

VISA INC.
Form 10-Q
July 24, 2014

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 June 30, 2014
OR
o 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 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 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 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

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As of July 21, 2014, there were 494,786,783 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 25,090,128 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)

	June 30, 2014	September 30, 2013
	(in millions, except par value data)	
Assets		
Cash and cash equivalents	\$2,058	\$2,186
Restricted cash—litigation escrow (Note 2)	1,105	49
Investment securities:		
Trading	86	75
Available-for-sale	1,920	1,994
Income tax receivable	26	142
Settlement receivable	775	799
Accounts receivable	824	761
Customer collateral (Note 6)	936	866
Current portion of client incentives	221	282
Deferred tax assets	830	481
Prepaid expenses and other current assets	244	187
Total current assets	9,025	7,822
Investment securities, available-for-sale	2,798	2,760
Client incentives	84	89
Property, equipment and technology, net	1,772	1,732
Other assets	828	521
Intangible assets, net	11,427	11,351
Goodwill	11,741	11,681
Total assets	\$37,675	\$35,956
Liabilities		
Accounts payable	\$101	\$184
Settlement payable	1,307	1,225
Customer collateral (Note 6)	936	866
Accrued compensation and benefits	398	523
Client incentives	902	919
Accrued liabilities	610	613
Accrued litigation (Note 13)	1,060	5
Total current liabilities	5,314	4,335
Deferred tax liabilities	4,170	4,149
Other liabilities (Note 8)	905	602
Total liabilities	10,389	9,086

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)

	June 30, 2014	September 30, 2013
	(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, 496 and 508 shares issued and outstanding at June 30, 2014 and September 30, 2013, respectively (Note 9)	—	—
Class B common stock, \$0.0001 par value, 622 shares authorized, 245 shares issued and outstanding at June 30, 2014 and September 30, 2013 (Note 9)	—	—
Class C common stock, \$0.0001 par value, 1,097 shares authorized, 25 and 27 shares issued and outstanding at June 30, 2014 and September 30, 2013, respectively (Note 9)	—	—
Additional paid-in capital	18,393	18,875
Accumulated income	8,909	7,974
Accumulated other comprehensive income (loss), net:		
Investment securities, available-for-sale	58	59
Defined benefit pension and other postretirement plans	(68	) (60
Derivative instruments classified as cash flow hedges	(5	) 23
Foreign currency translation adjustments	(1	) (1
Total accumulated other comprehensive (loss) income, net	(16	) 21
Total equity	27,286	26,870
Total liabilities and equity	\$37,675	\$35,956

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 June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(in millions, except per share data)			
Operating Revenues				
Service revenues	\$1,417	\$1,298	\$4,298	\$3,967
Data processing revenues	1,321	1,191	3,819	3,456
International transaction revenues	860	854	2,622	2,490
Other revenues	195	179	558	533
Client incentives	(638)	(521)	(1,824)	(1,641)
Total operating revenues	3,155	3,001	9,473	8,805
Operating Expenses				
Personnel	463	493	1,379	1,433
Marketing	228	252	659	640
Network and processing	127	117	379	346
Professional fees	82	103	234	282
Depreciation and amortization	109	101	323	291
General and administrative	126	108	354	322
Litigation provision (Note 13)	—	(1)	—	3
Total operating expenses	1,135	1,173	3,328	3,317
Operating income	2,020	1,828	6,145	5,488
Non-operating income	10	5	29	3
Income before income taxes	2,030	1,833	6,174	5,491
Income tax provision	670	608	1,809	1,703
Net income	\$1,360	\$1,225	\$4,365	\$3,788

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 June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(in millions, except per share data)			
Basic earnings per share (Note 10)				
Class A common stock	\$2.17	\$1.89	\$6.91	\$5.76
Class B common stock	\$0.91	\$0.79	\$2.91	\$2.42
Class C common stock	\$2.17	\$1.89	\$6.91	\$5.76
Basic weighted-average shares outstanding (Note 10)				
Class A common stock	496	515	500	524
Class B common stock	245	245	245	245
Class C common stock	26	28	26	29
Diluted earnings per share (Note 10)				
Class A common stock	\$2.17	\$1.88	\$6.89	\$5.74
Class B common stock	\$0.91	\$0.79	\$2.90	\$2.41
Class C common stock	\$2.17	\$1.88	\$6.89	\$5.74
Diluted weighted-average shares outstanding (Note 10)				
Class A common stock	628	651	633	660
Class B common stock	245	245	245	245
Class C common stock	26	28	26	29

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 June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Net income	\$1,360	\$1,225	\$4,365	\$3,788
Other comprehensive income (loss), net of tax:				
Investment securities, available-for-sale:				
Net unrealized (loss) gain	(30)	(10)	(2)	40)
Income tax effect	11	1	1	(16)
Reclassification adjustment for net gain realized in net income	—	—	—	(1)
Defined benefit pension and other postretirement plans:				
Net unrealized actuarial loss and prior service credit	—	(1)	(7)	(4)
Income tax effect	—	—	3	1
Amortization of actuarial loss (gain) and prior service credit realized in net income	—	4	(7)	12)
Income tax effect	—	(1)	3	(4)
Derivative instruments classified as cash flow hedges:				
Net unrealized (loss) gain	(14)	40	3	55
Income tax effect	3	(9)	—	(9)
Reclassification adjustment for net gain realized in net income	(16)	(9)	(39)	(26)
Income tax effect	4	2	8	7
Other comprehensive (loss) income, net of tax	(42)	17	(37)	55
Comprehensive income	\$1,318	\$1,242	\$4,328	\$3,843

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

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VISA INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

	Common Stock			Additional Paid-in Capital	Accumulated Income	Accumulated Other Comprehensive Income (Loss)	Total Equity
	Class A	Class B	Class C				
	(in millions, except per share data)						
Balance as of September 30, 2013	508	245	27	\$ 18,875	\$ 7,974	\$ 21	\$26,870
Net income					4,365		4,365
Other comprehensive loss, net of tax						(37)	(37)
Comprehensive income							4,328
Issuance of restricted stock awards	1						—
Conversion of class C common stock upon sale into public market	2		(2)				—
Share-based compensation				130			130
Excess tax benefit for share-based compensation				82			82
Cash proceeds from exercise of stock options	1			81			81
Restricted stock and performance-based shares settled in cash for taxes ⁽¹⁾	—			(85)			(85)
Cash dividends declared and paid, at a quarterly amount of \$0.40 per as-converted share (Note 9)					(758)		(758)
Repurchase of class A common stock (Note 9)	(16)			(690)	(2,672)		(3,362)
Balance as of June 30, 2014	496	245	25	\$ 18,393	\$ 8,909	\$ (16)	\$27,286

⁽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)

	Nine Months Ended June 30,	
	2014	2013
	(in millions)	
Operating Activities		
Net income	\$4,365	\$3,788
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of client incentives	1,824	1,641
Share-based compensation	130	139
Excess tax benefit for share-based compensation	(82)	(64)
Depreciation and amortization of property, equipment, technology and intangible assets	323	291
Deferred income taxes	(358)	1,562
Other	10	42
Change in operating assets and liabilities:		
Income tax receivable	116	(421)
Settlement receivable	24	(5)
Accounts receivable	(55)	(56)
Client incentives	(1,775)	(1,700)
Other assets	(434)	(310)
Accounts payable	(86)	5
Settlement payable	82	98
Accrued and other liabilities	273	351
Accrued litigation (Note 13)	1,055	(4,384)
Net cash provided by operating activities	5,412	977
Investing Activities		
Purchases of property, equipment, technology and intangible assets	(326)	(333)
Investment securities, available-for-sale:		
Purchases	(1,842)	(2,789)
Proceeds from sales and maturities	1,863	1,767
Acquisition, net of cash received of \$25	(134)	—
Purchases of / contributions to other investments	(3)	(3)
Proceeds / distributions from other investments	—	4
Net cash used in investing activities	(442)	(1,354)

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)

	Nine Months Ended June 30,	
	2014	2013
	(in millions)	
Financing Activities		
Repurchase of class A common stock (Note 9)	\$(3,362)	) \$(4,054)
Dividends paid (Note 9)	(758)	) (653)
(Return to) payments from litigation escrow account—retrospective responsibility plan (Note 2 and Note 13)	(1,056)	) 4,383
Cash proceeds from exercise of stock options	81	98
Restricted stock and performance-based shares settled in cash for taxes	(85)	) (64)
Excess tax benefit for share-based compensation	82	64
Payment for earn-out related to PlaySpan acquisition	—	(12)
Principal payments on capital lease obligations	—	(6)
Net cash used in financing activities	(5,098)	) (244)
Decrease in cash and cash equivalents	(128)	) (621)
Cash and cash equivalents at beginning of year	2,186	2,074
Cash and cash equivalents at end of period	\$2,058	\$1,453
Supplemental Disclosure		
Income taxes paid, net of refunds	\$1,943	\$478
Non-cash accruals related to purchases of property, equipment, technology and intangible assets	\$42	\$27

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

June 30, 2014

(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 in more than 200 countries and territories 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 — VisaNet — which facilitates authorization, clearing and settlement of payment transactions worldwide. VisaNet also offers fraud protection for account holders and assured payment for merchants. Visa is not a bank and does not issue cards, extend credit or set rates and fees for account holders on Visa-branded cards and payment products. In most cases, account holder and merchant relationships belong to, and are managed by, Visa’s financial institution clients. Visa provides a wide variety of payment solutions that support payment products that issuers can offer to their account holders: pay now with debit, pay ahead with prepaid or pay later with credit products. Visa also offers a growing suite of innovative digital, eCommerce and mobile products and services. These services facilitate transactions on Visa’s network among account holders, merchants, financial institutions and governments in mature and emerging markets globally.

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.

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, 2013 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 operations and cash flows for the interim periods presented.

Recently Issued and Adopted Accounting Pronouncements.

In January 2013, the FASB issued Accounting Standards Update (“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. The Company adopted the standard effective October 1, 2013. 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 adopted the standard effective October 1, 2013. Beginning with fiscal 2014, the components related to pension and postretirement benefit plans are presented on the consolidated statements of comprehensive income. All prior period information has been reclassified to conform to current period presentation. The adoption did not have a material impact on the consolidated financial statements.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

In July 2013, the FASB issued ASU 2013-11, which provides guidance for the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. 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 May 2014, the FASB issued ASU No. 2014-09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The Company will adopt the standard effective October 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method and is evaluating the full effect of the standard on its ongoing financial reporting.

In June 2014, the FASB issued ASU No. 2014-12, which requires a performance target in stock compensation awards that affects vesting, and is achievable after the requisite service period, be treated as a performance condition. The Company will adopt the standard effective October 1, 2016. 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 13—Legal Matters.

On January 14, 2014, the court entered the final judgment order approving the settlement with the class plaintiffs in the interchange multidistrict litigation proceedings, which is subject to the adjudication of any appeals. Takedown payments of approximately \$1.1 billion related to the opt-out merchants were received on January 27, 2014, and were deposited into the litigation escrow account. The deposit into the litigation escrow account and a related increase in accrued litigation to address opt-out claims were recorded during the three months ended March 31, 2014.

	Fiscal 2014	Fiscal 2013
	(in millions)	
Balance at October 1	\$49	\$4,432
Return of takedown payments to the litigation escrow account	1,056	—
Payments to settlement funds ⁽¹⁾		
Class plaintiffs	—	(4,033)
Individual plaintiffs	—	(350)
Balance at June 30	\$1,105	\$49

⁽¹⁾ Payments made in fiscal 2013 are associated with the interchange multidistrict litigation. See Note 13—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 any additional accruals for the covered litigation during the three months ended June 30, 2014. See Note 13—Legal Matters.

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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 June 30, 2014 (in millions)	September 30, 2013	Level 2 June 30, 2014	September 30, 2013	Level 3 June 30, 2014	September 30, 2013
Assets						
Cash equivalents and restricted cash:						
Money market funds	\$1,972	\$1,071				
Commercial paper			\$58	\$51		
Investment securities, trading:						
Equity securities	86	75				
Investment securities, available-for-sale:						
U.S.						
government-sponsored debt securities			2,263	2,704		
U.S. Treasury securities	1,876	1,673				
Equity securities	101	101				
Corporate debt securities			471	269		
Auction rate securities					\$7	\$7
Prepaid and other current assets:						
Foreign exchange derivative instruments			6	23		
Total	\$4,035	\$2,920	\$2,798	\$3,047	\$7	\$7
Liabilities						
Accrued liabilities:						
Visa Europe put option					\$145	\$145
Foreign exchange derivative instruments			\$32	\$15		
Total	\$—	\$—	\$32	\$15	\$145	\$145

There were no significant transfers between Level 1 and Level 2 assets during the nine months ended June 30, 2014 and 2013.

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 increase in the Company's level 1 assets primarily reflects the receipt of takedown payments related to the interchange multidistrict litigation, which were deposited into the Company's litigation escrow account. See Note 2—Retrospective Responsibility Plan and Note 13—Legal Matters.

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

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

reviewed internally for reasonableness, compared against benchmark quotes from independent 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 nine months ended June 30, 2014.

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 nine months ended June 30, 2014.

Visa Europe put option agreement. The Company has granted Visa Europe a perpetual put option, or 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 (as defined in the put option agreement), or the P/E ratio, at the time the option is exercised, to Visa Europe's adjusted net income for the forward 12-month period (as defined in the put option agreement), or the adjusted sustainable income. 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, or 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 June 30, 2014 and September 30, 2013, 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 June 30, 2014, 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 nine months ended June 30, 2014, there were no changes to the valuation methodology used to estimate the fair value of the put option. At June 30, 2014, the key unobservable inputs included a 40% probability of exercise by Visa Europe at some point in the future and an estimated P/E differential of 1.9x. At June 30, 2014, the Company's spot P/E was 20.3x, and there was a differential of 1.5x 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 June 30, 2014. 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 (expense) on the consolidated statements of operations.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Assets 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. There were no events or circumstances that indicated these investments became impaired during the nine months ended June 30, 2014. During the nine months ended June 30, 2013, the Company recognized a \$15 million other-than-temporary impairment loss. At June 30, 2014 and September 30, 2013, these investments totaled \$32 million and \$30 million, respectively. These assets are classified in other assets on the consolidated balance sheets.

Non-financial assets and liabilities. Long-lived assets such as goodwill, indefinite-lived intangible assets, finite-lived intangible assets, and property, equipment and technology are considered non-financial assets. The Company does not have any non-financial liabilities measured at fair value on a non-recurring basis. Finite-lived intangible assets primarily consist of customer relationships, tradenames and reseller relationships, all of which were obtained through acquisitions.

If the Company were required to perform a quantitative assessment for impairment testing of goodwill and indefinite-lived intangible assets, the fair values would generally be estimated 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, 2014, and concluded that there was no impairment. No recent events or changes in circumstances indicate that impairment existed at June 30, 2014.

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 June 30, 2014, but require disclosure of their fair values: time deposits recorded in prepaid expenses and other current assets, settlement receivable and payable, and customer collateral. The estimated fair value of such instruments at June 30, 2014, 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 \$91 million in gross unrealized gains at June 30, 2014. There were \$93 million gross unrealized gains and \$1 million gross unrealized losses at September 30, 2013. The gross unrealized gains at June 30, 2014 and September 30, 2013 primarily relate to the Company's available-for-sale equity securities. A majority of the Company's available-for-sale investment securities with stated maturities are due within one to three years.

Note 4—Debt

Credit facility. On January 29, 2014, the Company entered into an unsecured \$3.0 billion revolving credit facility (the "Credit Facility"). The Credit Facility, which expires on January 28, 2015, replaced the Company's previous \$3.0 billion credit facility, which terminated on January 29, 2014. The Credit Facility contains covenants and events of default customary for facilities of this type. 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. The participating lenders in the Credit Facility include certain holders of the Company's class B and class C common stock, certain of the Company's clients, and their affiliates.

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

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

margin is 0.00% to 0.75% depending on the type of the loan, and the commitment fee is 0.07%. There were no borrowings under either facility and the Company was in compliance with all related covenants during the nine months ended June 30, 2014.

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 June 30,		Nine Months Ended June 30,		Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
	(in millions)							
Service cost	\$11	\$10	\$34	\$32	\$—	\$—	\$—	\$—
Interest cost	10	9	31	27	—	—	—	—
Expected return on assets	(17)	(16)	(51)	(47)	—	—	—	—
Amortization of:								
Prior service credit	(2)	(2)	(6)	(7)	—	(1)	(2)	(2)
Actuarial loss (gain)	1	8	1	22	(1)	—	(1)	—
Net benefit cost	\$3	\$9	\$9	\$27	\$(1)	\$(1)	\$(3)	\$(2)
Curtailment gain	—	—	(3)	—	—	—	—	—
Settlement loss	2	—	3	—	—	—	—	—
Total net periodic benefit cost	\$5	\$9	\$9	\$27	\$(1)	\$(1)	\$(3)	\$(2)

Note 6—Settlement Guarantee Management

The indemnification for settlement losses that Visa provides to its financial institution 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 Visa's 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 financial institution 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 \$54.5 billion at June 30, 2014, compared to \$53.8 billion at September 30, 2013. Of these settlement exposure amounts, \$3.0 billion were covered by collateral at June 30, 2014 and September 30, 2013.

The Company maintained collateral as follows:

	June 30, 2014	September 30, 2013
	(in millions)	
Cash equivalents	\$936	\$866
Pledged securities at market value	166	256
Letters of credit	1,239	1,191
Guarantees	1,547	1,411
Total	\$3,888	\$3,724

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair value of the settlement risk guarantee is estimated based on a proprietary probability-weighted model and was approximately \$2 million at June 30, 2014 and \$1 million at September 30, 2013. These amounts are reflected in accrued liabilities on the consolidated balance sheets.

Note 7—Goodwill and Intangible Assets

In April 2014, the Company acquired a business in which it previously held a minority interest. Total purchase consideration was approximately \$170 million, paid primarily with cash on hand. Total purchase consideration has been allocated to the tangible and identifiable intangible assets and to liabilities assumed based on their respective fair values on the acquisition date. Related indefinite-lived intangible assets recorded totaled \$126 million. Goodwill of \$60 million was recorded to reflect the excess purchase consideration over net assets assumed.

Note 8—Other Liabilities

Other non-current liabilities consisted of the following:

	June 30, 2014	September 30, 2013
	(in millions)	
Accrued income taxes ⁽¹⁾	\$758	\$453
Employee benefits	86	86
Other	61	63
Total	\$905	\$602

⁽¹⁾ The increase in non-current accrued income taxes is due to an increase in liabilities for uncertain tax positions.

Note 9—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 June 30, 2014, 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	496	—	496
Class B common stock	245	0.4206	103
Class C common stock	25	1.0000	25
Total			624

⁽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 June 30, 2014	Nine Months Ended June 30, 2014
Shares repurchased in the open market ⁽¹⁾	6	16
Weighted-average repurchase price per share	\$207.13	\$207.90
Total cost	\$1,152	\$3,362

⁽¹⁾ All shares repurchased in the open market have been retired and constitute authorized but unissued shares.

As of June 30, 2014, the October 2013 program had remaining authorized funds of \$1.9 billion for share repurchase. All share repurchase programs authorized prior to October 2013 have been completed.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Dividends. In July 2014, the Company's board of directors declared a quarterly cash dividend of \$0.40 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 September 3, 2014, to all holders of record of the Company's class A, B and C common stock as of August 15, 2014. The Company declared and paid \$758 million in dividends during the nine months ended June 30, 2014.

Note 10—Earnings Per Share

The following table presents earnings per share for the three months ended June 30, 2014.⁽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	\$ 1,076	496	\$ 2.17	\$ 1,360	628	\$ 2.17
Class B common stock	224	245	\$ 0.91	\$ 224	245	\$ 0.91
Class C common stock	56	26	\$ 2.17	\$ 56	26	\$ 2.17
Participating securities ⁽⁴⁾	4	Not presented	Not presented	\$ 4	Not presented	Not presented
Net income	\$ 1,360					

The following table presents earnings per share for the nine months ended June 30, 2014.⁽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	\$ 3,458	500	\$ 6.91	\$ 4,365	633	\$ 6.89
Class B common stock	714	245	\$ 2.91	\$ 712	245	\$ 2.90
Class C common stock	180	26	\$ 6.91	\$ 180	26	\$ 6.89
Participating securities ⁽⁴⁾	13	Not presented	Not presented	\$ 13	Not presented	Not presented
Net income	\$ 4,365					

The following table presents earnings per share for the three months ended June 30, 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	\$ 973	515	\$ 1.89	\$ 1,225	651	\$ 1.88
Class B common stock	194	245	\$ 0.79	\$ 194	245	\$ 0.79
Class C common stock	53	28	\$ 1.89	\$ 53	28	\$ 1.88
Participating securities ⁽⁴⁾	5	Not presented	Not presented	\$ 5	Not presented	Not presented
Net income	\$ 1,225					

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents earnings per share for the nine months ended June 30, 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) ⁽³⁾
Class A common stock	\$3,014	524	\$5.76	\$3,788	660	\$5.74
Class B common stock	594	245	\$2.42	\$592	245	\$2.41
Class C common stock	166	29	\$5.76	\$165	29	\$5.74
Participating securities ⁽⁴⁾	14	Not presented	Not presented	\$14	Not presented	Not presented
Net income	\$3,788					

⁽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.

Net income is allocated based on proportional ownership on an as-converted basis. The weighted-average number

⁽²⁾ of shares of as-converted class B common stock used in the income allocation was 103 million for the three and nine months ended June 30, 2014 and 2013.

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

⁽³⁾ approximately 2 million of common stock equivalents for the three and nine months ended June 30, 2014 and 2013, because their effect would be dilutive. The calculation excludes less than 1 million of common stock equivalents for the three and nine months ended June 30, 2014 and 2013, because their effect would have been anti-dilutive.

Participating securities are unvested share-based payment awards that contain non-forfeitable rights to dividends or

⁽⁴⁾ dividend equivalents, such as the Company's restricted stock awards, restricted stock units and earned performance-based shares.

Note 11—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 nine months ended June 30, 2014:

	Granted	Weighted-Average Grant Date Fair Value	Weighted-Average Exercise Price
Non-qualified stock options	423,149	\$44.16	\$201.02
Restricted stock awards ("RSAs")	584,611	\$199.32	
Restricted stock units ("RSUs")	225,604	\$197.69	
Performance-based shares ⁽¹⁾	278,451	\$225.46	

⁽¹⁾ Represents the maximum number of performance-based shares which could be earned.

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. The Company's performance-based shares are equity awards with service, market and performance conditions that are accounted for using the graded-vesting method. Compensation cost is recorded net of estimated forfeitures, which are adjusted as appropriate.

Note 12—Income Taxes

The effective income tax rates were 33% and 29% for the three and nine months ended June 30, 2014, respectively, and 33% and 31% for the three and nine months ended June 30, 2013, respectively. The effective tax rate for the nine months ended June 30, 2014 differs from the effective tax rate in the same period in fiscal 2013 primarily due to:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

a \$245 million tax benefit related to the deduction for U.S. domestic production activities, of which \$189 million related to prior fiscal years, as a result of the completion of a study in the second quarter of fiscal 2014; and the absence of a \$76 million tax benefit recognized in the first quarter of fiscal 2013, as a result of new guidance issued by the state of California regarding apportionment rules for years prior to fiscal 2012.

During the three and nine months ended June 30, 2014, the Company's gross unrecognized tax benefits increased by \$43 million and \$223 million, respectively, \$42 million and \$219 million of which, respectively, would favorably impact the effective income tax rate if recognized. The increase in gross unrecognized tax benefits is primarily due to potential audit exposure related to various tax positions across several jurisdictions. During the three and nine months ended June 30, 2014, the Company accrued \$4 million and \$8 million of interest, respectively, and released \$1 million and \$2 million of penalties, respectively, related to uncertain tax positions.

Note 13—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 the amount or range of losses 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 financial position, results of operations 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.

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 as of the balance sheet date.

The following table summarizes activity related to accrued litigation.

	Fiscal 2014 (in millions)	Fiscal 2013
Balance at October 1	\$5	\$4,386
Provision for unsettled matters	—	3
Reestablishment of obligation related to interchange multidistrict litigation ⁽¹⁾	1,056	—
Payment on unsettled matters ⁽¹⁾	—	(4,033)
Payment on settled matters	(1)	(351)
Balance at June 30	\$1,060	\$5

In fiscal 2013, the Company paid approximately \$4.0 billion from the litigation escrow account into a settlement fund established pursuant to the definitive class settlement agreement in the interchange multidistrict litigation.

Under the settlement agreement, if class members opt-out ("opt-out merchants") of the damages portion of the class settlement, the defendants are entitled to receive payments of no more than 25% of the original cash payments made into the settlement fund, based on the percentage of payment card sales volume for a defined period

⁽¹⁾ attributable to merchants who opted out (the "takedown payments"). On January 14, 2014, the court entered the final judgment order approving the settlement with the class plaintiffs in the interchange multidistrict litigation proceedings, which is subject to the adjudication of any appeals. Takedown payments of approximately \$1.1 billion were received on January 27, 2014, and deposited into the Company's litigation escrow account. The deposit into the litigation escrow account and a related increase in accrued litigation to address opt-out claims were recorded in the second quarter of fiscal 2014. See further discussion below.

Covered Litigation

Visa Inc., Visa U.S.A. and Visa International are parties to certain legal proceedings that are covered by the retrospective responsibility plan, which the Company refers to as the covered litigation. See Note 2—Retrospective

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

The Attridge Litigation

On April 8, 2014, in light of the proceedings in the Credit/Debit Card Tying Cases, the Attridge case was stayed until thirty days following final resolution of the pending appeals in the Credit/Debit Card Tying Cases.

Interchange Multidistrict Litigation (MDL)

On December 13, 2013, the district court issued a memorandum and order approving the Settlement Agreement with the class plaintiffs. On January 14, 2014, the court entered the final judgment order approving the settlement. A number of objectors to the settlement have appealed from that order. Until the appeals are finally adjudicated, no assurance can be provided that the Company will be able to resolve the class plaintiffs' claims as contemplated by the Settlement Agreement. On January 27, 2014, Visa's portion of the takedown payments related to the opt-out merchants, which was calculated to be approximately \$1.1 billion, was deposited into the litigation escrow account.

Interchange Opt-out Litigation

Beginning in May 2013, more than 30 opt-out cases have been filed by hundreds of merchants in various federal district courts, generally pursuing damages claims on allegations similar to those raised in MDL 1720. A similar case has been filed by merchants in Texas state court. A number of the cases also include allegations that Visa has monopolized, attempted to monopolize, and/or conspired to monopolize debit card-related market segments, and one of the cases seeks an injunction against the fixed acquirer network fee. The cases name as defendants Visa Inc., Visa U.S.A., Visa International, MasterCard Incorporated, and MasterCard International Incorporated, although some also include certain U.S. financial institutions as defendants. On March 25, 2014, Wal-Mart Stores Inc. and its subsidiaries filed an opt-out complaint against Visa Inc., Visa U.S.A., and Visa International in the U.S. District Court for the Western District of Arkansas alleging similar claims. On June 13, 2014, Wal-Mart filed an amended complaint in the U.S. District Court for the Eastern District of New York adding Visa Europe Limited and Visa Europe Services Inc. as defendants. All the cases originally filed in federal court either were filed in the U.S. District Court for the Eastern District of New York and have been assigned to the judge presiding over MDL 1720, or have been transferred by the Judicial Panel on Multidistrict Litigation for inclusion in MDL 1720. Visa removed the Texas state court case to federal court and sought to transfer it to MDL 1720, but the federal court remanded the case to Texas state court before the case could be transferred to MDL 1720. Cases that are transferred to or otherwise included in MDL 1720 will be covered litigation for purposes of the retrospective responsibility plan. See Note 2—Retrospective Responsibility Plan.

On January 14, 2014, Visa filed a complaint in the U.S. District Court for the Eastern District of New York against The Home Depot, Inc. and Home Depot U.S.A., Inc. seeking a declaration that, from January 1, 2004 to November 27, 2012, the time period for which opt-outs may seek damages under the MDL class settlement, Visa's conduct in, among other things, continuing to set default interchange rates, maintaining its "honor all cards" rule, enforcing certain rules relating to merchants, and restructuring itself, did not violate federal or state antitrust laws. The case has been assigned to the same district court judge presiding over MDL 1720.

On February 12, 2014, the court entered an order confirming that *In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation*, 1:05-md-01720-JG-JO (E.D.N.Y.), includes all current and future actions transferred to MDL 1720 by the Judicial Panel on Multidistrict Litigation or other order of any court for inclusion in coordinated or pretrial proceedings, and all actions filed in the Eastern District of New York that arise out of operative facts as alleged in the cases subject to the transfer orders of the Judicial Panel on Multidistrict Litigation.

On March 13, 2014, Visa and the other defendants in the opt-out cases in MDL 1720 filed a motion to dismiss the then-pending opt-out complaints in MDL 1720. Also on March 13, 2014, Wal-Mart and the named class representatives that are defendants in the declaratory judgment cases in MDL 1720 filed motions to dismiss the declaratory judgment complaints. On June 26, 2014, Visa filed a motion to dismiss Wal-Mart's amended complaint. On July 18, 2014, the court denied all of these motions to dismiss.

Consumer Interchange Litigation

On December 16, 2013, a putative class action was filed in federal district court in California against certain financial institutions alleging that they conspired to fix interchange fees and imposed other alleged restraints on competition. The complaint was filed on behalf of four named plaintiffs and an alleged class of all Visa and MasterCard payment cardholders in the United States since January 1, 2000. Although no Visa entity is named as a defendant, the complaint identifies Visa U.S.A., MasterCard, and certain non-defendant financial institutions as co-conspirators, and plaintiffs assert that they may seek leave to amend the complaint to add the co-conspirators as defendants. Plaintiffs seek injunctive relief, attorneys' fees, and treble damages allegedly to compensate the purported class for more than \$54.0 billion dollars in purported overcharges imposed on them each year by defendants and their alleged co-conspirators. On March 28, 2014, the Defendants filed a motion to dismiss. After the Clerk of the Judicial Panel on Multidistrict Litigation declined to transfer the case to MDL 1720, defendants filed a motion with the Panel seeking transfer of the case to MDL 1720. On June 4, 2014, the motion was granted, and the case was transferred to MDL 1720.

Other Litigation

Vale Canjeable

On December 9, 2013, the Constitutional Chamber reversed the Commercial Chamber's judgment and issued a final decision. The Constitutional Chamber ruled that the "Vale" mark is distinctive and Visa's mark, "Visa Vale" infringed the plaintiff's mark, but the plaintiff suffered no damages as a result of the infringement. The ruling permits the plaintiff to seek its costs from the defendants in relation to certain appeals filed by the defendants.

European Competition Proceedings

European Commission. On February 26, 2014, after public consultation, the European Commission (EC) adopted a formal decision accepting Visa Europe's commitments addressing domestic interchange, cross-border interchange for credit card transactions within Europe, and cross-border acquiring within Europe, and made the commitments legally binding on Visa Europe. The EC continues the proceedings in respect of inter-regional interchange fees that apply to transactions involving a Visa credit cardholder from outside the Visa Europe territory and a merchant in the European Economic Area (EEA). These interchange fees are set by Visa Inc.

U.K. Merchant Litigation. Since November 2013, Visa Inc., Visa International, and Visa Europe have been put on notice of additional claims on behalf of approximately 12 merchants, all of which have entered into standstill agreements with Visa Europe, Visa Inc., and Visa International.

Additionally, since December 2013, six further merchants (or groups of merchant companies) have issued claims against Visa Inc., Visa International, and Visa Europe. The claimants seek damages for alleged anti-competitive conduct relating to interchange fees for credit and debit cards covering the UK and/or various other European jurisdictions. Three of those claims have been served subsequently, and three have not been served (although two of these are subject to agreements dated April 14, 2014 to extend the time for service).

Altogether, therefore, a total of 18 merchants (or groups of merchant companies) have, to date, filed claims against Visa Inc., Visa International, and Visa Europe relating to interchange rates in Europe, and seek damages for alleged anti-competitive conduct relating to U.K. domestic, Irish domestic, and intra-EEA interchange fees for credit and debit cards. Of those, 15 of the claims have been served. Merchants accounting for more than 50% of U.K. retail sales have either claimed or preserved their right to do so. The amount of interchange being challenged is substantial. Although the full scope of the claims is not yet known, and Visa has substantial defenses to these claims, the total damages sought in the 15 served claims exceed several billion dollars.

Visa Europe is obligated to indemnify Visa Inc. and Visa International in connection with the European Competition Proceedings, in our opinion, including payment of any fines that may be imposed. However, Visa Europe has expressed an "initial" view that it is not obligated to indemnify Visa Inc. or Visa International for any claim in the European Competition Proceedings, including claims asserted in both the European Commission matter and the U.K. Merchant Litigation. Visa Inc. continues to firmly believe that Visa Europe is obligated to indemnify for all such claims, and has been in discussions with Visa Europe to resolve this issue. While the parties are not currently in non-binding arbitration, both parties have initiated the executive engagement aspect of the

dispute resolution procedure contemplated by the Framework Agreement to resolve their dispute regarding this indemnification issue.

Canadian Competition Proceedings

Merchant Litigation. In the British Columbia lawsuit, a hearing on class certification commenced on April 22, 2013 and concluded on May 1, 2013. The lawsuits in Quebec and Ontario are being held in abeyance pending further proceedings in the British Columbia lawsuit. In Alberta and Saskatchewan, applications for a stay of proceedings and carriage of the lawsuits have been filed. In Saskatchewan, on April 25, 2014, a separate action was filed against Visa Canada Corporation and Visa Inc., two MasterCard entities, and a number of smaller Canadian issuing banks that are not named as defendants in any of the existing proceedings.

On March 26, 2014, the British Columbia Supreme Court, in *Watson v. Bank of America Corporation, et al.*, granted the plaintiffs' application for class certification in part, allowing plaintiffs to proceed as a class on, among other claims, claims for price fixing under Canada's Competition Act. Both plaintiff and defendants are appealing aspects of the certification decision to the British Columbia Court of Appeal.

The pending Canada Merchant Litigation lawsuits largely seek unspecified monetary damages and injunctive relief, but some allege substantial damages.

Data Pass Litigation

On July 17, 2014, the court granted the motions to dismiss of Webloyalty.com, GameStop, and Visa as to the claims in the amended complaint that are grounded in fraud, reserved decision on whether all of the claims in the amended complaint are grounded in fraud, and granted plaintiff leave to file a further amended complaint on or before August 15, 2014.

U.S. ATM Access Fee Litigation

On December 19, 2013, the U.S. District Court for the District of Columbia denied plaintiffs' motions for leave to file amended complaints in the National ATM Council class action and the consumer class actions, and denied plaintiffs' motions for an order altering or amending the court's February 13, 2013 judgment. On January 10, 2014, plaintiffs in the National ATM Council class action and the consumer class actions filed notices of appeal to the U.S. Court of Appeals for the District of Columbia Circuit.

Target Data Breach

On March 3, 2014, a purported class action was filed in the U.S. District Court for the District of Utah against Target, Visa and MasterCard alleging, among other things, violations of Utah unfair competition law, invasion of privacy, negligence and breach of contract as a result of unauthorized access in November and December 2013 to certain personal information and payment card data stored by Target. The complaint also alleges that Visa and MasterCard unlawfully failed to implement chip technology in the United States. The complaint seeks damages, restitution, injunctive relief and attorneys' fees. On April 4, 2014, the Judicial Panel on Multidistrict Litigation issued an order conditionally transferring the action to an existing MDL related to the Target data breach where Visa has not been a party in the U.S. District Court for the District of Minnesota, *In re Target Corp. Customer Data Security Breach Litigation*, MDL No. 2522. On April 23, 2014, Visa and MasterCard filed a motion to separate and remand the claims against them, or alternatively, to remand the action in its entirety. The case has otherwise been stayed pending the outcome of the motion, which Target and the plaintiffs have opposed.

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. Forward-looking statements generally are identified by words such as "believes," "estimates," "expects," "intends," "may," "projects," "could," "should," "will," "will continue" and other similar expressions. Examples of forward-looking statements include, but are not limited to, statements we make about our revenue, client incentives, operating margin, earnings per share, free cash flow, and the growth of those items.

By their nature, forward-looking statements: (i) speak only as of the date they are made; (ii) are not statements of historical fact or guarantees of future performance; and (iii) are subject to risks, uncertainties, assumptions or changes in circumstances that are difficult to predict or quantify. Therefore, actual results could differ materially and adversely from our forward-looking statements due to a variety of factors, including the following:

- the impact of laws, regulations and marketplace barriers, including:
 - rules capping debit interchange reimbursement rates and expanding financial institutions' and merchants' choices among debit payment networks promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act;
 - increased regulation in jurisdictions outside of the United States and in other product categories;
 - increased government support of national payment networks outside the United States; and
 - increased regulation on consumer privacy, data use and security;
- developments in litigation and government enforcement, including those affecting interchange reimbursement fees, antitrust and tax;
- new lawsuits, investigations or proceedings, or changes to our potential exposure in connection with pending lawsuits, investigations or proceedings;
- economic factors, such as:
 - economic fragility in the Eurozone and in the United States;
 - general economic, political and social conditions in mature and emerging markets globally;
 - material changes in cross-border activity, foreign exchange controls and fluctuations in currency exchange rates; and
 - material changes in our financial institution clients' performance compared to our estimates;
- industry developments, such as competitive pressure, rapid technological developments and disintermediation from our payments network;
- system developments, such as:
 - disruption of our transaction processing systems or the inability to process transactions efficiently;
 - account data breaches or increased fraudulent or other illegal activities involving Visa-branded cards or payment products; and
 - failure to maintain systems interoperability with Visa Europe;

• costs arising if Visa Europe were to exercise its right to require us to acquire all of its outstanding stock;

• the loss of organizational effectiveness or key employees;

• the failure to integrate acquisitions successfully or to effectively develop new products and businesses;

• natural disasters, terrorist attacks, military or political conflicts, and public health emergencies; and

various other factors, including those contained in our Annual Report on Form 10-K for the year ended September 30, 2013 and our other filings with the U.S. Securities and Exchange Commission. You should not place undue reliance on such statements. Except as required by law, we do not intend to update or revise any forward-looking statements as a result of new information, future developments or otherwise.

Overview

Visa is a global payments technology company that connects consumers, businesses, financial institutions and governments around the world to fast, secure and reliable electronic payments. We provide our financial institution clients with a global payments infrastructure and support services for the delivery of Visa-branded payment products, including credit, debit, and prepaid. 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 solutions we provide.

Overall economic conditions. Our business is affected by overall economic conditions and consumer spending. Our business performance during the nine months ended June 30, 2014 reflects the impacts of a sustained global economic recovery.

Interchange Multidistrict Litigation (MDL). On January 14, 2014, the court entered the final judgment order approving the settlement with the class plaintiffs in the interchange multidistrict litigation proceedings, which is subject to the adjudication of any appeals. Takedown payments of approximately \$1.1 billion related to the opt-out merchants were received on January 27, 2014, and were deposited into the litigation escrow account. The deposit into the litigation escrow account and a related increase in accrued litigation to address opt-out claims were recorded in the second quarter of fiscal 2014. See Note 2—Retrospective Responsibility Plan and Note 13—Legal Matters to our unaudited consolidated financial statements.

Interchange reimbursement fees. On March 21, 2014, the Court of Appeals for the D.C. Circuit reversed a district court ruling invalidating the debit regulations implemented by the Federal Reserve in accordance with the Dodd-Frank Act. The appeals court agreed with the Federal Reserve on its interpretation, except for a single issue related to the interchange cost calculation which was referred back to the Federal Reserve for reconsideration. The current rules remain in place while the case is ongoing.

Reduction in as-converted class A common stock. During the three and nine months ended June 30, 2014, we repurchased 6 million and 16 million shares, respectively, of our class A common stock using \$1.2 billion and \$3.4 billion, respectively, of cash on hand. As of June 30, 2014, the October program had remaining authorized funds of \$1.9 billion. All share repurchase programs authorized prior to October 2013 have been completed. See Note 9—Stockholders' Equity to our unaudited consolidated financial statements.

Nominal payments volume and transaction counts. Payments volume is the primary driver for our service revenues, and the number of processed transactions is the primary driver for our data processing revenues. Compared to the prior year periods, overall payments volume grew in all categories worldwide. The number of processed transactions continues to increase at a double-digit growth rate, reflecting the continuing worldwide shift to electronic currency.

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The following tables present nominal volume.⁽¹⁾

	U.S.			International			Visa Inc.			
	3 Months Ended March 31, 2014 ⁽²⁾	3 Months Ended March 31, 2013 ⁽²⁾	% Change	3 Months Ended March 31, 2014 ⁽²⁾	3 Months Ended March 31, 2013 ⁽²⁾	% Change	3 Months Ended March 31, 2014 ⁽²⁾	3 Months Ended March 31, 2013 ⁽²⁾	% Change	
(in billions, except percentages)										
Nominal Payments Volume										
Consumer credit	\$204	\$185	10 %	\$387	\$364	6 %	\$591	\$550	8 %	
Consumer debit ⁽³⁾	281	264	7 %	111	99	13 %	392	362	8 %	
Commercial ⁽⁴⁾	90	81	11 %	34	33	3 %	124	114	9 %	
Total Nominal Payments Volume	\$575	\$530	9 %	\$533	\$496	7 %	\$1,108	\$1,026	8 %	
Cash volume	115	110	5 %	507	514	(1) %	622	623	— %	
Total Nominal Volume ⁽⁵⁾	\$690	\$639	8 %	\$1,039	\$1,010	3 %	\$1,729	\$1,649	5 %	

	U.S.			International			Visa Inc.			
	9 Months Ended March 31, 2014 ⁽²⁾	9 Months Ended March 31, 2013 ⁽²⁾	% Change	9 Months Ended March 31, 2014 ⁽²⁾	9 Months Ended March 31, 2013 ⁽²⁾	% Change	9 Months Ended March 31, 2014 ⁽²⁾	9 Months Ended March 31, 2013 ⁽²⁾	% Change	
(in billions, except percentages)										
Nominal Payments Volume										
Consumer credit	\$640	\$579	11 %	\$1,193	\$1,119	7 %	\$1,832	\$1,697	8 %	
Consumer debit ⁽³⁾	831	771	8 %	336	289	16 %	1,167	1,060	10 %	
Commercial ⁽⁴⁾	270	246	10 %	107	104	2 %	377	350	8 %	
Total Nominal Payments Volume	\$1,741	\$1,596	9 %	\$1,635	\$1,512	8 %	\$3,376	\$3,108	9 %	
Cash volume	347	331	5 %	1,589	1,548	3 %	1,936	1,880	3 %	
Total Nominal Volume ⁽⁵⁾	\$2,088	\$1,927	8 %	\$3,225	\$3,060	5 %	\$5,312	\$4,987	7 %	

(1) Figures in the table may not recalculate exactly due to rounding. Percentage changes are calculated based on whole numbers, not the rounded numbers presented.

(2) Service revenues in a given quarter are assessed based on payments volume in the prior quarter. Therefore, service revenues reported for the three and nine months ended June 30, 2014 and 2013, were based on payments volume reported by our financial institution clients for the three and nine months ended March 31, 2014 and 2013, respectively.

(3) Includes prepaid volume.

(4) Includes large, middle and small business credit, and small business debit and prepaid volume.

(5) 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 on Visa-branded cards and payment products. 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 review by Visa. From time to time, previously presented volume information may be updated. Prior period updates are not material.

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The table below provides the number of transactions processed by our VisaNet system and billable transactions processed by CyberSource's network⁽¹⁾

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change
	(in millions, except percentages)					
Visa processed transactions ⁽²⁾	16,662	14,972	11 %	48,001	42,981	12 %
CyberSource billable transactions ⁽³⁾	1,890	1,648	15 %	5,643	4,836	17 %

(1) Figures in the table may not recalculate exactly due to rounding. Percentage changes are calculated based on whole numbers, not the rounded numbers presented.

(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.

Results of Operations

Operating Revenues

The following table sets forth our operating revenues earned in the United States, internationally 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 June 30,		2014 vs. 2013		Nine Months Ended June 30,		2014 vs. 2013	
	2014	2013	\$ Change	% Change ⁽¹⁾	2014	2013	\$ Change	% Change ⁽¹⁾
	(in millions, except percentages)							
U.S.	\$1,699	\$1,632	\$67	4 %	\$5,073	\$4,756	\$317	7 %
International	1,403	1,314	89	7 %	4,242	3,883	359	9 %
Visa Europe	53	55	(2)	(4) %	158	166	(8)	(5) %
Total operating revenues	\$3,155	\$3,001	\$154	5 %	\$9,473	\$8,805	\$668	8 %

(1) Figures in the table may not recalculate exactly due to rounding. Percentage changes are calculated based on whole numbers, not the rounded numbers presented.

The increase in operating revenues primarily reflects continued growth in our underlying business drivers: nominal payments volume; processed transactions; and nominal cross-border volume. These benefits were partially offset by increases in client incentives.

Our operating revenues, primarily service revenues and international transaction revenues, are impacted by the overall strengthening or weakening of the U.S. dollar as payments volume and related revenues denominated in local currencies are converted to U.S. dollars. The effect of exchange rate movements in the three and nine months ended June 30, 2014, as partially mitigated by our hedging program, resulted in a negative two percentage point impact to our total operating revenue growth compared to the prior year. For the full 2014 fiscal year, we expect the effect of exchange rate movements to reduce total operating revenue growth by about two percentage points, net of offsetting hedges.

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The following table sets forth the components of our total operating revenues.

	Three Months Ended June 30,		2014 vs. 2013		Nine Months Ended June 30,		2014 vs. 2013			
	2014	2013	\$ Change	% Change ⁽¹⁾	2014	2013	\$ Change	% Change ⁽¹⁾		
	(in millions, except percentages)									
Service revenues	\$1,417	\$1,298	\$119	9	% \$4,298	\$3,967	\$331	8	%	
Data processing revenues	1,321	1,191	130	11	% 3,819	3,456	363	10	%	
International transaction revenues	860	854	6	1	% 2,622	2,490	132	5	%	
Other revenues	195	179	16	9	% 558	533	25	5	%	
Client incentives	(638)	(521)	(117)	22	% (1,824)	(1,641)	(183)	11	%	
Total operating revenues	\$3,155	\$3,001	\$154	5	% \$9,473	\$8,805	\$668	8	%	

⁽¹⁾ Figures in the table may not recalculate exactly due to rounding. Percentage changes are calculated based on whole numbers, not the rounded numbers presented.

Service revenues increased primarily due to 8% and 9% growth in nominal payments volume during the three and nine month comparable periods, respectively.

Data processing revenues increased mainly due to overall growth in processed transactions of 11% and 12% during the three and nine month comparable periods, respectively, combined with solid growth in CyberSource billable transactions.

International transaction revenues for the three and nine month comparable periods increased reflecting 6% and 7% growth in nominal cross-border payments volume, respectively. The growth in international transaction revenues was slower than the growth in nominal cross-border payments volume for the three month comparable period primarily due to lower volatility in a broad range of currencies.

Client incentives increased during the three and nine month comparable periods mainly due to incentives recognized on long-term customer contracts that were initiated or renewed after the third quarter of fiscal 2013, as well as overall growth in global payments volume. The three month period increase also reflects the absence of retroactive adjustments recorded in the third quarter of fiscal 2013 due to the execution of an issuer contract. The amount of client incentives we record in future periods will vary based on changes in performance expectations, actual client performance, amendments to existing contracts or the execution of new contracts. We expect incentives as a percentage of gross revenues to be around 17% for the full 2014 fiscal year.

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Operating Expenses

The following table sets forth components of our total operating expenses.

	Three Months Ended June 30,		2014 vs. 2013		Nine Months Ended June 30,		2014 vs. 2013		
	2014	2013	\$ Change	% Change ⁽¹⁾	2014	2013	\$ Change	% Change ⁽¹⁾	
	(in millions, except percentages)								
Personnel	\$463	\$493	\$(30)	(6)%	\$1,379	\$1,433	\$(54)	(4)%	
Marketing	228	252	(24)	(9)%	659	640	19	3%	
Network and processing	127	117	10	9%	379	346	33	10%	
Professional fees	82	103	(21)	(20)%	234	282	(48)	(17)%	
Depreciation and amortization	109	101	8	7%	323	291	32	11%	
General and administrative	126	108	18	17%	354	322	32	10%	
Litigation provision	—	(1)	1	NM	—	3	(3)	NM	
Total operating expenses	\$1,135	\$1,173	\$(38)	(3)%	\$3,328	\$3,317	\$11	—%	

(1) Figures in the table may not recalculate exactly due to rounding. Percentage changes are calculated based on whole numbers, not the rounded numbers presented.

Personnel decreased mainly due to lower incentive compensation and reductions in our net periodic pension cost. Personnel cost for the nine month comparable period was also lower due to one-time share-based compensation expenses recognized in the first half of fiscal 2013. The decrease was partially offset by an increase in headcount throughout the organization reflecting our strategy to invest for future growth.

Marketing decreased during the three month comparable period and increased over the nine month comparable period primarily due to elevated spend supporting the 2014 Sochi Winter Olympics campaign beginning in the third quarter of fiscal 2013 through the first half of fiscal 2014. The nine month comparable period also increased due to spend supporting the 2014 FIFA World Cup campaign. We anticipate continued spending during the fourth quarter of fiscal 2014 in support of our growth strategies and new product initiatives.

Network and processing increased mainly due to continued processing network investment to support growth.

Professional fees decreased primarily due to the absence of certain project costs incurred in fiscal 2013, partially offset by costs incurred to expand and support our network capabilities and applications.

Depreciation and amortization increased primarily due to additional depreciation from our ongoing investments in technology assets and infrastructure to support our core business and eCommerce initiatives.

General and administrative increased primarily due to facilities costs and other corporate expenses in support of our business growth, partially offset by a decrease in travel activities.

Non-operating Income

Non-operating income was \$10 million and \$29 million for the three and nine months ended June 30, 2014, respectively, compared to \$5 million and \$3 million for the three and nine months ended June 30, 2013, respectively. The increase during the nine month comparable period was primarily due to the absence of a \$15 million other-than-temporary impairment loss recognized during the nine months ended June 30, 2013 and increases in investment gains. See Note 3—Fair Value Measurements and Investments to our unaudited consolidated financial statements.

Effective Income Tax Rate

The effective income tax rates were 33% and 29% for the three and nine months ended June 30, 2014, respectively, and 33% and 31% for the three and nine months ended June 30, 2013, respectively. The effective tax

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rate for the nine months ended June 30, 2014 differs from the effective tax rate in the same period in fiscal 2013 primarily due to:

- a \$245 million tax benefit related to the deduction for U.S. domestic production activities, of which \$189 million related to prior fiscal years, as a result of the completion of a study in the second quarter of fiscal 2014; and
- the absence of a \$76 million tax benefit recognized in the first quarter of fiscal 2013, as a result of new guidance issued by the state of California regarding apportionment rules for years prior to fiscal 2012.

During the three and nine months ended June 30, 2014, our gross unrecognized tax benefits increased by \$43 million and \$223 million, respectively, \$42 million and \$219 million of which, respectively, would favorably impact our effective income tax rate if recognized. The increase in gross unrecognized tax benefits is primarily due to potential audit exposure related to various tax positions across several jurisdictions.

Liquidity and Capital Resources

Cash Flow Data

The following table summarizes our cash flow activity for the periods presented.

	Nine Months Ended	
	June 30,	
	2014	2013
	(in millions)	
Total cash provided by (used in):		
Operating activities	\$5,412	\$977
Investing activities	(442)	(1,354)
Financing activities	(5,098)	(244)
Decrease in cash and cash equivalents	\$(128)	\$(621)

Operating activities. Cash provided by operating activities during the nine months ended June 30, 2014 reflects the return of our portion of takedown payments of approximately \$1.1 billion in connection with the interchange multidistrict litigation. Upon receipt, we returned these funds to the litigation escrow account and reestablished the related accrued litigation. The return of funds to the litigation escrow is reflected as a use of cash under financing activities. Cash provided by operating activities during the prior-year comparable period reflects payments from the litigation escrow account totaling \$4.4 billion in connection with the interchange multidistrict litigation. See Note 2—Retrospective Responsibility Plan and Note 13—Legal Matters to our unaudited consolidated financial statements. Investing activities. Cash used in investing activities was lower compared to the prior year, primarily reflecting a decrease in purchases of available-for-sale securities and an increase in proceeds received from the sale and maturity of available-for-sale securities. These effects were offset by net cash paid of \$134 million in the third quarter of fiscal 2014 to acquire a business in which we previously held minority interest ownership.

Financing activities. Cash used in financing activities during the nine months ended June 30, 2014 reflects the use of \$3.4 billion to repurchase class A common stock in the open market, the return of takedown payments totaling \$1.1 billion into the litigation escrow account, as described above, and dividend payments of \$758 million. Activity in the prior-year comparable period primarily reflected the use of \$4.1 billion to repurchase class A common stock in the open market, combined with dividend payments of \$653 million, offset by the funding of payments from the litigation escrow account totaling \$4.4 billion in connection with the interchange multidistrict litigation.

Sources of Liquidity

Our primary sources of liquidity are cash on hand, cash flow from operations, our investment portfolio and access to various equity and borrowing arrangements. Funds from operations are maintained in cash and cash equivalents and short-term or long-term available-for-sale investment securities based upon our funding requirements, access to liquidity from these holdings, and the returns that these holdings provide. We believe that cash flow generated from operations, in conjunction with access to our other sources of liquidity, will be more than sufficient to meet our ongoing operational needs.

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Cash and cash equivalents and short-term and long-term available-for-sale investment securities held by our foreign subsidiaries totaled \$5.2 billion at June 30, 2014. If it were necessary to repatriate these funds for use in the United States, we would be required to pay U.S. income taxes on most of this amount. The amount of income taxes that would have resulted had these funds been repatriated is not practicably determinable. It is our intent to indefinitely reinvest the majority of these funds outside of the United States. As such, we have not accrued any U.S. income tax provision in our financial results related to the majority of these funds.

Uses of Liquidity

There has been no significant change to our primary uses of liquidity since September 30, 2013, except as discussed below. Based on our current cash flow budgets and forecasts of our short-term and long-term liquidity needs, we believe that our projected sources of liquidity will be sufficient to meet our projected liquidity needs for more than the next 12 months. We will continue to assess our liquidity position and potential sources of supplemental liquidity in view of our operating performance, current economic and capital market conditions and other relevant circumstances.

Covered litigation. On January 14, 2014, the court entered the final judgment order approving the settlement with the class plaintiffs in the interchange multidistrict litigation proceedings, which is subject to the adjudication of any appeals. Our portion of the takedown payments of approximately \$1.1 billion related to the opt-out merchants was received on January 27, 2014, and deposited into the litigation escrow account. Receipt of the takedown payments increases our current taxable income by \$1.1 billion, and income tax payable by \$387 million. Of this amount, we have paid approximately \$290 million, which negatively impacted our free cash flow for the three and nine months ended June 30, 2014. The remaining income tax payable amount will be paid by the end of fiscal 2014 and will negatively impact our free cash flow accordingly. We continue to expect annual free cash flow to be about \$5 billion for the full fiscal 2014 year. See Note 2—Retrospective Responsibility Plan and Note 13—Legal Matters to our unaudited consolidated financial statements.

Reduction in as-converted class A common stock. In October 2013, our board of directors authorized a new \$5.0 billion share repurchase program. During the nine months ended June 30, 2014, we repurchased 16 million shares of our class A common stock using \$3.4 billion of cash on hand. As of June 30, 2014, the October program had remaining authorized funds of \$1.9 billion. All share repurchase programs authorized prior to October 2013 have been completed. See Note 9—Stockholders' Equity to our unaudited consolidated financial statements.

Dividends. During the nine months ended June 30, 2014, we declared and paid \$758 million in dividends. In July 2014, our board of directors declared a quarterly cash dividend in the amount of \$0.40 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 September 3, 2014, to all holders of record as of August 15, 2014. See Note 9—Stockholders' Equity to our unaudited consolidated financial statements. We expect to continue paying quarterly dividends in cash, subject to approval by the board of directors. Class B and class C common stock will share ratably on an as-converted basis in such future dividends.

Visa Europe put option agreement. We have granted Visa Europe a perpetual put option which, if exercised, will require us to purchase all of the outstanding shares of capital stock of Visa Europe from its members. Visa Europe may exercise the put option at any time. At June 30, 2014, we determined the fair value of the put option liability to be approximately \$145 million. While this amount represents the fair value of the put option at June 30, 2014, it does not represent the actual purchase price that we may be required to pay if the option is exercised. The purchase price we could be obligated to pay 285 days after exercise will represent a substantial financial obligation, which could be several billion dollars or more. We may need to obtain third-party financing, either by borrowing funds or by undertaking a subsequent equity offering in order to fund this payment. The amount of this potential obligation could vary dramatically based on, among other things, Visa Europe's adjusted sustainable income and our P/E ratio, in each case, as negotiated at the time the put option is exercised.

Acquisitions. In April 2014, the Company acquired a business in which we previously held a minority interest using \$134 million of cash on hand. This amount primarily reflects the purchase price of \$170 million less cash received. The acquisition extends our processing capabilities internationally.

Fair Value Measurements—Financial Instruments

As of June 30, 2014, our financial instruments measured at fair value on a recurring basis included \$6.8 billion of assets and \$177 million of liabilities. Of these instruments, \$152 million, or 2%, had significant unobservable

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inputs, with the Visa Europe put option liability constituting \$145 million of this amount. See Note 3—Fair Value Measurements and Investments to our unaudited consolidated financial statements.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no significant changes to our market risks during the nine months ended June 30, 2014, compared to September 30, 2013.

ITEM 4. Controls and Procedures

Disclosure controls and procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) of Visa Inc. at the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures of Visa Inc. were effective at the reasonable assurance level as of the end of the period covered by this report.

Changes in internal control over financial reporting. There has been no change in the internal control over financial reporting of Visa Inc. that occurred during the fiscal period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

Refer to Note 13—Legal Matters to the unaudited consolidated financial statements included in this Form 10-Q for a description of the Company's current material legal proceedings.

ITEM 1A. Risk Factors.

For a discussion of the Company's risk factors, see the information under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended September 30, 2013, filed with the SEC on November 22, 2013.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

ISSUER PURCHASES OF EQUITY SECURITIES

The table below sets forth information with respect to purchases of the Company's common stock made by or on behalf of the Company during the quarter ended June 30, 2014.

Period	(a) Total Number of Shares Purchased ⁽¹⁾	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
April 1-30, 2014	1,270,729	\$201.24	1,270,729	\$2,702,378,034
May 1-31, 2014	3,161,107	\$207.86	3,154,777	\$2,046,582,064
June 1-30, 2014	1,148,550	\$209.78	1,146,084	\$1,806,142,106
Total	5,580,386	\$206.75	5,571,590	

Includes 8,796 shares of class A common stock withheld at an average price of \$210.49 per share (per the terms of ⁽¹⁾ grants under our 2007 Equity Incentive Compensation Plan) to offset tax withholding obligations that occur upon vesting and release of restricted shares.

The figures in the table reflect transactions according to trade dates. For purposes of the Company's consolidated ⁽²⁾ financial statements included in this Form 10-Q, the impact of these repurchases is recorded according to settlement dates.

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information.

None.

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ITEM 6. Exhibits.

The list of exhibits required to be filed as exhibits to this report is listed in the “Exhibit Index,” which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VISA INC.

Date: July 24, 2014

By: /s/ Charles W. Scharf
Name: Charles W. Scharf
Title: Chief Executive Officer
(Principal Executive Officer)

Date: July 24, 2014

By: /s/ Byron H. Pollitt
Name: Byron H. Pollitt
Title: Chief Financial Officer
(Principal Financial Officer)

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EXHIBIT INDEX

Exhibit Number	Description of Documents	Incorporated by Reference		
		Schedule/ Form	File Number	Exhibit Filing Date
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
101.INS	XBRL Instance Document			
101.SCH	XBRL Taxonomy Extension Schema Document			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			

* Filed or furnished herewith.