

VISA INC.
Form 10-Q
July 25, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from _____ to _____
Commission file number 001-33977

VISA INC.

(Exact name of Registrant as specified in its charter)

Delaware 26-0267673

(State or other jurisdiction (IRS Employer
of incorporation or organization) Identification No.)

P.O. Box 8999 94128-8999
San Francisco, California
(Address of principal executive offices) (Zip Code)

(650) 432-3200

(Registrant's telephone number, including area code)

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 ☒

As of July 15, 2016 there were 1,886,433,824 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 17,424,121 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, September 30, 2016 2015 (in millions, except par value data)	
Assets		
Cash and cash equivalents	\$5,887	\$ 3,518
Restricted cash—litigation escrow (Note 3)	1,027	1,072
Investment securities (Note 4):		
Trading	69	66
Available-for-sale	2,796	2,431
Settlement receivable	1,499	408
Accounts receivable	1,066	847
Customer collateral (Note 7)	1,032	1,023
Current portion of client incentives	291	303
Prepaid expenses and other current assets	707	353
Total current assets	14,374	10,021
Investment securities, available-for-sale (Note 4)	3,762	3,384
Client incentives	537	110
Property, equipment and technology, net	2,136	1,888
Other assets	936	778
Intangible assets, net	27,078	11,361
Goodwill	15,044	11,825
Total assets	\$63,867	\$ 39,367
Liabilities		
Accounts payable	\$115	\$ 127
Settlement payable	1,999	780
Customer collateral (Note 7)	1,032	1,023
Accrued compensation and benefits	511	503
Client incentives	1,953	1,049
Accrued liabilities	1,195	849
Accrued litigation (Note 13)	978	1,024
Total current liabilities	7,783	5,355
Long-term debt (Note 5)	15,879	—
Deferred tax liabilities	4,977	3,273
Deferred purchase consideration (Note 2)	1,209	—
Other liabilities	1,192	897
Total liabilities	31,040	9,525

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, 2016	September 30, 2015
	(in millions, except par value data)	
Equity		
Preferred stock, \$0.0001 par value, 25 shares authorized and 5 issued and outstanding as follows:		
Series A convertible participating preferred stock, none issued (Note 2 and Note 9)	\$—	\$ —
Series B convertible participating preferred stock, 2 shares issued and outstanding at June 30, 2016 (Note 2 and Note 9)	2,516	—
Series C convertible participating preferred stock, 3 shares issued and outstanding at June 30, 2016 (Note 2 and Note 9)	3,201	—
Class A common stock, \$0.0001 par value, 2,001,622 shares authorized, 1,891 and 1,950 shares issued and outstanding at June 30, 2016 and September 30, 2015, respectively (Note 9)	—	—
Class B common stock, \$0.0001 par value, 622 shares authorized, 245 shares issued and outstanding at June 30, 2016 and September 30, 2015 (Note 9)	—	—
Class C common stock, \$0.0001 par value, 1,097 shares authorized, 17 and 20 shares issued and outstanding at June 30, 2016 and September 30, 2015, respectively (Note 9)	—	—
Treasury stock (Note 2 and Note 9)	(170)	—
Right to recover for covered losses (Note 3)	(25)	—
Additional paid-in capital	17,514	18,073
Accumulated income	10,334	11,843
Accumulated other comprehensive loss, net:		
Investment securities, available-for-sale	30	5
Defined benefit pension and other postretirement plans	(126)	(161)
Derivative instruments classified as cash flow hedges	(42)	83
Foreign currency translation adjustments	(405)	(1)
Total accumulated other comprehensive loss, net	(543)	(74)
Total equity	32,827	29,842
Total liabilities and equity	\$63,867	\$ 39,367

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, 2016 ⁽¹⁾ 2015		Nine Months Ended June 30, 2016 ⁽¹⁾ 2015	
	(in millions, except per share data)			
Operating Revenues				
Service revenues	\$1,635	\$1,550	\$4,979	\$4,665
Data processing revenues	1,541	1,400	4,493	4,123
International transaction revenues	1,084	1,039	3,160	2,973
Other revenues	209	199	605	607
Client incentives	(839)	(670)	(2,416)	(2,059)
Total operating revenues	3,630	3,518	10,821	10,309
Operating Expenses				
Personnel	509	566	1,536	1,558
Marketing	189	224	569	619
Network and processing	123	117	377	340
Professional fees	138	82	276	229
Depreciation and amortization	120	130	361	375
General and administrative	246	137	566	404
Litigation provision (Note 13)	—	—	1	3
Visa Europe Framework Agreement loss (Note 2)	1,877	—	1,877	—
Total operating expenses	3,202	1,256	5,563	3,528
Operating income	428	2,262	5,258	6,781
Non-operating (Expense) Income				
Interest expense	(131)	8	(292)	(2)
Other (Note 4 and Note 8)	125	(102)	536	(67)
Total non-operating (expense) income	(6)	(94)	244	(69)
Income before income taxes	422	2,168	5,502	6,712
Income tax provision (Note 12)	10	471	1,442	1,896
Net income	\$412	\$1,697	\$4,060	\$4,816

The Company did not include Visa Europe's financial results in the Company's unaudited consolidated statements ⁽¹⁾ of operations from the acquisition date, June 21, 2016, through June 30, 2016 as the impact is immaterial. See Note 2—Visa Europe to these unaudited consolidated financial statements.

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, 2016 ⁽¹⁾	2015	Nine Months Ended June 30, 2016 ⁽¹⁾	2015
	(in millions, except per share data)			
Basic earnings per share (Note 10)				
Class A common stock	\$0.17	\$0.69	\$1.69	\$1.96
Class B common stock	\$0.29	\$1.14	\$2.79	\$3.23
Class C common stock	\$0.69	\$2.78	\$6.76	\$7.84
Basic weighted-average shares outstanding (Note 10)				
Class A common stock	1,899	1,955	1,915	1,964
Class B common stock	245	245	245	245
Class C common stock	18	20	19	21
Diluted earnings per share (Note 10)				
Class A common stock	\$0.17	\$0.69	\$1.69	\$1.96
Class B common stock	\$0.28	\$1.14	\$2.78	\$3.22
Class C common stock	\$0.69	\$2.77	\$6.75	\$7.82
Diluted weighted-average shares outstanding (Note 10)				
Class A common stock	2,386	2,448	2,406	2,462
Class B common stock	245	245	245	245
Class C common stock	18	20	19	21

The Company did not include Visa Europe's financial results in the Company's unaudited consolidated statements of operations from the acquisition date, June 21, 2016, through June 30, 2016 as the impact is immaterial. The dilutive impact of the outstanding shares of series B and C convertible participating preferred stock from June 21, 2016 through June 30, 2016 was also not included in the calculation of basic or diluted earnings per share as the effect is immaterial. See Note 2—Visa Europe and Note 10—Earnings Per Share to these unaudited consolidated financial statements.

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, 2016		Nine Months Ended June 30, 2015	
	2016	2015	2016	2015
	(in millions)			
Net income	\$412	\$1,697	\$4,060	\$4,816
Other comprehensive income, net of tax:				
Investment securities, available-for-sale:				
Net unrealized (loss) gain	(18)	(2)	42	(21)
Income tax effect	8	1	(15)	8
Reclassification adjustment for net gain realized in net income	—	—	(3)	(21)
Income tax effect	—	—	1	8
Defined benefit pension and other postretirement plans:				
Net unrealized actuarial gain and prior service credit	—	—	61	—
Income tax effect	—	—	(23)	—
Amortization of actuarial gain and prior service credit realized in net income	—	(3)	(5)	(3)
Income tax effect	—	1	2	1
Derivative instruments classified as cash flow hedges:				
Net unrealized (loss) gain	(22)	(10)	(60)	118
Income tax effect	3	4	9	(33)
Reclassification adjustment for net gain realized in net income	(22)	(35)	(107)	(61)
Income tax effect	8	9	33	16
Foreign currency translation adjustments	(404)	—	(404)	1
Other comprehensive (loss) income, net of tax	(447)	(35)	(469)	13
Comprehensive (loss) income	\$(35)	\$1,662	\$3,591	\$4,829

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)

	Preferred Stock ⁽¹⁾	Common Stock			Preferred Stock	Treasury Stock	Right to Recover Covered Losses	Additional Paid-in Capital	Accumulated Income	Accumulated Other Comprehensive Loss	Total Equity
	Series B C	Class A	Class B	Class C							
(in millions, except per share data)											
Balance as of September 30, 2015	—	1,950	245	20	\$ —	\$ —	\$ —	\$ 18,073	\$ 11,843	\$ (74)	\$ 29,842
Net income									4,060		4,060
Other comprehensive loss, net of tax										(469)	(469)
Comprehensive income											3,591
Issuance of preferred stock (Note 2 and Note 9)	2 3				5,717						5,717
VE territory covered losses incurred (Note 3)							(25)				(25)
Class C common stock held by Visa Europe, a wholly-owned subsidiary of Visa Inc. (Note 2 and Note 9)				(1)		(170)					(170)
Conversion of class C common stock upon sale into public market	8			(2)							—
Issuance and vesting of restricted stock and performance-based shares	2										—
Share-based compensation, net of forfeitures (Note 11)	—	(2)						152			152
Restricted stock and performance-based shares settled in cash for taxes	(1)							(89)			(89)