

MASTERCARD INC
Form 10-Q
May 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2012
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: 001-32877
MasterCard Incorporated
(Exact name of registrant as specified in its charter)

Delaware 13-4172551
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)

2000 Purchase Street 10577
Purchase, NY (Zip Code)
(Address of principal executive offices)

(914) 249-2000
(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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ..

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer x Accelerated filer o
Non-accelerated filer o (do not check if a smaller reporting company) Smaller reporting company o

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
As of April 26, 2012, there were 121,245,690 shares outstanding of the registrant's Class A common stock, par value \$0.0001 per share and 5,134,741 shares outstanding of the registrant's Class B common stock, par value \$0.0001 per share.

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Forward-Looking Statements

This Report on Form 10-Q contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements. When used in this Report, the words “believe”, “expect”, “could”, “may”, “would”, “will”, “trend”, and similar words are intended to identify forward-looking statements. These forward-looking statements relate to the Company’s future prospects, developments and business strategies and include, without limitation, statements relating to:

- the Company's focus on personal consumption expenditures, the trend towards electronic forms of payment and growing MasterCard's share in electronic payments, including with innovative solutions and new technology;
- the Company’s focus on growing its credit, debit, prepaid, commercial and payment transaction processing offerings;
- the Company’s focus on diversifying its business (including seeking new areas of growth, expanding acceptance points and maintaining unsurpassed acceptance and successfully working with new business partners);
- the Company’s focus on building new businesses through technology and strategic efforts and alliances with respect to electronic commerce, mobile and other initiatives;
- the stability of economies around the globe;
- the Company’s advertising and marketing strategy and investment;
- the Company's belief that its existing cash balances, its cash flow generating capabilities, its borrowing capacity and its access to capital resources are sufficient to satisfy its future operating cash needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its operations and potential litigation obligations; and
- the manner and amount of purchases by the Company pursuant to its share repurchase program, dependent upon price and market conditions.

Many factors and uncertainties relating to our operations and business environment, all of which are difficult to predict and many of which are outside of our control, influence whether any forward-looking statements can or will be achieved. Any one of those factors could cause our actual results to differ materially from those expressed or implied in writing in any forward-looking statements made by MasterCard or on its behalf. We believe there are certain risk factors that are important to our business, and these could cause actual results to differ from our expectations. Such risk factors include: litigation decisions, regulation and legislation related to interchange fees and related practices; regulation established by the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States; regulation or other legislative or regulatory activity in one jurisdiction or of one product resulting in regulation in other jurisdictions or of other products; competitive issues caused by government actions; regulation of the payments industry, consumer privacy, data use and/or security; potential or incurred liability, limitations on business and other penalties resulting from litigation; potential changes in tax laws; competition in the payments industry; competitive pressure on pricing; banking industry consolidation; loss of significant business from significant customers; merchant activity; our relationship and the relationship of our competitors with our customers; brand perceptions and reputation; ability to grow our debit business, particularly in the United States; global economic events and the overall business environment; decline in cross-border travel; the effect of general economic and global political conditions on consumer spending trends; exposure to loss or illiquidity due to guarantees of settlement and certain other third-party obligations; disruptions to our transaction processing systems and other services; account data breaches; reputation damage from increases in fraudulent activity; the inability to keep pace with technological developments in the industry; the effect of adverse currency fluctuation; the inability to adequately manage change and effectively deliver our products and solutions; acquisition and other integration issues; and issues relating to our Class A common stock and corporate governance structure. Please see a complete discussion of these risk factors in Item 1A (Risk Factors) in Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2011. We caution you that the important factors referenced above may not contain all of the factors that are important to you. Our forward-looking statements speak only as of the date of this report or as of the date they are made, and we undertake no obligation to update our forward-looking statements.

In this Report, references to the “Company,” “MasterCard,” “we,” “us” or “our” refer to the MasterCard brand generally, and to the business conducted by MasterCard Incorporated and its consolidated subsidiaries, including our operating

subsidiary, MasterCard International Incorporated (d/b/a MasterCard Worldwide).

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PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

MASTERCARD INCORPORATED
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	March 31, 2012	December 31, 2011
	(in millions, except share data)	
ASSETS		
Cash and cash equivalents	\$3,684	\$3,734
Investment securities available-for-sale, at fair value	1,457	1,215
Accounts receivable	812	808
Settlement due from customers	654	601
Restricted security deposits held for customers	649	636
Prepaid expenses and other current assets	510	404
Deferred income taxes	347	343
Total Current Assets	8,113	7,741
Property, plant and equipment, at cost, net	450	449
Deferred income taxes	93	88
Goodwill	1,042	1,014
Other intangible assets, net of accumulated amortization of \$595 and \$557, respectively	682	665
Other assets	751	736
Total Assets	\$11,131	\$10,693
LIABILITIES AND EQUITY		
Accounts payable	\$274	\$360
Settlement due to customers	625	699
Restricted security deposits held for customers	649	636
Accrued litigation	770	770
Accrued expenses	1,575	1,610
Other current liabilities	199	142
Total Current Liabilities	4,092	4,217
Deferred income taxes	112	113
Other liabilities	548	486
Total Liabilities	4,752	4,816
Commitments and Contingencies		
Stockholders' Equity		
Class A common stock, \$0.0001 par value; authorized 3,000,000,000 shares, 133,142,745 and 132,771,392 shares issued and 121,345,076 and 121,618,059 outstanding, respectively	—	—
Class B common stock, \$0.0001 par value; authorized 1,200,000,000 shares, 5,146,301 and 5,245,676 issued and outstanding, respectively	—	—
Additional paid-in-capital	3,546	3,519
Class A treasury stock, at cost, 11,797,669 and 11,153,333 shares, respectively	(2,642) (2,394

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Retained earnings	5,389	4,745	
Accumulated other comprehensive income (loss)	78	(2)
Total Stockholders' Equity	6,371	5,868	
Non-controlling interests	8	9	
Total Equity	6,379	5,877	
Total Liabilities and Equity	\$11,131	\$10,693	

The accompanying notes are an integral part of these consolidated financial statements.

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MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended		
	March 31,		
	2012	2011	
	(in millions, except per share data)		
Revenues, net	\$ 1,758	\$ 1,501	
Operating Expenses			
General and administrative	579	494	
Advertising and marketing	125	129	
Depreciation and amortization	54	42	
Total operating expenses	758	665	
Operating income	1,000	836	
Other Income (Expense)			
Investment income	9	12	
Interest expense	(6) (10)
Other income (expense), net	(4) (2)
Total other income (expense)	(1) —	
Income before income taxes	999	836	
Income tax expense	318	274	
Net income	681	562	
Loss attributable to non-controlling interests	1	—	
Net Income Attributable to MasterCard	\$ 682	\$ 562	
Basic Earnings per Share	\$ 5.38	\$ 4.31	
Basic Weighted Average Shares Outstanding	127	130	
Diluted Earnings per Share	\$ 5.36	\$ 4.29	
Diluted Weighted Average Shares Outstanding	127	131	

The accompanying notes are an integral part of these consolidated financial statements.

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MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31,	
	2012	2011
	(in millions)	
Net Income	\$681	\$562
Other comprehensive income:		
Foreign currency translation adjustments	77	105
Defined benefit pension and other postretirement plans	1	—
Income tax effect	—	—
	1	—
Investment securities available-for-sale	3	1
Income tax effect	(1) —
	2	1
Other comprehensive income, net of tax	80	106
Comprehensive Income	761	668
Loss attributable to non-controlling interests	1	—
Comprehensive Income Attributable to MasterCard	\$762	\$668

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

	Total	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A	Class B	Additional Paid-In Capital	Class A Treasury Stock	Non-Controlling Interests
	(in millions, except per share data)							
Balance at December 31, 2011	\$5,877	\$4,745	\$ (2)	\$—	\$—	\$ 3,519	\$(2,394)	\$ 9
Net income	681	682	—	—	—	—	—	(1)
Other comprehensive income, net of tax	80	—	80	—	—	—	—	—
Cash dividends declared on Class A and Class B common stock, \$0.30 per share	(38)	(38)	—	—	—	—	—	—
Purchases of treasury stock	(248)	—	—	—	—	—	(248)	—
Share-based payments	18	—	—	—	—	18	—	—
Stock units withheld for taxes	(38)	—	—	—	—	(38)	—	—

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Tax benefit for share-based compensation	33	—	—	—	—	33	—	—
Exercise of stock options	14	—	—	—	—	14	—	—
Balance at March 31, 2012	\$6,379	\$5,389	\$ 78	\$—	\$—	\$ 3,546	\$(2,642)	\$ 8

The accompanying notes are an integral part of these consolidated financial statements.

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MASTERCARD INCORPORATED
 CONSOLIDATED STATEMENT OF CASH FLOWS
 (UNAUDITED)

	Three Months Ended March 31,	
	2012	2011
	(in millions)	
Operating Activities		
Net income	\$681	\$562
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	54	42
Share-based payments	18	15
Stock units withheld for taxes	(38)	(32)
Tax benefit for share-based compensation	(33)	(7)
Deferred income taxes	(14)	55
Other	9	6
Changes in operating assets and liabilities:		
Accounts receivable	7	(2)
Settlement due from customers	(43)	122
Prepaid expenses	(53)	60
Obligations under litigation settlements	—	(150)
Accounts payable	(88)	8
Settlement due to customers	(88)	(259)
Accrued expenses	1	(132)
Net change in other assets and liabilities	14	67
Net cash provided by operating activities	427	355
Investing Activities		
Purchases of investment securities available-for-sale	(398)	(15)
Purchases of property, plant and equipment	(12)	(10)
Capitalized software	(39)	(15)
Proceeds from sales of investment securities available-for-sale	43	10
Proceeds from maturities of investment securities available-for-sale	111	15
Proceeds from maturities of investment securities held-to-maturity	—	150
Investment in nonmarketable equity investments	(7)	—
Net cash (used in) provided by investing activities	(302)	135
Financing Activities		
Purchases of treasury stock	(248)	(654)
Dividends paid	(19)	(20)
Tax benefit for share-based compensation	33	7
Cash proceeds from exercise of stock options	14	2
Net cash used in financing activities	(220)	(665)
Effect of exchange rate changes on cash and cash equivalents	45	62
Net decrease in cash and cash equivalents	(50)	(113)
Cash and cash equivalents - beginning of period	3,734	3,067
Cash and cash equivalents - end of period	\$3,684	\$2,954

The accompanying notes are an integral part of these consolidated financial statements.

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MASTERCARD INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Summary of Significant Accounting Policies

Organization

MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International Incorporated (“MasterCard International” and together with MasterCard Incorporated, “MasterCard” or the “Company”), is a global payments and technology company that connects consumers, financial institutions, merchants, governments and businesses worldwide, enabling them to use electronic forms of payment instead of cash and checks. MasterCard primarily (1) offers a wide range of payment solutions, which enable its customers (which include financial institutions and other entities that act as “issuers” and “acquirers”) to develop and implement credit, debit, prepaid and related payment programs for their customers (which include individual consumers, businesses and government entities); (2) manages a family of well-known, widely-accepted payment brands, including MasterCard®, Maestro® and Cirrus®, which it licenses to its customers for use in their payment programs; (3) processes payment transactions over the MasterCard Worldwide Network; and (4) provides support services to its customers and, depending upon the service, merchants and other clients.

Consolidation and basis of presentation

The consolidated financial statements include the accounts of MasterCard and its majority-owned and controlled entities, including any variable interest entities for which the Company is the primary beneficiary. Intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the 2012 presentation. The Company follows accounting principles generally accepted in the United States of America (“GAAP”).

The balance sheet as of December 31, 2011 was derived from the audited consolidated financial statements as of December 31, 2011. The consolidated financial statements for the three months ended March 31, 2012 and 2011 and as of March 31, 2012 are unaudited, and in the opinion of management, include all normal recurring adjustments that are necessary to present fairly the results for interim periods. Due to seasonal fluctuations and other factors, the results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited consolidated financial statements are presented in accordance with the U.S. Securities and Exchange Commission requirements of Quarterly Reports on Form 10-Q and, consequently, do not include all of the disclosures required by GAAP. Reference should be made to the MasterCard Incorporated Annual Report on Form 10-K for the year ended December 31, 2011 for additional disclosures, including a summary of the Company’s significant accounting policies.

Recent accounting pronouncements

Fair value measurement and disclosure - The Company measures certain assets and liabilities at fair value on a recurring basis by estimating the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company classifies these recurring fair value measurements into a three-level hierarchy (“Valuation Hierarchy”) and discloses the significant assumptions utilized in measuring assets and liabilities at fair value.

In May 2011, the fair value accounting standard was amended to change fair value measurement principles and disclosure requirements. The key changes in measurement principles include limiting the concepts of highest and best use and valuation premise to nonfinancial assets, providing a framework for considering whether a premium or discount can be applied in a fair value measurement, and aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. Disclosures are required for all transfers between Levels 1 and 2 within the Valuation Hierarchy, the use of a nonfinancial asset measured at fair value if its use differs from its highest and best use, the level in the Valuation Hierarchy of assets and liabilities not recorded at fair value but for which fair value is required to be disclosed, and for Level 3 measurements, quantitative information about unobservable inputs used, a description of the valuation processes used, and qualitative discussion about the sensitivity of the measurements. The Company adopted the revised accounting standard effective January 1, 2012 via prospective adoption, as required. The adoption had no impact on the Company's financial position or results of operations.

Comprehensive income - In June 2011, a new accounting standard was issued that amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. Also, items that are reclassified from other comprehensive income to net

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

income must be presented on the face of the financial statements. In December 2011, a new accounting standard was issued that indefinitely deferred the effective date for the requirement to present the reclassification of items from comprehensive income to net income on the face of the financial statements. Both standards require retrospective application, and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company adopted the revised accounting standards effective January 1, 2012. The adoption had no impact on the Company's financial position or results of operations.

Note 2. Earnings Per Share

The components of basic and diluted earnings per share (“EPS”) for common shares were as follows:

	Three Months Ended March 31,	
	2012	2011
	(in millions, except per share data)	
Numerator:		
Net income attributable to MasterCard	\$ 682	\$ 562
Denominator:		
Basic EPS weighted average shares outstanding	127	130
Dilutive stock options and stock units	—	1
Diluted EPS weighted average shares outstanding *	127	131
Earnings per Share		
Total Basic	\$ 5.38	\$ 4.31
Total Diluted	\$ 5.36	\$ 4.29

* For the periods presented, the calculation of diluted EPS excluded a minimal amount of antidilutive share-based payment awards.

Note 3. Fair Value and Investment Securities

Financial Instruments

In accordance with accounting requirements for financial instruments, the Company is disclosing the estimated fair values as of March 31, 2012 and December 31, 2011 of the financial instruments that are within the scope of the accounting guidance, as well as the methods and significant assumptions used to estimate the fair value of those financial instruments. Furthermore, the Company classifies its fair value measurements in the Valuation Hierarchy. No transfers were made among the three levels in the Valuation Hierarchy during the three months ended March 31, 2012.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

The distribution of the Company's financial instruments which are measured at fair value on a recurring basis within the Valuation Hierarchy was as follows:

	March 31, 2012			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in millions)			
Municipal securities ¹	\$—	\$401	\$—	\$401
U.S. Government and Agency securities	—	249	—	249
Taxable short-term bond funds	206	—	—	206
Corporate securities	—	464	—	464
Asset-backed securities	—	116	—	116
Auction rate securities	—	—	70	70
Other	—	15	—	15
Total recurring fair value measurements	\$206	\$1,245	\$70	\$1,521
	December 31, 2011			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in millions)			
Municipal securities ¹	\$—	\$393	\$—	\$393
U.S. Government and Agency securities	—	205	—	205
Taxable short-term bond funds	203	—	—	203
Corporate securities	—	325	—	325
Asset-backed securities	—	69	—	69
Auction rate securities	—	—	70	70
Other	—	22	—	22
Total recurring fair value measurements	\$203	\$1,014	\$70	\$1,287

¹ Available-for-sale municipal securities are carried at fair value and are included in the above tables. However, a held-to-maturity municipal bond is carried at amortized cost and excluded from the above tables.

The fair value of the Company's short-term bond funds are based on quoted prices for identical investments in active markets and are therefore included in Level 1 of the Valuation Hierarchy.

The fair value of the Company's available-for-sale municipal securities, U.S. Government and Agency securities, corporate securities, asset-backed securities and other fixed income securities are based on quoted prices for similar assets in active markets and are therefore included in Level 2 of the Valuation Hierarchy. The Company's foreign currency derivative contracts have also been classified within Level 2 in the other category of the Valuation Hierarchy, as the fair value is based on broker quotes for the same or similar derivative instruments. See Note 13

(Foreign Exchange Risk Management) for further details.

The Company's auction rate securities (“ARS”) investments have been classified within Level 3 of the Valuation Hierarchy as their valuation requires substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities. This valuation may be revised in future periods as market conditions evolve. The Company has considered the lack of liquidity in the ARS market and the lack of comparable, orderly transactions when estimating the fair value of its ARS portfolio. Therefore, the Company used the income approach, which included a discounted cash flow analysis of the estimated future cash flows adjusted by a risk premium for the ARS portfolio, to estimate the fair value of its ARS portfolio. The Company estimated the fair value of its ARS portfolio to be a 10% discount to the par value as of March 31, 2012 and December 31, 2011. When a determination is made to classify a financial instrument within Level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, the fair value determination for Level 3 financial instruments may include observable components.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Financial Instruments - Non-Recurring Measurements

Certain financial instruments are carried on the consolidated balance sheet at cost, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, settlement due from customers, restricted security deposits held for customers, prepaid expenses, accounts payable, settlement due to customers and accrued expenses.

Settlement and Other Guarantee Liabilities

The Company estimates the fair value of its settlement and other guarantees using the market pricing approach which applies market assumptions for relevant though not directly comparable undertakings, as the latter are not observable in the market given the proprietary nature of such guarantees. Additionally, loss probability and severity profiles against the Company's gross and net settlement exposures are considered. At March 31, 2012 and December 31, 2011, the carrying value of settlement and other guarantee liabilities were de minimis. The estimated fair values of settlement and other guarantee liabilities as of March 31, 2012 and December 31, 2011 were approximately \$75 million and \$95 million, respectively. Settlement and other guarantee liabilities are classified as Level 3 of the fair value hierarchy as their valuation requires substantial judgment and estimation of factors that are not currently observable in the market. For additional information regarding the Company's settlement and other guarantee liabilities, see Note 12 (Settlement and Other Risk Management).

Refunding Revenue Bonds

The Company holds refunding revenue bonds with the same payment terms, and which contain the right of set-off with a capital lease obligation related to the Company's global technology and operations center located in O'Fallon, Missouri. The Company has netted the refunding revenue bonds and the corresponding capital lease obligation in the consolidated balance sheet and estimates that the carrying value approximates the fair value for these bonds.

Non-Financial Instruments

Certain assets and liabilities are measured at fair value on a nonrecurring basis for purposes of initial recognition and impairment testing. The Company's non-financial assets and liabilities measured at fair value on a nonrecurring basis include property, plant and equipment, goodwill and other intangible assets. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

The valuation methods for goodwill and other intangible assets involve assumptions concerning comparable company multiples, discount rates, growth projections and other assumptions of future business conditions. The Company uses a weighted income and market approach for estimating the fair value of its reporting unit, when necessary. As the assumptions employed to measure these assets on a nonrecurring basis are based on management's judgment using internal and external data, these fair value determinations are classified in Level 3 of the Valuation Hierarchy.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Amortized Costs and Fair Values – Available-for-Sale Investment Securities:

The major classes of the Company's available-for-sale investment securities, for which unrealized gains and losses are recorded as a separate component of other comprehensive income on the consolidated statement of comprehensive income, and their respective amortized cost basis and fair values as of March 31, 2012 and December 31, 2011 were as follows:

	March 31, 2012			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss ¹	Fair Value
	(in millions)			
Municipal securities	\$390	\$11	\$—	\$401
U.S. Government and Agency securities	249	—	—	249
Taxable short-term bond funds	207	—	(1) 206
Corporate securities	463	1	—	464
Asset-backed securities	116	—	—	116
Auction rate securities ²	78	—	(8) 70
Other	21	—	—	21
Total	\$1,524	\$12	\$(9) \$1,527
	December 31, 2011			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss ¹	Fair Value
	(in millions)			
Municipal securities	\$382	\$11	\$—	\$393
U.S. Government and Agency securities	205	—	—	205
Taxable short-term bond funds	206	—	(3) 203
Corporate securities	325	—	—	325
Asset-backed securities	69	—	—	69
Auction rate securities ²	78	—	(8) 70
Other	20	—	—	20
Total	\$1,285	\$11	\$(11) \$1,285

¹ The unrealized losses primarily relate to ARS, which have been in an unrealized loss position longer than 12 months, but have not been deemed other-than-temporarily impaired.

² Included in other assets on the consolidated balance sheet. See Note 4 (Prepaid Expenses and Other Assets).

The municipal securities are primarily comprised of tax-exempt bonds and are diversified across states and sectors. The U.S. Government and Agency securities are primarily invested in U.S. Government Treasury bills and bonds and U.S. government sponsored Agency bonds and discount notes. Short-term bond funds are invested in corporate bonds, mortgage-backed securities and asset-backed securities. Corporate securities are comprised of commercial paper and corporate bonds. The asset-backed securities are investments in bonds which are collateralized primarily by automobile loan receivables. The ARS are exempt from U.S. federal income tax and are fully collateralized by student loans with guarantees (ranging from approximately 95% to 98% of principal and interest) by the U.S. government via the Department of Education.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Investment Maturities:

The maturity distribution based on the contractual terms of the Company's investment securities at March 31, 2012 was as follows:

	Available-For-Sale Amortized Cost (in millions)	Fair Value
Due within 1 year	\$618	\$618
Due after 1 year through 5 years	574	584
Due after 5 years through 10 years	48	49
Due after 10 years	77	70
No contractual maturity	207	206
Total	\$1,524	\$1,527

The majority of the securities due after ten years are ARS. Taxable short-term bond funds have been included in the table above in the "no contractual maturity" category, as these investments do not have a stated maturity date; however, the short-term bond funds have daily liquidity.

Investment Income:

Investment income was \$9 million and \$12 million for the three months ended March 31, 2012 and 2011, respectively. It primarily consisted of interest income generated from cash, cash equivalents, investment securities available-for-sale and investment securities held-to-maturity. Dividend income and gross realized gains and losses were not significant.

Note 4. Prepaid Expenses and Other Assets

Prepaid expenses and other current assets consisted of the following:

	March 31, 2012 (in millions)	December 31, 2011
Customer and merchant incentives	\$257	\$190
Investment securities held-to-maturity	36	—
Prepaid income taxes	7	35
Income taxes receivable	35	35
Other	175	144
Total prepaid expenses and other current assets	\$510	\$404

Other assets consisted of the following:

	March 31, 2012 (in millions)	December 31, 2011
Customer and merchant incentives	\$447	\$409
Nonmarketable equity investments	162	160
Auction rate securities available-for-sale, at fair value	70	70

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Investment securities held-to-maturity	—	36
Income taxes receivable	15	15
Other	57	46
Total other assets	\$751	\$736

Certain customer and merchant business agreements provide incentives upon entering into the agreement. Customer and merchant incentives represent payments made or amounts to be paid to customers and merchants under business agreements. Amounts to be paid for these incentives and the related liability were included in accrued expenses and other liabilities. Once the payment is made, the liability is relieved. Costs directly related to entering into such an agreement are deferred and amortized over the life of

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

the agreement.

Investments for which the equity method or historical cost method of accounting are used are recorded in other assets on the consolidated balance sheet. The Company accounts for investments in common stock or in-substance common stock under the equity method of accounting when it has the ability to exercise significant influence over the investee, generally when it holds 20% or more of the common stock in the entity. MasterCard's share of net earnings or losses of entities accounted for under the equity method of accounting is included in other income (expense) on the consolidated statement of operations. The Company accounts for investments under the historical cost method of accounting when it does not exercise significant influence, generally when it holds less than 20% ownership in the common stock of the entity.

Note 5. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	March 31, 2012	December 31, 2011
	(in millions)	
Property, plant and equipment	\$835	\$819
Less accumulated depreciation and amortization	(385)	(370)
Property, plant and equipment, net	\$450	\$449

Note 6. Accrued Expenses

Accrued expenses consisted of the following:

	March 31, 2012	December 31, 2011
	(in millions)	
Customer and merchant incentives	\$928	\$889
Personnel costs	159	345
Advertising	87	144
Income and other taxes	255	82
Other	146	150
Total accrued expenses	\$1,575	\$1,610

As of March 31, 2012 and December 31, 2011, the Company had an accrued liability of \$770 million related to the U.S. merchant litigation; the amount represents an estimate of the Company's financial liability that could result from a settlement as a result of progress in the mediation process. This amount is not included in the accrued expense table above and is separately reported as accrued litigation on the consolidated balance sheet. See Note 11 (Legal and Regulatory Proceedings) for further discussion.

Note 7. Stockholders' Equity

During the three months ended March 31, 2012 and 2011, the Company repurchased a total of approximately 0.7 million shares and 2.6 million shares of its Class A common stock for approximately \$248 million and \$654 million, respectively. These shares were considered treasury stock, which is a reduction to stockholders' equity. As of April 26,

2012, the cumulative repurchases by the Company under its \$2 billion share repurchase program totaled approximately 5.2 million shares of its Class A common stock, for an aggregate cost of approximately \$1.4 billion at an average price of \$277.82 per share of Class A common stock. See Note 15 (Stockholders' Equity) in Part II, Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for further discussion.

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Note 8. Accumulated Other Comprehensive Income

The changes in the balances of each component of accumulated comprehensive income for the three months ended March 31, 2012 were as follows:

Foreign
Currency
Translation
Adjus