

Visa Inc.
Form 10-Q
August 13, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from to

Commission file number 001-33977

VISA INC.

(Exact name of Registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	26-0267673 (IRS Employer Identification No.)
P.O. Box 8999 San Francisco, California (Address of principal executive offices)	94128-8999 (Zip Code)
Registrant's telephone number, including area code: (415) 932-2100	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company.)	Smaller Reporting Company <input type="checkbox"/>

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

As of August 11, 2008, there were 447,870,252 shares of class A, 369,038,802 shares of class B and 267,022,093 shares of class C common stock of Visa Inc. outstanding.

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

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

Table of Contents**PART I****ITEM 1. Financial Statements****VISA INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	June 30, 2008	September 30, 2007 ⁽¹⁾
	(in millions, except share data)	
Assets		
Cash and cash equivalents	\$ 5,762	\$ 275
Restricted cash litigation escrow	1,291	
Investment securities, available-for-sale	477	747
Settlement receivable	1,230	10
Accounts receivable	342	245
Customer collateral	520	68
Current portion of volume and support incentives	257	96
Current portion of deferred tax assets	587	795
Prepaid expenses and other current assets	295	271
Total current assets	10,761	2,507
Restricted cash litigation escrow	700	
Investment securities, available-for-sale	188	737
Volume and support incentives	84	44
Investment in Visa International		227
Property, equipment and technology, net	1,048	313
Deferred tax assets		471
Other assets	639	91
Intangible assets	10,883	
Goodwill	10,139	
Total assets	\$ 34,442	\$ 4,390
Liabilities		
Accounts payable	\$ 109	\$ 99
Settlement payable	1,153	50
Customer collateral	520	68
Accrued compensation and benefits	372	244
Volume and support incentives	310	188
Accrued liabilities	383	356
Current portion of long-term debt	11	41
Current portion of accrued litigation	1,606	2,236
Cash dividends payable	93	
Redeemable class C (series III) common stock, 35,263,585 shares outstanding at June 30, 2008	1,508	
Total current liabilities	6,065	3,282
Long-term debt	98	
Accrued litigation	1,303	1,446

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Deferred tax liabilities	3,545	
Other liabilities	755	125
Total liabilities	11,766	4,853

- (1) Historical balances for periods prior to October 1, 2007 represent balances for Visa U.S.A. Inc., deemed the accounting acquirer in the business combination.
See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

Table of Contents**VISA INC.****CONSOLIDATED BALANCE SHEETS (Continued)****(Unaudited)**

	June 30, 2008	September 30, 2007 ⁽¹⁾
	(in millions, except share and par value data)	
Temporary Equity and Minority Interest		
Class C (series II) common stock, \$0.0001 par value, 218,582,801 shares authorized, 79,748,857 shares issued and outstanding at June 30, 2008, net of subscription receivable	\$ 1,127	\$
Minority interest		38
Total temporary equity and minority interest	1,127	38
Commitments and contingencies see Note 14		
Stockholders Equity		
Preferred stock, \$0.0001 par value, 25,000,000 shares authorized and none issued		
Class A common stock, \$0.0001 par value, 2,001,622,245,209 shares authorized, 447,880,089 shares issued and outstanding		
Class B common stock, \$0.0001 par value, 622,245,209 shares authorized, 245,513,385 shares issued and outstanding		
Class C (series I) common stock, \$0.0001 par value, 813,582,801 shares authorized and 124,510,448 shares issued and outstanding		
Class C (series III) common stock, \$0.0001 par value, 64,000,000 shares authorized and 26,949,616 shares issued and outstanding		
Class C (series IV) common stock, \$0.0001 par value, 1,000,000 shares authorized and 549,587 shares issued and outstanding		
Additional paid-in capital	21,007	
Accumulated income (deficit)	551	(501)
Accumulated other comprehensive loss, net	(9)	
Total stockholders equity and accumulated income (deficit)	21,549	(501)
Total liabilities, temporary equity and minority interest, and stockholders equity	\$ 34,442	\$ 4,390

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

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

Table of Contents**VISA INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2008	2007 ⁽¹⁾	2008	2007 ⁽¹⁾
	(in millions except per share data)			
Operating Revenues				
Service fees	\$ 749	\$ 496	\$ 2,273	\$ 1,407
Data processing fees	539	380	1,525	1,032
Volume and support incentives	(274)	(122)	(862)	(356)
International transaction fees	449	115	1,209	326
Other revenues	150	72	409	190
Total operating revenues	1,613	941	4,554	2,599
Operating Expenses				
Personnel	310	184	882	529
Network, EDP and communications	84	72	245	181
Advertising, marketing and promotion	271	141	696	360
Visa International fees		43		129
Professional and consulting fees	108	89	302	239
Depreciation and amortization	57	28	178	85
Administrative and other	85	50	234	147
Litigation provision	50		342	15
Total operating expenses	965	607	2,879	1,685
Operating income	648	334	1,675	914
Other Income (Expense)				
Equity in earnings of unconsolidated affiliates		13	1	38
Interest expense	(30)	(20)	(116)	(60)
Investment income, net	97	26	172	72
Other	(1)		35	
Total other income	66	19	92	50
Income before income taxes and minority interest	714	353	1,767	964
Income tax expense	292	126	607	351
Income before minority interest	422	227	1,160	613
Minority interest		(4)		(5)
Net income	\$ 422	\$ 223	\$ 1,160	\$ 608
Basic net income per share (Note 11)⁽²⁾				
Class A common stock	\$ 0.51		\$ 1.44	

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Class B common stock	\$ 0.36	\$ 1.33
Class C (series I) common stock	\$ 0.51	\$ 1.44
Class C (series II) common stock	\$ 0.12	\$ 0.75
Class C (series III and IV) common stock	\$ 0.51	\$ 1.44

Table of Contents**VISA INC.****CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)****(Unaudited)**

	For the Three Months Ended June 30, 2008	2007 ⁽¹⁾	For the Nine Months Ended June 30, 2008	2007 ⁽¹⁾
	(in millions except per share data)			
Basic weighted average shares outstanding, in thousands (Note 11)⁽²⁾				
Class A common stock	446,600		169,512	
Class B common stock	245,513		362,628	
Class C (series I) common stock	124,503		212,779	
Class C (series II) common stock	79,749		47,583	
Class C (series III and IV) common stock	27,499		49,378	
Diluted net income per share (Note 11)⁽²⁾				
Class A common stock	\$ 0.51		\$ 1.44	
Class B common stock	\$ 0.36		\$ 1.33	
Class C (series I) common stock	\$ 0.51		\$ 1.44	
Class C (series II) common stock	\$ 0.12		\$ 0.75	
Class C (series III and IV) common stock	\$ 0.51		\$ 1.44	
Diluted weighted average shares outstanding, in thousands (Note 11)⁽²⁾				
Class A common stock	776,090		766,983	
Class B common stock	245,513		362,628	
Class C (series I) common stock	124,506		212,780	
Class C (series II) common stock	79,749		47,583	
Class C (series III and IV) common stock	27,499		49,378	

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

(2) For the three and nine months ended June 30, 2007, Visa U.S.A. Inc. was a non-stock corporation and therefore there was no comparable metric for net income per share and no common stock outstanding.

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

Table of Contents**VISA INC.****CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****(Unaudited)**

	Common Stock				Class C (series III and series IV) (in millions)	Additional Paid in Capital	Accumulated Income (Deficit)	Accumulated Other Comprehensive Loss	Total Equity (Deficit)
	Class A	Class B	Class C (series I)	Class C (series II)					
Balance as of September 30, 2007⁽¹⁾						\$	\$ (501)	\$	\$ (501)
Tax adjustment as a result of adoption of FIN 48							8		8
Net income							1,160		1,160
Other comprehensive loss, net of tax								(9)	(9)
Comprehensive income									1,151
Issuance of class USA common stock		426							
Issuance of class EU (series I) common stock					62	3,041			3,041
Issuance of class EU (series II) common stock				28		1,104			1,104
Issuance of class EU (series III) common stock					1	27			27
Issuance of class Canada common stock			22			1,077			1,077
Issuance of class AP common stock			119			5,822			5,822
Issuance of class LAC common stock			80			3,917			3,917
Issuance of class CEMEA common stock			37			1,797			1,797
Conversion of regional common stock in the true-up (Note 10):									
Class USA converted to class B		(26)							
Class EU (series I) converted to class C (series III)									
Class EU (series II) converted to class C (series II)									
Class EU (series III) converted to class C (series IV)									
Class Canada converted to class C (series I)						(19)			(19)
Class AP converted to class C (series I)			23			997			997
Class LAC converted to class C (series I)			6			251			251
Class CEMEA converted to class C (series I)			(2)			(79)			(79)
Issuance of class C (series II) common stock				52					
Reclassification of common stock upon IPO:									
Class C (series III) common stock to liabilities (Note 10)					(35)	(1,508)			(1,508)
Class C (series II) common stock to temporary equity (Note 10)				(80)		(1,104)	(21)		(1,125)
Proceeds from issuance of class A common stock, net of offering expenses of \$587	447					19,064			19,064
Issuance of restricted share awards	1								
Redemption of class B common stock		(155)				(6,618)			(6,618)
Redemption of class C (series I) common stock			(160)			(6,828)			(6,828)
Accretion of class C (series II) common stock (Note 10)							(10)		(10)
Cash dividend declared:									
Class A common stock							(47)		(47)
Class B common stock							(18)		(18)
Class C (series I, III, IV) common stock							(20)		(20)
Class C (series II) common stock							(8)		(8)

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Impact of cash dividend declaration on class C (series II) common stock (Note 10)							8		8
Share-based compensation (Note 12)						53			53
Special IPO dividends received from cost-method investees, net of tax						13			13
Balance as of June 30, 2008	448	245	125	28	\$ 21,007	\$	551	\$	(9) \$ 21,549

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

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

Table of Contents**VISA INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2008	2007 ⁽¹⁾	2008	2007 ⁽¹⁾
	(in millions)		(in millions)	
Net income	\$ 422	\$ 223	\$ 1,160	\$ 608
Other comprehensive income (loss), net of tax:				
Investment securities, available-for-sale				
Net unrealized gain (loss)	(16)		(16)	3
Income tax effect	6		7	(1)
Reclassification adjustment for net (gain)/loss realized in net income	4		3	(2)
Income tax effect	(1)		(1)	1
Derivative instruments				
Net unrealized loss	2			
Income tax effect	1			
Foreign currency translation loss			(2)	
Other comprehensive (loss) income, net of tax	(4)		(9)	1
Comprehensive income	\$ 418	\$ 223	\$ 1,151	\$ 609

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

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

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VISA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended June 30, 2008 2007⁽¹⁾ (in millions)	
Operating Activities		
Net income	\$ 1,160	\$ 608
Adjustments to reconcile net income to net cash provided by operating activities:		