907
Net income including non-controlling interest	1,270	1,292	2,563	2,319
Loss attributable to non-controlling interest	—	—	—	2
Net income attributable to Visa Inc.	$1,270	$1,292	$2,563	$2,321

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,	
	2013	2012	2013	2012
	(in millions, except per share data)			
Basic earnings per share (Note 8)				
Class A common stock	$1.93	$1.92	$3.87	$3.41
Class B common stock	$0.81	$0.82	$1.63	$1.56
Class C common stock	$1.93	$1.92	$3.87	$3.41
Basic weighted-average shares outstanding (Note 8)				
Class A common stock	524	524	528	522
Class B common stock	245	245	245	245
Class C common stock	28	42	29	44
Diluted earnings per share (Note 8)				
Class A common stock	$1.92	$1.91	$3.86	$3.40
Class B common stock	$0.81	$0.81	$1.62	$1.55
Class C common stock	$1.92	$1.91	$3.86	$3.40
Diluted weighted-average shares outstanding (Note 8)				
Class A common stock	660	676	665	683
Class B common stock	245	245	245	245
Class C common stock	28	42	29	44

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,	
	2013	2012	2013	2012
	(in millions)			
Net income including non-controlling interest	$1,270	$1,292	$2,563	$2,319
Other comprehensive income (loss), net of tax:				
Investment securities, available-for-sale				
Net unrealized gain	2	6	50	7
Income tax effect	—	(2)	(17)	(2)
Reclassification adjustment for net gain realized in net income including non-controlling interest	(1)	—	(1)	—
Income tax effect	—	—	—	—
Defined benefit pension and other postretirement plans	2	(13)	5	(8)
Income tax effect	(1)	2	(2)	—
Derivative instruments classified as cash flow hedges				
Net unrealized gain (loss)	6	(5)	15	(12)
Income tax effect	—	5	—	6
Reclassification adjustment for net (gain) loss realized in net income including non-controlling interest	(6)	(2)	(17)	4
Income tax effect	2	1	5	1
Foreign currency translation adjustments	—	4	—	4
Other comprehensive income (loss), net of tax	4	(4)	38	—
Comprehensive income including non-controlling interest	1,274	1,288	2,601	2,319
Comprehensive loss attributable to non-controlling interest	—	—	—	2
Comprehensive income attributable to Visa Inc.	$1,274	$1,288	$2,601	$2,321

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 (Deficit)	Accumulated Other Comprehensive (Loss) Income	Total Equity
	Class A	Class B	Class C				
	(in millions, except per share data)						
Balance as of September 30, 2012	535	245	31	$ 19,992	$ 7,809	$ (171)	$27,630
Net income attributable to Visa Inc.					2,563		2,563
Other comprehensive income, net of tax						38	38
Comprehensive income including non-controlling interest							2,601
Issuance of restricted stock awards	1						—
Conversion of class C common stock upon sale into public market	2		(2)				—
Share-based compensation				98			98
Excess tax benefit for share-based compensation				56			56
Cash proceeds from exercise of stock options	1			84			84
Restricted stock and performance shares settled in cash for taxes[(1)]	—			(64)			(64)
Cash dividends declared and paid, at a quarterly amount of $0.33 per as-converted share (Note 7)					(437)		(437)
Repurchase of class A common stock (Note 7)	(20)			(861)	(2,212)		(3,073)
Balance as of March 31, 2013	519	245	29	$ 19,305	$ 7,723	$ (133)	$26,895

(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,	
	2013	2012
	(in millions)	
Operating Activities		
Net income including non-controlling interest	$2,563	$2,319
Adjustments to reconcile net income including non-controlling interest to net cash provided by (used in) operating activities:		
Amortization of client incentives	1,120	978
Share-based compensation	98	76
Excess tax benefit for share-based compensation	(56)	(27)
Depreciation and amortization of property, equipment, technology and intangible assets	190	160
Deferred income taxes	1,580	(200)
Other	35	(36)
Change in operating assets and liabilities:		
Income tax receivable	(984)	(30)
Settlement receivable	(34)	(96)
Accounts receivable	(79)	(95)
Client incentives	(1,108)	(724)
Other assets	(327)	(2)
Accounts payable	(15)	(94)
Settlement payable	3	253
Accrued and other liabilities	218	41
Accrued litigation	(4,384)	(140)
Net cash (used in) provided by operating activities	(1,180)	2,383
Investing Activities		
Purchases of property, equipment, technology and intangible assets	(211)	(162)
Proceeds from disposal of property, equipment and technology	—	2
Investment securities, available-for-sale:		
Purchases	(1,854)	(2,140)
Proceeds from sales and maturities	1,616	1,530
Net cash used in investing activities	(449)	(770)

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,	
	2013	2012
	(in millions)	
Financing Activities		
Repurchase of class A common stock (Note 7)	$(3,073)	$(75)
Dividends paid (Note 7)	(437)	(300)
Deposits into litigation escrow account—retrospective responsibility plan	—	(1,565)
Payments from litigation escrow account—retrospective responsibility plan	4,383	140
Cash proceeds from exercise of stock options	84	77
Restricted stock and performance shares settled in cash for taxes	(64)	—
Excess tax benefit for share-based compensation	56	27
Payment for earn-out related to PlaySpan acquisition	(12)	—
Principal payments on capital lease obligations	(5)	(6)
Net cash provided by (used in) financing activities	932	(1,702)
Effect of exchange rate changes on cash and cash equivalents	—	4
Decrease in cash and cash equivalents	(697)	(85)
Cash and cash equivalents at beginning of year	2,074	2,127
Cash and cash equivalents at end of period	$1,377	$2,042
Supplemental Disclosure of Cash Flow Information		
Income taxes paid, net of refunds	$421	$1,071
Amounts included in accounts payable and accrued and other liabilities related to purchases of property, equipment, technology and intangible assets	$41	$52

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, 2013
(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, financial institutions and governments around the world to fast, secure and reliable electronic payments. 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, Visa Canada Corporation, Inovant LLC, and CyberSource Corporation (“CyberSource”), operate one of the world’s most advanced processing networks. 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 is not a bank and does not issue cards, extend credit, or collect, assess or set cardholder fees or interest charges.

Consolidation and basis of presentation. The accompanying unaudited consolidated financial statements include the accounts of Visa 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 investments in VIEs have not been material to its consolidated financial statements as of and for the periods presented. All significant intercompany accounts and transactions are eliminated in consolidation.

Beginning with the first quarter of fiscal 2013, income tax receivable is presented separately on the consolidated balance sheets. Previously, it had been included in the prepaid expenses and other current assets line. The Company also combined the interest income (expense), investment income and other lines on the consolidated statements of operations into one line entitled, "Non-operating income." All prior period information has been reclassified to conform to current period presentation.

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 Annual Report on Form 10-K for the year ended September 30, 2012 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 periods presented.

Recently issued and adopted accounting pronouncements. In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("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 issued an amendment to ASU 2011-05, which deferred the requirement to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income. All other components of ASU 2011-05 were adopted effective October 1, 2012. The adoption did not have a material impact on the consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, which established the effective date for the requirement to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income. The standard impacts presentation only and does not impact the underlying components of other comprehensive income or net income. The Company will adopt the standard effective October 1, 2013. The adoption is not expected to have a material impact on the consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, which allows an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test for indefinite-lived intangible assets. The Company adopted ASU 2012-02 effective October 1, 2012, and applied the new guidance in its annual impairment

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review of indefinite-lived intangible assets as of February 1, 2013. See Note 3—Fair Value Measurements and Investments. The adoption did not have a material impact on the consolidated financial statements.

In January 2013, the FASB issued ASU 2013-01, which clarifies the scope of ASU 2011-11. As amended, ASU 2011-11 requires disclosure of the effect or potential effect of offsetting arrangements on a Company's financial position as well as enhanced disclosure of the rights of offset associated with a Company's recognized derivative instruments, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and lending transactions. The amended standard impacts presentation only and is not expected to have a material impact on the consolidated financial statements. The Company will adopt the standard effective October 1, 2013.

In February 2013, the FASB issued ASU 2013-04, which provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The Company will adopt the standard effective October 1, 2014. The adoption is not expected to have a material impact on the consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, which clarifies the applicable guidance for the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity, or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The Company will adopt the standard effective October 1, 2014. The 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, the covered litigation are paid. See Note 11—Legal Matters.

The following table summarizes activity related to the litigation escrow account.

	(in millions)	
Balance at October 1, 2012	$4,432	
Payments to settlement funds[1]:		
Class plaintiffs	(4,033	)
Individual plaintiffs	(350	)
Balance at March 31, 2013	$49	

(1) These payments are associated with the Multidistrict Litigation Proceedings. The settlement with the class plaintiffs in these proceedings is subject to final court approval, which the Company cannot assure will be received, and to the adjudication of any appeals. See Note 11—Legal Matters.

The accrual related to the covered litigation could be either higher or lower than the litigation escrow account balance. The Company did not record an additional accrual for the covered litigation during the six months ended March 31, 2013.

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

Note 3—Fair Value Measurements and Investments
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, 2013	September 30, 2012	March 31, 2013	September 30, 2012	March 31, 2013	September 30, 2012
	(in millions)					
Assets						
Cash equivalents and restricted cash						
Money market funds	$477	$5,676				
Commercial paper			$34	$93		
Investment securities, trading						
Equity securities	72	66				
Investment securities, available-for-sale						
U.S. government-sponsored debt securities			2,737	2,821		
U.S. Treasury securities	1,075	1,066				
Equity securities	63	2				
Corporate debt securities			362	63		
Auction rate securities					$7	$7
Prepaid and other current assets						
Foreign exchange derivative instruments			18	13		
Total	$1,687	$6,810	$3,151	$2,990	$7	$7
Liabilities						
Accrued liabilities						
Visa Europe put option					$145	$145
Earn-out related to PlaySpan acquisition					—	12
Foreign exchange derivative instruments			$17	$11		
Total	$—	$—	$17	$11	$145	$157

There were no significant transfers between Level 1 and Level 2 assets during the six months ended March 31, 2013 and 2012.
Level 1 assets measured at fair value on a recurring basis. Money market funds, publicly-traded 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. The significant decrease in the Company's Level 1 assets primarily reflects payments from the litigation escrow account totaling $4.4 billion in connection with the covered litigation. See Note 2—Retrospective Responsibility Plan and Note 11—Legal Matters.

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

Level 2 assets and liabilities measured at fair value on a recurring basis. The fair value of U.S. government-sponsored debt securities and corporate debt securities, as provided by third-party pricing vendors, is based on quoted prices in active markets for similar (not identical) assets. The pricing data obtained from outside sources is reviewed internally for reasonableness, compared against benchmark quotes from additional pricing sources then confirmed or revised accordingly. Commercial paper and foreign exchange derivative instruments are valued using inputs that are observable in the market or can be derived principally from or corroborated by observable market data. There were no substantive changes to the valuation techniques and related inputs used to measure fair value during the six months ended March 31, 2013.

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 substantive changes to the valuation techniques and related inputs used to measure fair value during the six months ended March 31, 2013.

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 valuation of the put option therefore requires substantial judgment. The most subjective estimates applied in valuing the put option are the assumed probability that Visa Europe will elect to exercise its option and the estimated differential 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.” 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, 2013 and September 30, 2012, 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, 2013, 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 the six months ended March 31, 2013, there were no changes to the valuation methodology used to estimate the fair value of the put option. At March 31, 2013, the key unobservable inputs include a 40% probability of exercise by Visa Europe at some point in the future and an estimated P/E differential of 1.9x. At March 31, 2013, our spot P/E was 20x and there was a differential of 2.4x between this ratio and the estimated spot ratio applicable to Visa Europe. These ratios are for reference only and are not necessarily indicative of the ratio or differential that could be applicable if the put option were exercised at any point in the future. 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, 2013. 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 non-operating income on the consolidated statements of operations.

Earn-out related to PlaySpan acquisition. The fair value of the earn-out liability was reduced to zero, reflecting payments made in full during the quarter ended December 31, 2012, upon achieving certain revenue targets and other milestones.

A separate roll-forward of Level 3 assets and liabilities measured at fair value on a recurring basis is not presented as the primary activities during the six months ended March 31, 2013 and 2012 were already discussed above.

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's judgment. When certain events or circumstances indicate that impairment may exist, the Company revalues the investments using various assumptions, including the financial metrics and ratios of comparable public companies. The Company recognized a $15 million other-than-temporary impairment loss during the six months ended March 31, 2013. There were no impairment charges recorded during the six months ended March 31, 2012. At March 31, 2013, and September 30, 2012, these investments totaled $56 million and $86 million, respectively. These assets are classified in other assets on the consolidated balance sheets.

Due to a change in the Company's relationship with one of its investees during fiscal 2013, the Company reclassified equity securities previously accounted for as an equity method investment, with a carrying value of $12 million, to long-term available-for-sale investment securities. The fair value of this investment at March 31, 2013 was $60 million, resulting in the recognition of a pre-tax unrealized gain of $48 million in other comprehensive income.

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 measured at fair value on a non-recurring basis. Finite-lived intangible assets primarily consist of customer relationships, reacquired rights, reseller relationships and tradenames, all of which were obtained through acquisitions.

If the Company is required to perform a quantitative assessment for impairment testing of goodwill and indefinite-lived intangible assets, the fair values are generally estimated by using an income approach. 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 as Level 3 in the fair value hierarchy. The Company completed its annual impairment review of its indefinite-lived intangible assets and goodwill as of February 1, 2013, and concluded that there was no impairment. No recent events or changes in circumstances indicate that impairment existed at March 31, 2013.

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, 2013, but require disclosure of their fair values: settlement receivable and payable, and customer collateral. The estimated fair value of such instruments at March 31, 2013, approximates their carrying value due to their generally short maturities. If measured at fair value in the financial statements, these financial instruments would be classified as Level 2 in the fair value hierarchy.

Investments

Available-for-sale investment securities

The Company had $54 million in gross unrealized gains and $1 million in gross unrealized losses at March 31, 2013. The unrealized gains were primarily related to the reclassification of the Company's equity investment discussed above. There were $4 million gross unrealized gains and $1 million gross unrealized losses at September 30, 2012. A majority of the Company's available-for-sale investment securities with stated maturities are due within one to five years.

Note 4—Debt

Commercial paper program. Visa maintains a commercial paper program to support its working capital requirements and for other general corporate purposes. On February 7, 2013, the Company replaced the existing $500 million program with a new commercial paper program. Under the new program, the Company is authorized to issue up to $3.0 billion in outstanding notes, with maturities up to 397 days from the date of issuance. The Company had no outstanding obligations under either program during the six months ended March 31, 2013.

Credit facility. On January 31, 2013, the Company entered into an unsecured $3.0 billion revolving credit facility (the “Credit Facility”). The Credit Facility, which expires on January 30, 2014, replaced the Company's existing $3.0 billion credit facility, which would have expired on February 15, 2013. The Credit Facility contains covenants and events of default customary for facilities of this type. The participating lenders in the Credit Facility include affiliates of certain holders of the Company's class B and class C common stock and some of the Company's clients or affiliates of its clients. This facility is maintained to provide liquidity in the event of settlement failures by the Company's clients, to back up the commercial paper program and for general corporate purposes.

Interest on borrowings under the Credit Facility would be charged at the London Interbank Offered Rate ("LIBOR") or an alternative base rate, in each case plus applicable margins that fluctuate based on the applicable credit rating of the Company's senior unsecured long-term debt. Visa also agreed to pay a commitment fee, which will fluctuate based on the credit rating of the Company's senior unsecured long-term debt. Currently, the applicable margin is 0.00% to 0.75% depending on the type of the loan, and the commitment fee is 0.05%. There were no borrowings under either facility and the Company was in compliance with all related covenants during the six months ended March 31, 2013.

Note 5—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,	
	2013	2012	2013	2012	2013	2012	2013	2012
	(in millions)							
Service cost	$12	$9	$22	$19	$—	$—	$—	$—
Interest cost	9	10	18	20	—	1	—	1
Expected return on assets	(15)	(13)	(31)	(27)	—	—	—	—
Amortization of:								
Prior service credit	(3)	(3)	(5)	(5)	—	(1)	(1)	(2)
Actuarial loss	7	8	14	16	—	—	—	—
Total net periodic benefit cost	$10	$11	$18	$23	$—	$—	$(1)	$(1)

Note 6—Settlement Guarantee Management

The indemnification for settlement losses that Visa provides to its clients 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 exposure to settlement losses through our settlement indemnification is accounted for as a settlement risk guarantee. The Company’s settlement exposure is limited to the amount of unsettled Visa payment transactions at any point in time. The Company requires certain clients 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 $53.0 billion at March 31, 2013, compared to $49.3 billion at September 30, 2012. Of

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these settlement exposure amounts, $3.5 billion at March 31, 2013 and September 30, 2012, were covered by collateral.
The Company maintained collateral as follows:

	March 31, 2013	September 30, 2012
	(in millions)	
Cash equivalents	$846	$823
Pledged securities at market value	260	307
Letters of credit	1,091	1,084
Guarantees	1,940	2,022
Total	$4,137	$4,236

The total available collateral balances presented in the table above were greater than the settlement exposure covered by customer collateral held due to instances in which the available collateral exceeded 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, 2013 and September 30, 2012. 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 on an as-converted basis at March 31, 2013, are as follows:

(in millions, except conversion rate)	Shares Outstanding	Conversion Rate Into Class A Common Stock	As-converted Class A Common Stock[1]
Class A common stock	519	—	519
Class B common stock	245	0.4206	103
Class C common stock	29	1.0000	29
Total			651

(1) Figures in the table may not recalculate exactly due to rounding. As-converted class A common stock is calculated based on whole numbers, not the rounded numbers presented.
Reduction in as-converted class A common stock
The following table presents share repurchases in the open market.

(in millions, except per share data)	Three Months Ended March 31, 2013	Six Months Ended March 31, 2013
Shares repurchased in the open market [1]	12	20
Weighted-average repurchase price per share	$157.24	$152.19
Total cost	$1,820	$3,073

(1) All shares repurchased in the open market have been retired and constitute authorized but unissued shares.
At March 31, 2013, the Company had $1.0 billion of remaining funds available for share repurchase authorized by the board of directors. The authorization will be in effect through January 2014.
Dividends. On April 23, 2013, the Company’s board of directors declared a dividend in the amount of $0.33 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 4, 2013, to all holders of record of the Company's class A, class B and class C common stock as of May 17, 2013. The Company paid $437 million in dividends during the six months ended March 31, 2013.

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Note 8—Earnings Per Share

The following table presents earnings per share for the three months ended March 31, 2013.[1]

	Basic Earnings Per Share (in millions, except per share data)			Diluted Earnings Per Share			
	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)	Earnings per Share = (A)/(B)	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)		Earnings per Share = (A)/(B)
Class A common stock	$1,011	524	$1.93	$1,270	660	[3]	$1.92
Class B common stock	199	245	0.81	199	245		0.81
Class C common stock	55	28	1.93	55	28		1.92
Participating securities[4]	5	Not presented	Not presented	5	Not presented		Not presented
Net income attributable to Visa Inc.	$1,270						

The following table presents earnings per share for the six months ended March 31, 2013.[1]

	Basic Earnings Per Share (in millions, except per share data)			Diluted Earnings Per Share			
	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)	Earnings per Share = (A)/(B)	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)		Earnings per Share = (A)/(B)
Class A common stock	$2,041	528	$3.87	$2,563	665	[3]	$3.86
Class B common stock	399	245	1.63	398	245		1.62
Class C common stock	113	29	3.87	112	29		3.86
Participating securities[4]	10	Not presented	Not presented	10	Not presented		Not presented
Net income attributable to Visa Inc.	$2,563						

The following table presents earnings per share for the three months ended March 31, 2012.[1]

	Basic Earnings Per Share (in millions, except per share data)			Diluted Earnings Per Share			
	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)	Earnings per Share = (A)/(B)	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)		Earnings per Share = (A)/(B)
Class A common stock	$1,006	524	$1.92	$1,292	676	[3]	$1.91
Class B common stock	200	245	0.82	200	245		0.81
Class C common stock	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						

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The following table presents earnings per share for the six months ended March 31, 2012. [1]

	Basic Earnings Per Share (in millions, except per share data)			Diluted Earnings Per Share		
	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)	Earnings per Share = (A)/(B)	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)	Earnings per Share = (A)/(B)
Class A common stock	$1,780	522	$3.41	$2,321	683 [3]	$3.40
Class B common stock	382	245	1.56	381	245	1.55
Class C common stock	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					

(1) Figures in the table may not recalculate exactly due to rounding. Earnings per share is calculated based on whole numbers, not the rounded numbers presented.

(2) Net income attributable to Visa Inc. is allocated based on proportional ownership on an as-converted basis. The weighted-average numbers of shares of as-converted class B common stock used in the income allocation were 103 million for the three and six months ended March 31, 2013, and 104 million and 112 million for the three and six months ended March 31, 2012, respectively.

(3) Weighted-average diluted shares outstanding are calculated on an as-converted basis, and include incremental common stock equivalents, as calculated under the treasury stock method. The computation includes 2 million common stock equivalents for the three and six months ended March 31, 2013, and 3 million for the three and six months ended March 31, 2012, because their effect would have been dilutive. The computation excludes less than 1 million common stock equivalents for the three and six months ended March 31, 2013 and 2012, because their effect would have been anti-dilutive.

(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

The Company granted the following equity awards to employees and non-employee directors under the 2007 Equity Incentive Compensation Plan during the six months ended March 31, 2013:

	Granted	Weighted-Average Grant Date Fair Value	Weighted-Average Exercise Price
Non-qualified stock options	553,034	$38.79	$145.81
Restricted stock awards ("RSAs")	863,383	145.89	
Restricted stock units ("RSUs")	325,232	145.67	
Performance-based shares			