VISA INC.
Form 10-Q
April 26, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

OR

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

Commission file number 001-33977
VISA INC.
(Exact name of Registrant as specified in its charter)

Delaware	26-0267673
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
P.O. Box 8999 San Francisco, California	94128-8999
(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 þ No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Smaller reporting company o
Non-accelerated filer o Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of April 19, 2019 there were 1,738,987,989 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 11,565,095 shares of class C common stock, par value $0.0001 per share, of Visa Inc. outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
VISA INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2019	September 30, 2018
	(in millions, except par value data)	
Assets		
Cash and cash equivalents	$7,648	$ 8,162
Restricted cash equivalents—U.S. litigation escrow (Note 3 and Note 4)	899	1,491
Investment securities (Note 5)	3,876	3,547
Settlement receivable	1,574	1,582
Accounts receivable	1,404	1,208
Customer collateral (Note 3 and Note 7)	1,735	1,324
Current portion of client incentives	589	340
Prepaid expenses and other current assets	765	562
Total current assets	18,490	18,216
Investment securities (Note 5)	3,506	4,082
Client incentives	1,664	538
Property, equipment and technology, net	2,456	2,472
Goodwill	15,088	15,194
Intangible assets, net	26,966	27,558
Other assets	1,695	1,165
Total assets	$69,865	$ 69,225
Liabilities		
Accounts payable	$119	$ 183
Settlement payable	2,081	2,168
Customer collateral (Note 7)	1,735	1,325
Accrued compensation and benefits	578	901
Client incentives	3,484	2,834
Accrued liabilities	1,207	1,160
Deferred purchase consideration	1,262	1,300
Accrued litigation (Note 13)	914	1,434
Total current liabilities	11,380	11,305
Long-term debt (Note 6)	16,630	16,630
Deferred tax liabilities	4,911	4,618
Other liabilities	2,669	2,666
Total liabilities	35,590	35,219
Equity		
Preferred stock, $0.0001 par value, 25 shares authorized and 5 shares issued and outstanding as follows:		
Series A convertible participating preferred stock, none issued (the "class A equivalent preferred stock") (Note 9)	—	—
Series B convertible participating preferred stock, 2 shares issued and outstanding at March 31, 2019 and September 30, 2018 (the "UK&I preferred stock") (Note 9)	2,286	2,291
Series C convertible participating preferred stock, 3 shares issued and outstanding at March 31, 2019 and September 30, 2018 (the "Europe preferred stock") (Note 9)	3,178	3,179

Class A common stock, $0.0001 par value, 2,001,622 shares authorized, 1,741 and 1,768 shares issued and outstanding at March 31, 2019 and September 30, 2018, respectively (Note 9)	—	—
Class B common stock, $0.0001 par value, 622 shares authorized, 245 shares issued and outstanding at March 31, 2019 and September 30, 2018 (Note 9)	—	—
Class C common stock, $0.0001 par value, 1,097 shares authorized, 12 shares issued and outstanding at March 31, 2019 and September 30, 2018 (Note 9)	—	—
Right to recover for covered losses (Note 4)	(163)	(7)
Additional paid-in capital	16,547	16,678
Accumulated income	12,513	11,318
Accumulated other comprehensive income (loss), net:		
Investment securities	1	(17)
Defined benefit pension and other postretirement plans	(67)	(61)
Derivative instruments	96	60
Foreign currency translation adjustments	(116)	565
Total accumulated other comprehensive income (loss), net	(86)	547
Total equity	34,275	34,006
Total liabilities and equity	$69,865	$ 69,225

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 March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(in millions, except per share data)			
Net revenues	$5,494	$5,073	$11,000	$9,935
Operating Expenses				
Personnel	894	824	1,701	1,503
Marketing	241	261	517	484
Network and processing	171	169	344	329
Professional fees	101	108	192	200
Depreciation and amortization	160	153	319	298
General and administrative	264	222	540	458
Litigation provision (Note 13)	22	—	29	—
Total operating expenses	1,853	1,737	3,642	3,272
Operating income	3,641	3,336	7,358	6,663
Non-operating Income (Expense)				
Interest expense, net	(140)	(153)	(285)	(307)
Investment income and other	176	34	234	100
Total non-operating income (expense)	36	(119)	(51)	(207)
Income before income taxes	3,677	3,217	7,307	6,456
Income tax provision (Note 12)	700	612	1,353	1,329
Net income	$2,977	$2,605	$5,954	$5,127
Basic Earnings Per Share (Note 10)				
Class A common stock	$1.31	$1.12	$2.61	$2.19
Class B common stock	$2.13	$1.84	$4.25	$3.61
Class C common stock	$5.23	$4.46	$10.44	$8.76
Basic Weighted-average Shares Outstanding (Note 10)				
Class A common stock	1,748	1,798	1,754	1,805
Class B common stock	245	245	245	245
Class C common stock	12	12	12	13
Diluted Earnings Per Share (Note 10)				
Class A common stock	$1.31	$1.11	$2.61	$2.19
Class B common stock	$2.13	$1.84	$4.25	$3.60
Class C common stock	$5.23	$4.46	$10.42	$8.74
Diluted Weighted-average Shares Outstanding (Note 10)				
Class A common stock	2,279	2,337	2,285	2,345
Class B common stock	245	245	245	245
Class C common stock	12	12	12	13

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

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VISA INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(in millions)			
Net income	$2,977	$2,605	$5,954	$5,127
Other comprehensive income (loss), net of tax:				
Investment securities:				
Net unrealized gain (loss)	7	41	15	50
Income tax effect	(2)	(9)	(4)	(12)
Reclassification adjustment for net (gain) loss realized in net income	—	—	—	(28)
Income tax effect	—	—	—	10
Defined benefit pension and other postretirement plans:				
Net unrealized actuarial gain (loss) and prior service credit (cost)	—	(2)	(7)	(2)
Income tax effect	—	1	1	1
Derivative instruments:				
Net unrealized gain (loss)	59	(41)	97	(42)
Income tax effect	(13)	2	(23)	(3)
Reclassification adjustment for net (gain) loss realized in net income	(22)	24	(47)	35
Income tax effect	4	(3)	9	(5)
Foreign currency translation adjustments	(394)	512	(681)	846
Other comprehensive income (loss), net of tax	(361)	525	(640)	850
Comprehensive income	$2,616	$3,130	$5,314	$5,977

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

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

	Three Months Ended March 31, 2019										
	Preferred Stock		Common Stock			Preferred Stock	Right to Recover for Covered Losses	Additional Paid-In Capital	Accumulated Income	Accumulated Other Comprehensive Income	Total Equity
	UK&I	Europe	Class A	Class B	Class C						
	(in millions, except per share data)										
Balance as of December 31, 2018	2	3	1,754	245	12	$ 5,464	$ (92)	$ 16,540	$ 11,908	$ 275	$ 34,095
Net income									2,977		2,977
Other comprehensive income (loss), net of tax										(361)	(361)
Comprehensive income											2,616
Adoption of new accounting standards (Note 1)									(8)	—	(8)
VE territory covered losses incurred (Note 4)							(71)				(71)
Conversion of class C common stock upon sales into public market			1		— [1]						—
Vesting of restricted stock and performance-based shares			— [1]								—
Share-based compensation, net of forfeitures (Note 11)								111			111
Restricted stock and performance-based shares settled in cash for taxes			— [1]					(2)			(2)
Cash proceeds from issuance of common stock under employee equity plans			— [1]					41			41
Cash dividends declared and paid, at a quarterly amount of $0.25 per Class A share (Note 9)									(569)		(569)
Repurchase of class A common stock (Note 9)			(14)					(143)	(1,795)		(1,938)
Balance as of March 31, 2019	2	3	1,741	245	12	$ 5,464	$ (163)	$ 16,547	$ 12,513	$ (86)	$ 34,275

[1] Increase or decrease is less than one 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 CHANGES IN EQUITY—(Continued)
(UNAUDITED)

	Six Months Ended March 31, 2019										
	Preferred Stock		Common Stock			Preferred Stock	Right to Recover for Covered Losses	Additional Paid-In Capital	Accumulated Income	Accumulated Other Comprehensive Income	Total Equity
	UK&I	Europe	Class A	Class B	Class C						
	(in millions, except per share data)										
Balance as of September 30, 2018	2	3	1,768	245	12	$5,470	$(7)	$16,678	$11,318	$547	$34,006
Net income									5,954		5,954
Other comprehensive income (loss), net of tax										(640)	(640)
Comprehensive income											5,314
Adoption of new accounting standards (Note 1)									385	7	392
VE territory covered losses incurred (Note 4)							(162)				(162)
Recovery through conversion rate adjustment (Note 4 and Note 9)						(6)	6				—
Conversion of class C common stock upon sales into public market			1		— (1)						—
Vesting of restricted stock and performance-based shares			3								—
Share-based compensation, net of forfeitures (Note 11)								211			211
Restricted stock and performance-based shares settled in cash for taxes			(1)					(103)			(103)
Cash proceeds from issuance of common stock under employee equity plans			1					89			89
Cash dividends declared and paid, at a quarterly amount of $0.25 per Class A share (Note 9)									(1,141)		(1,141)
Repurchase of class A common stock (Note 9)			(31)					(328)	(4,003)		(4,331)
Balance as of March 31, 2019	2	3	1,741	245	12	$5,464	$(163)	$16,547	$12,513	$(86)	$34,275

(1) Decrease is less than one 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 CHANGES IN EQUITY—(Continued)
(UNAUDITED)

	Three Months Ended March 31, 2018										
	Preferred Stock		Common Stock			Preferred Stock	Right to Recover for Covered Losses	Additional Paid-In Capital	Accumulated Income	Accumulated Other Comprehensive Income	Total Equity
	UK&I	Europe	Class A	Class B	Class C						
	(in millions, except per share data)										
Balance as of December 31, 2017	2	3	1,805	245	12	$5,476	$(5)	$16,761	$9,966	$1,203	$33,401
Net income									2,605		2,605
Other comprehensive income (loss), net of tax										525	525
Comprehensive income											3,130
VE territory covered losses incurred (Note 4)							(1)				(1)
Conversion of class C common stock upon sales into public market			1		— (1)						—
Vesting of restricted stock and performance-based shares			— (1)								—
Share-based compensation, net of forfeitures (Note 11)			— (1)					85			85
Restricted stock and performance-based shares settled in cash for taxes			— (1)					—			—
Cash proceeds from issuance of common stock under employee equity plans			1					50			50
Cash dividends declared and paid, at a quarterly amount of $0.210 per Class A share (Note 9)									(490)		(490)
Repurchase of class A common stock (Note 9)			(17)					(183)	(1,889)		(2,072)
Balance as of March 31, 2018	2	3	1,790	245	12	$5,476	$(6)	$16,713	$10,192	$1,728	$34,103

(1) Increase or decrease is less than one 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 CHANGES IN EQUITY—(Continued)
(UNAUDITED)

	Six Months Ended March 31, 2018										
	Preferred Stock		Common Stock			Preferred Stock	Right to Recover for Covered Losses	Additional Paid-In Capital	Accumulated Income	Accumulated Other Comprehensive Income	Total Equity
	UK&I	Europe	Class A	Class B	Class C						
	(in millions, except per share data)										
Balance as of September 30, 2017	2	3	1,818	245	13	$5,526	$(52)	$16,900	$9,508	$878	$32,760
Net income									5,127		5,127
Other comprehensive income (loss), net of tax										850	850
Comprehensive income											5,977
VE territory covered losses incurred (Note 4)							(4)				(4)
Recovery through conversion rate adjustment (Note 4 and Note 9)						(50)	50				—
Conversion of class C common stock upon sales into public market			2		(1)						—
Vesting of restricted stock and performance-based shares			2								—
Share-based compensation, net of forfeitures (Note11)			— [1]					153			153
Restricted stock and performance-based shares settled in cash for taxes			(1)					(88)			(88)
Cash proceeds from issuance of common stock under employee equity plans			2					103			103
Cash dividends declared and paid, at a quarterly amount of $0.195 per Class A share in the first quarter and $0.210 per Class A share in the second quarter (Note 9)									(948)		(948)
Repurchase of class A common stock (Note 9)			(33)					(355)	(3,495)		(3,850)
Balance as of March 31, 2018	2	3	1,790	245	12	$5,476	$(6)	$16,713	$10,192	$1,728	$34,103

(1) Decrease is less than one million shares.

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

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VISA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended March 31,	
	2019	2018
	(in millions)	
Operating Activities		
Net income	$5,954	$5,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Client incentives (Note 2)	2,934	2,615
Share-based compensation (Note 11)	211	153
Depreciation and amortization of property, equipment, technology and intangible assets	319	298
Deferred income taxes	256	(945)
Right to recover for covered losses recorded in equity (Note 4)	(162)	(4)
Other	(106)	(10)
Change in operating assets and liabilities:		
Settlement receivable	(23)	(1,039)
Accounts receivable	(203)	(113)
Client incentives	(3,142)	(2,177)
Other assets	(245)	41
Accounts payable	(48)	(26)
Settlement payable	(38)	986
Accrued and other liabilities	170	975
Accrued litigation (Note 13)	(519)	(152)
Net cash provided by operating activities	5,358	5,729
Investing Activities		
Purchases of property, equipment and technology	(313)	(354)
Investment securities:		
Purchases	(1,806)	(2,342)
Proceeds from maturities and sales	2,038	1,771
Acquisitions, net of cash acquired	—	(196)
Purchases of / contributions to other investments	(236)	(16)
Proceeds / distributions from other investments	10	—
Other investing activities	(89)	—
Net cash used in investing activities	(396)	(1,137)
Financing Activities		
Repurchase of class A common stock (Note 9)	(4,331)	(3,850)
Repayments of long-term debt	—	(1,750)
Dividends paid (Note 9)	(1,141)	(948)
Cash proceeds from issuance of common stock under employee equity plans	89	103
Restricted stock and performance-based shares settled in cash for taxes	(103)	(88)
Net cash used in financing activities	(5,486)	(6,533)
Effect of exchange rate changes on cash and cash equivalents	(171)	206
Decrease in cash, cash equivalents, restricted cash and restricted cash equivalents	(695)	(1,735)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period (Note 3)	10,977	12,011
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period (Note 3)	$10,282	$10,276
Supplemental Disclosure		

Income taxes paid, net of refunds	$1,381	$1,197
Interest payments on debt (Note 6)	$269	$276
Accruals related to purchases of property, equipment and technology	$51	$21

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.
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VISA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(UNAUDITED)

Note 1—Summary of Significant Accounting Policies

Organization. Visa Inc. ("Visa" or the "Company") is a global payments technology company that enables fast, secure and reliable electronic payments across more than 200 countries and territories. 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 Europe Limited ("Visa Europe"), Visa Canada Corporation ("Visa Canada"), Visa Technology & Operations LLC and CyberSource Corporation, operate one of the world's largest retail electronic payments networks — VisaNet — which facilitates authorization, clearing and settlement of payment transactions and enables the Company to provide its financial institution and merchant clients a wide range of products, platforms and value-added services. 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 products. In most cases, account holder and merchant relationships belong to, and are managed by, Visa's financial institution clients.

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, 2018 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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. This new revenue standard replaces all existing revenue recognition guidance in U.S. GAAP. Subsequently, the FASB also issued a series of amendments to the new revenue standard. The new revenue standard changes the classification and timing of recognition of certain client incentives and marketing-related funds paid to customers, as well as revenues and expenses for market development funds and services provided to customers as an incentive. The Company adopted the standard effective October 1, 2018 using the modified retrospective transition method applied to the aggregate of all modifications for contracts not completed as of October 1, 2018. Results for reporting periods beginning after October 1, 2018 are presented under the new revenue standard. The comparative prior period amounts appearing on the financial statements have not been restated and continue to be reported under the prior revenue standard. See Note 2—Revenues for the impact of the new revenue standard on the accompanying unaudited consolidated financial statements as of and for the three and six months ended March 31, 2019.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the cumulative transition adjustments for the adoption of the new revenue standard recorded on the October 1, 2018 consolidated balance sheet to reflect the aggregate impact to all contracts not completed as of October 1, 2018:

	Fiscal Year 2018 Closing Balance Sheet	Cumulative Transition Adjustment for New Revenue Standard	Fiscal Year 2019 Opening Balance Sheet
	(in millions)		
Assets			
Current portion of client incentives	$340	$ 199	$ 539
Client incentives	538	614	1,152
Liabilities			
Client incentives	2,834	241	3,075
Accrued liabilities	1,160	6	1,166
Deferred tax liabilities	4,618	108	4,726
Other liabilities	2,666	58	2,724
Equity			
Accumulated income	11,318	400	11,718

In January 2016, the FASB issued ASU 2016-01, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including the requirement to measure certain equity investments at fair value with changes in fair value recognized in net income. The Company adopted the standard effective October 1, 2018, using the modified retrospective transition method for marketable equity securities and the prospective method for non-marketable equity securities. The Company has elected to use the measurement alternative for non-marketable equity securities, defined as cost adjusted for changes from observable transactions for identical or similar investments of the same issuer, less impairment. The adoption did not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, which requires the recognition of lease assets and lease liabilities arising from operating leases on the balance sheet. Subsequently, the FASB also issued a series of amendments to this new lease standard that address the transition methods available and clarify the guidance for lessor costs and other aspects of the new lease standard. The Company will adopt the standard effective October 1, 2019 and expects to adopt using the modified retrospective transition method without restating comparative periods. The adoption is not expected to have a material impact on the consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, which requires that entities recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The Company adopted the standard effective October 1, 2018. The adoption did not have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, which requires that a statement of cash flows includes the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning-of-period and end-of-period total amounts. The Company adopted the standard effective October 1, 2018. The adoption impacted the presentation of transactions related to the U.S. litigation escrow account and customer collateral on the consolidated statements of cash flows. The prior period statement of cash flows have been retrospectively adjusted to reflect the impact of this ASU, which had no impact on the Company’s balance sheets, statements of operations or statements of comprehensive income for any period.

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

In March 2017, the FASB issued ASU 2017-07, which requires that the service cost component of net periodic pension and postretirement benefit cost be presented in the same line item as other employee compensation costs, while the other components be presented separately as non-operating income (expense). In addition, only the service cost component is eligible for capitalization, when applicable. Retrospective application is required for the change in income statement presentation while the change in capitalized benefit cost is required to be applied prospectively. The Company adopted the standard effective October 1, 2018, which did not have a material impact on the consolidated financial statements. The service cost component of net periodic pension and postretirement benefit cost is presented in personnel expenses while the other components are presented in other non-operating expense on the Company's consolidated statement of operations. The Company did not apply the standard retrospectively for the change in income statement presentation as the impact would have been immaterial.

In May 2017, the FASB issued ASU 2017-09, which amends the scope of modification accounting for share-based payment arrangements. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The Company adopted the standard effective October 1, 2018. The adoption did not have a material impact on the consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, which improves the financial reporting of hedging instruments to better portray the economic results of an entity's risk management activities in its financial statements. Visa early adopted the standard effective January 1, 2019, which did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Company adopted the standard effective October 1, 2018. The adoption did not have a material impact on the consolidated financial statements.

Note 2—Revenues

Impact of the New Revenue Standard

The following tables summarize the impact of the new revenue standard on the Company's consolidated statement of operations for the three and six months ended March 31, 2019 and the consolidated balance sheet as of March 31, 2019:

	For the Three Months Ended March 31, 2019			For the Six Months Ended March 31, 2019		
	As Reported	Impact of the New Revenue Standard	Results Under Prior Revenue Standard	As Reported	Impact of the New Revenue Standard	Results Under Prior Revenue Standard
	(in millions)					
Net revenues	$5,494	$ (39)	$ 5,455	$11,000	$ (91)	$ 10,909
Operating Expenses						
Marketing	241	(39)	202	517	(69)	448
Professional fees	101	(3)	98	192	(6)	186
General and administrative	264	(7)	257	540	(10)	530
Total operating expenses	1,853	(49)	1,804	3,642	(85)	3,557
Operating income	3,641	10	3,651	7,358	(6)	7,352

Income before income taxes	3,677	10	3,687	7,307	(6)	7,301
Income tax provision	700	2	702	1,353	1	1,354
Net income	2,977	8	2,985	5,954	(7)	5,947

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	March 31, 2019		
	As Reported	Impact of the New Revenue Standard	Results Under Prior Revenue Standard
	(in millions)		
Assets			
Current portion of client incentives	$589	$ (262)	$ 327
Client incentives	1,664	(725)	939
Liabilities			
Accounts payable	119	13	132
Client incentives	3,484	(401)	3,083
Accrued liabilities	1,207	(8)	1,199
Deferred tax liabilities	4,911	(105)	4,806
Other liabilities	2,669	(79)	2,590
Equity			
Accumulated income	12,513	(407)	12,106

Disaggregation of Revenues

The nature, amount, timing and uncertainty of the Company's revenues and cash flows and how they are affected by economic factors are most appropriately depicted through the Company's revenue categories and geographical markets. The following tables disaggregate the Company's net revenues by revenue category and by geography for the three and six months ended March 31, 2019 and 2018:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(in millions)			
Service revenues	$2,417	$2,253	$4,759	$4,399
Data processing revenues	2,432	2,127	4,902	4,274
International transaction revenues	1,796	1,752	3,647	3,418
Other revenues	327	230	626	459
Client incentives	(1,478)	(1,289)	(2,934)	(2,615)
Net revenues	$5,494	$5,073	$11,000	$9,935

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(in millions)			
U.S.	$2,479	$2,297	$4,987	$4,562
International	3,015	2,776	6,013	5,373
Net revenues	$5,494	$5,073	$11,000	$9,935

Revenue recognition. The Company's net revenues are comprised principally of the following categories: service revenues, data processing revenues, international transaction revenues, and other revenues, reduced by costs incurred under client incentives arrangements. As a payment network service provider, the Company's obligation to the customer is to stand ready to provide continuous access to our payment network over the contractual term.

Consideration is variable based primarily upon the amount and type of transactions and payments volume on Visa's products. The Company recognizes revenues, net of sales and other similar taxes, as the payment network services are performed. Fixed fees for payment network services are generally recognized ratably over the related service period. The Company has elected the optional exemption to not disclose the remaining performance obligations related to payment network services.

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Service revenues consist of revenues earned for services provided in support of client usage of Visa products. Current quarter service revenues are primarily assessed using a calculation of current pricing applied to the prior quarter's payments volume. The Company also earns revenues from assessments designed to support ongoing acceptance and volume growth initiatives, which are recognized in the same period the related volume is transacted.
Data processing revenues consist of revenues earned for authorization, clearing, settlement, network access and other maintenance and support services that facilitate transaction and information processing among the Company's clients globally. Data processing revenues are recognized in the same period the related transactions occur or services are performed.
International transaction revenues are earned for cross-border transaction processing and currency conversion activities. Cross-border transactions arise when the country of origin of the issuer is different from that of the merchant. International transaction revenues are primarily generated by cross-border payments and cash volume.
Other revenues consist mainly of license fees for use of the Visa brand, fees for account holder services, licensing and certification and other activities related to the Company's acquired entities. Other revenues also include optional services or product enhancements, such as extended account holder protection and concierge services. Other revenues are recognized in the same period the related transactions occur or services are performed.
Client incentives. The Company enters into long-term contracts with financial institution clients, merchants and strategic partners for various programs designed to increase revenues recognized by growing payments volume, increasing Visa product acceptance, winning merchant routing transactions over to Visa's network and driving innovation. These incentives are primarily accounted for as reductions to revenues or as operating expenses if the payment is in exchange for a distinct good or service provided by the customer. The Company generally capitalizes upfront and fixed incentive payments under these agreements and amortizes the amounts as a reduction to revenues ratably over the contractual term. Incentives that are earned by the customer based on performance targets are recorded as reductions to revenues based on management's estimate of each client's future performance. These accruals are regularly reviewed and estimates of performance are adjusted, as appropriate, based on changes in performance expectations, actual client performance, amendments to existing contracts or the execution of new contracts.
Note 3—Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents
The Company’s cash and cash equivalents include cash and certain highly liquid investments with original maturities of 90 days or less from the date of purchase. Cash equivalents are primarily recorded at cost, which approximates fair value due to their generally short maturities. The Company defines restricted cash and restricted cash equivalents as cash and cash equivalents that cannot be withdrawn or used for general operating activities.
The Company reconciles cash, cash equivalents, restricted cash and restricted cash equivalents reported in the consolidated balance sheets that aggregate to the beginning and ending balances shown in the consolidated statements of cash flows as follows:

	March 31, 2019 (in millions)	2018	September 30, 2018	2017
Cash and cash equivalents	$ 7,648	$ 8,142	$ 8,162	$ 9,874
Restricted cash and restricted cash equivalents:				
U.S. litigation escrow	899	884	1,491	1,031
	1,735	1,250	1,324	1,106

Customer collateral				
Cash, cash equivalents, restricted cash and restricted cash equivalents	$ 10,282	$ 10,276	$ 10,977	$ 12,011

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Note 4—U.S. and Europe Retrospective Responsibility Plans

U.S. Retrospective Responsibility Plan

Under the terms of the U.S. retrospective responsibility plan, the Company maintains an escrow account from which settlements of, or judgments in, certain litigation referred to as the "U.S. covered litigation" are paid. The escrow funds are held in money market investments along with interest income earned, less applicable taxes, and are classified as restricted cash equivalents on the consolidated balance sheets. The balance of the escrow account was $899 million at March 31, 2019 and $1.5 billion at September 30, 2018. The Company paid $600 million from the litigation escrow account during the three months ended March 31, 2019. See Note 13—Legal Matters.

The accrual related to the U.S. covered litigation could be either higher or lower than the litigation escrow account balance. The Company did not record an additional accrual for the U.S. covered litigation during the six months ended March 31, 2019. See Note 13—Legal Matters.

Europe Retrospective Responsibility Plan

Visa Inc., Visa International and Visa Europe are parties to certain existing and potential litigation relating to the setting of multilateral interchange fee rates in the Visa Europe territory (the "VE territory covered litigation"). Under the terms of the Europe retrospective responsibility plan, the Company is entitled to recover certain losses resulting from VE territory covered litigation (the "VE territory covered losses") through a periodic adjustment to the class A common stock conversion rates applicable to the UK&I and Europe preferred stock. VE territory covered losses are recorded in "right to recover for covered losses" within equity before the corresponding adjustment to the applicable conversion rate is effected. Adjustments to the conversion rate may be executed once in any six-month period unless a single, individual loss greater than €20 million is incurred, in which case, the six-month limitation does not apply. When the adjustment to the conversion rate is made, the amount previously recorded in "right to recover for covered losses" as contra-equity is then recorded against the book value of the preferred stock within stockholders' equity.

During the six months ended March 31, 2019, the Company recovered $6 million of VE territory covered losses through adjustments to the class A common stock conversion rates applicable to the UK&I and Europe preferred stock. The conversion rates applicable to the UK&I and Europe preferred stock were reduced from 12.955 and 13.888, respectively, as of September 30, 2018 to 12.939 and 13.886, respectively, as of March 31, 2019.

The following table sets forth the activities related to VE territory covered losses in preferred stock and "right to recover for covered losses" within equity during the six months ended March 31, 2019. VE territory covered losses incurred reflect settlements with merchants and additional legal costs. See Note 13—Legal Matters.

	Preferred Stock		Right to Recover for Covered Losses
	UK&I	Europe	
	(in millions)		
Balance as of September 30, 2018	$2,291	$3,179	$ (7)
VE territory covered losses incurred	—	—	(162)
Recovery through conversion rate adjustment	(5)	(1)	6
Balance as of March 31, 2019	$2,286	$3,178	$ (163)

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The following table[1] sets forth the as-converted value of the preferred stock available to recover VE territory covered losses compared to the book value of preferred shares recorded in stockholders' equity within the Company's consolidated balance sheets as of March 31, 2019 and September 30, 2018:

	March 31, 2019		September 30, 2018	
	As-Converted Value of Preferred Stock[2]	Book Value of Preferred Stock	As-Converted Value of Preferred Stock[3]	Book Value of Preferred Stock
	(in millions)			
UK&I preferred stock	$5,013	$ 2,286	$4,823	$ 2,291
Europe preferred stock	6,847	3,178	6,580	3,179
Total	11,860	5,464	11,403	5,470
Less: right to recover for covered losses	(163)	(163)	(7)	(7)
Total recovery for covered losses available	$11,697	$ 5,301	$11,396	$ 5,463

(1) Figures in the table may not recalculate exactly due to rounding. As-converted and book values are based on unrounded numbers.

(2) The as-converted value of preferred stock is calculated as the product of: (a) 2 million and 3 million shares of the UK&I and Europe preferred stock outstanding, respectively, as of March 31, 2019; (b) 12.939 and 13.886, the class A common stock conversion rate applicable to the UK&I and Europe preferred stock as of March 31, 2019, respectively; and (c) $156.19, Visa's class A common stock closing stock price as of March 31, 2019.

(3) The as-converted value of preferred stock is calculated as the product of: (a) 2 million and 3 million shares of the UK&I and Europe preferred stock outstanding, respectively, as of September 30, 2018; (b) 12.955 and 13.888, the class A common stock conversion rate applicable to the UK&I and Europe preferred stock as of September 30, 2018, respectively; and (c) $150.09, Visa's class A common stock closing stock price as of September 30, 2018.

Note 5—Fair Value Measurements and Investments

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Fair Value Measurements Using Inputs Considered as			
	Level 1		Level 2	
	March 31, 2019	September 30, 2018	March 31, 2019	September 30, 2018
	(in millions)			
Assets				
Cash equivalents and restricted cash equivalents:				
Money market funds	$6,089	$ 6,252		
U.S. government-sponsored debt securities			$200	$ 1,048
Investment securities:				
Marketable equity securities	157	113		
U.S. government-sponsored debt securities			5,482	5,008
U.S. Treasury securities	1,743	2,508		
Other current and non-current assets:				
Derivative instruments			166	78
Total	$7,989	$ 8,873	$5,848	$ 6,134
Liabilities				
Accrued and other liabilities:				
Derivative instruments			$44	$ 22

Total	$—	$ —	$44	$ 22

There were no transfers between Level 1 and Level 2 assets during the six months ended March 31, 2019.

Level 1 assets. 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.

Level 2 assets and liabilities. The fair value of U.S. government-sponsored debt securities, as provided by third-party pricing vendors, is based on quoted prices in active markets for similar, not identical, assets. The pricing data obtained from outside sources is reviewed internally for reasonableness, compared against benchmark quotes from independent pricing sources, then confirmed or revised accordingly. Derivative instruments are valued using inputs that are observable in the market or can be derived principally from or corroborated by observable market data. There were no substantive changes to the valuation techniques and related inputs used to measure fair value during the six months ended March 31, 2019.

Marketable equity securities. Marketable equity securities are publicly traded and measured at fair value within Level 1 of the fair value hierarchy, as fair value is based on quoted prices in active markets. On October 1, 2018, the Company adopted ASU 2016-01 which changed the Company's accounting for marketable equity securities. Beginning on October 1, 2018, unrealized gains and losses from changes in fair value of marketable equity securities are recognized in non-operating income (expense).

U.S. government-sponsored debt securities and U.S. Treasury securities. The Company considers U.S. government-sponsored debt securities and U.S. Treasury securities to be available-for-sale and held $7.2 billion and $7.5 billion of these investment securities as of March 31, 2019 and September 30, 2018, respectively. All of the Company's long-term available-for-sale investment securities are due within one to five years.

Derivative instruments. During the three months ended March 31, 2019, the Company entered into interest rate and cross-currency swap agreements on a portion of the Company's outstanding 3.15% Senior Notes due December 2025. The Company designated the interest rate swap as a fair value hedge and the cross-currency swap as a net investment hedge. Gains and losses related to changes in fair value hedges are recognized in non-operating income (expense) along with a corresponding loss or gain related to the change in value of the underlying hedged item in the same line in the consolidated statement of operations. The effective portions of net investment hedges are recorded in other comprehensive income. Amounts excluded from the effectiveness testing of net investment hedges are recognized in non-operating income (expense). Cash flows associated with derivatives designated as a fair value hedge may be included in operating, investing or financing activities on the consolidated statement of cash flows, depending on the classification of the items being hedged. Cash flows associated with financial instruments designated as net investment hedges are classified as an investing activity. There were no swap agreements outstanding as of September 30, 2018.

Assets Measured at Fair Value on a Non-recurring Basis

Non-marketable equity securities. The Company's non-marketable equity securities are investments in privately held companies without readily determinable market values. 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. On October 1, 2018, the Company adopted ASU 2016-01 which changed the Company's accounting for non-marketable equity securities. Beginning on October 1, 2018, the Company's policy is to adjust the carrying value of its non-marketable equity securities to fair value when transactions for identical or similar investments of the same issuer are observable in the market. All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in non-operating income (expense). Non-marketable equity securities totaled $438 million and $137 million at March 31, 2019 and September 30, 2018, respectively, and are classified in other assets on the consolidated balance sheets. During the three and six months ended March 31, 2019, $66 million of upward adjustments and no downward adjustments were made to the carrying value of non-marketable equity securities. During the six months ended March 31, 2019 and 2018, there were no significant impairments of non-marketable equity securities.

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, trade names 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

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Company completed its annual impairment review of its indefinite-lived intangible assets and goodwill as of February 1, 2019, and concluded that there was no impairment. No recent events or changes in circumstances indicate that impairment existed at March 31, 2019.

Gains and Losses on Marketable and Non-marketable Equity Securities

The Company recognized net realized gains of $15 million for both the three and six months ended March 31, 2019 on its equity securities sold during the periods. The Company recognized net unrealized gains of $79 million and $59 million for the three and six months ended March 31, 2019, respectively, on equity securities held as of the end of the periods.

Other Fair Value Disclosures

Long-term debt. Debt instruments are measured at amortized cost on the Company's consolidated balance sheets. The fair value of the debt instruments, as provided by third-party pricing vendors, is based on quoted prices in active markets for similar, not identical, assets. The pricing data obtained from outside sources is reviewed internally for reasonableness, compared against benchmark quotes from independent pricing sources, then confirmed or revised accordingly. If measured at fair value in the financial statements, these instruments would be classified as Level 2 in the fair value hierarchy. The carrying value and estimated fair value of long-term debt was $16.6 billion and $17.3 billion, respectively, as of March 31, 2019. The carrying value and estimated fair value of long-term debt were both $16.6 billion as of September 30, 2018.

Other financial instruments not measured at fair value. The following financial instruments are not measured at fair value on the Company's unaudited consolidated balance sheet at March 31, 2019, but disclosure of their fair values is required: 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 March 31, 2019 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.

Note 6—Debt

The Company had outstanding debt as follows:

	March 31, 2019	September 30, 2018	Effective Interest Rate
	(in millions, except percentages)		
2.20% Senior Notes due December 2020	$3,000	$3,000	2.30 %
2.15% Senior Notes due September 2022	1,000	1,000	2.30 %
2.80% Senior Notes due December 2022	2,250	2,250	2.89 %
3.15% Senior Notes due December 2025	4,000	4,000	3.26 %
2.75% Senior Notes due September 2027	750	750	2.91 %
4.15% Senior Notes due December 2035	1,500	1,500	4.23 %
4.30% Senior Notes due December 2045	3,500	3,500	4.37 %
3.65% Senior Notes due September 2047	750	750	3.73 %
Total senior notes	16,750	16,750	
Unamortized discounts and debt issuance costs	(114)	(120)	
Hedge accounting fair value adjustments	(6)	—	
Total long-term debt	$16,630	$16,630	

The Company recognized interest expense for its senior notes of $119 million and $137 million for the three months ended March 31, 2019 and 2018, respectively, and $245 million and $275 million for the six months ended March 31, 2019 and 2018, respectively. Interest expense for the three and six months ended March 31, 2019 includes adjustments related to the Company's hedging program. Effective interest rates disclosed in the table above do not reflect hedge accounting adjustments.

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Note 7—Settlement Guarantee Management
The Company indemnifies its clients for settlement losses suffered due to failure of any other client to fund its settlement obligations in accordance with the Visa operating rules. This indemnification 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.
Historically, the Company has experienced minimal losses as a result of its settlement risk guarantee. However, the Company’s future obligations, which could be material under its guarantees, are not determinable as they are dependent upon future events.
The Company’s settlement exposure is limited to the amount of unsettled Visa payment transactions at any point in time, which vary significantly day to day. The Company’s maximum settlement exposure was $92.0 billion and the average daily settlement exposure was $55.3 billion during the six months ended March 31, 2019.
The Company maintains and regularly reviews global settlement risk policies and procedures to manage settlement exposure, which may require clients to post collateral if certain credit standards are not met. At March 31, 2019 and September 30, 2018, the Company held collateral as follows:

	March 31, 2019	September 30, 2018
	(in millions)	
Cash equivalents	$1,735	$ 1,708
Pledged securities at market value	307	192
Letters of credit	1,337	1,382
Guarantees	574	860
Total	$3,953	$ 4,142

Note 8—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 all eligible employees residing in the United States. The Company also sponsors other pension benefit plans that provide benefits for internationally-based employees at certain non-U.S. locations. The components of net periodic benefit cost presented below include the U.S. pension plans and the non-U.S. pension plans, comprising only the Visa Europe plans. Disclosures relating to other U.S. postretirement benefit plans and other non-U.S. pension benefit plans are not included as they are immaterial, individually and in aggregate.

	Pension Benefits			
	U.S. Plans		Non-U.S. Plans	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2019	2018	2019	2018
	(in millions)			
Service cost	$—	$—	$1	$1
Interest cost	8	8	4	3
Expected return on plan assets	(18)	(18)	(5)	(5)
Total net periodic benefit cost (income)	$(10)	$(10)	$—	$(1)

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	Pension Benefits			
	U.S. Plans		Non-U.S. Plans	
	Six Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(in millions)			
Service cost	$—	$—	$2	$2
Interest cost	16	16	7	6
Expected return on plan assets	(36)	(35)	(9)	(10)
Total net periodic benefit cost (income)	$(20)	$(19)	$—	$(2)

Note 9—Stockholders' Equity

As-converted class A common stock. The following table[1] presents number of shares of each series and class and the number of shares of class A common stock on an as-converted basis:

	March 31, 2019			September 30, 2018		
	Shares Outstanding	Conversion Rate Into Class A Common Stock	As-converted Class A Common Stock[2]	Shares Outstanding	Conversion Rate Into Class A Common Stock	As-converted Class A Common Stock[2]
	(in millions, except conversion rates)					
UK&I preferred stock	2	12.9390	32 [3]	2	12.9550	32 [3]
Europe preferred stock	3	13.8860	44 [3]	3	13.8880	44 [3]
Class A common stock[4]	1,741	—	1,741	1,768	—	1,768
Class B common stock	245	1.6298 [5]	400	245	1.6298 [5]	400
Class C common stock	12	4.0000	46	12	4.0000	47
Total			2,263			2,291

(1) Figures in the table may not recalculate exactly due to rounding.

(2) As-converted class A common stock is calculated based on unrounded numbers.

(3) The reduction in equivalent number of shares of class A common stock was less than one million shares during the six months ended March 31, 2019.

(4) Class A common stock shares outstanding reflect repurchases settled on or before March 31, 2019 and September 30, 2018.

(5) The class B to class A common stock conversion rate is presented on a rounded basis. Conversion calculations for dividend payments are based on a conversion rate rounded to the tenth decimal.

Reduction in as-converted shares. Under the terms of the Europe retrospective responsibility plan, the Company is entitled to recover VE territory covered losses through periodic adjustments to the class A common stock conversion rates applicable to the UK&I and Europe preferred stock. The recovery has the same economic effect on earnings per share as repurchasing the Company's class A common stock, because it reduces the UK&I and Europe preferred stock conversion rates and consequently, reduces the as-converted class A common stock share count.

The following table presents effective price per share and recovery of VE territory covered losses through conversion rate adjustments:

	Six Months Ended March 31, 2019		Twelve Months Ended September 30, 2018	
	Preferred Stock			
	UK&I	Europe	UK&I	Europe
	(in millions, except per share data)			
Effective price per share[1]	$137.19	$137.19	$113.05	$112.92
Recovery through conversion rate adjustment	$5	$1	$35	$21

(1) Effective price per share for the quarter is calculated using the volume-weighted average price of the Company's class A common stock over a pricing period in accordance with the Company's current certificates of designations for its series B and C convertible participating preferred stock. Effective price per share for the fiscal year is calculated using the weighted-average effective prices of the respective adjustments made during the year.

Common stock repurchases. The following table[1] presents share repurchases in the open market for the following periods:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
	(in millions, except per share data)			
Shares repurchased in the open market[2]	14	17	31	33
Average repurchase price per share[3]	$144.94	$120.26	$141.08	$115.41
Total cost	$1,938	$2,072	$4,331	$3,850

(1) Figures in the table may not recalculate exactly due to rounding. Shares repurchased in the open market reflect repurchases settled during the three and six months ended March 31, 2019 and 2018. These amounts include repurchases traded but not yet settled on or before September 30, 2018 and 2017 for six months, respectively, and December 31, 2018 and 2017 for three months, respectively. Also, these amounts exclude repurchases traded but not yet settled on or before March 31, 2019 and 2018, respectively.

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

(3) Average repurchase price per share is calculated based on unrounded numbers.

In January 2019, the Company's board of directors authorized an additional $8.5 billion share repurchase program. As of March 31, 2019, the Company's January 2019 share repurchase program had remaining authorized funds of $8.4 billion for share repurchase. All share repurchase programs authorized prior to January 2019 have been completed.

Dividends. On April 16, 2019, the Company's board of directors declared a quarterly cash dividend of $0.25 per share of class A common stock (determined in the case of class B and C common stock and UK&I and Europe preferred stock on an as-converted basis). The cash dividend will be paid on June 4, 2019, to all holders of record as of May 17, 2019. The Company declared and paid $569 million and $490 million during the three months ended March 31, 2019 and 2018, respectively, and $1.1 billion and $948 million during the six months ended March 31, 2019 and 2018, respectively, in dividends to holders of the Company's common and preferred stocks.

Note 10—Earnings Per Share

Basic earnings per share is computed by dividing net income available to each class of shares by the weighted-average number of shares of common stock outstanding and participating securities during the period. Net income is allocated to each class of common stock and participating securities based on its proportional ownership on an as-converted basis. The weighted-average number of shares outstanding of each class of common stock reflects changes in ownership over the periods presented. See Note 9—Stockholders' Equity.

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Diluted earnings per share is computed by dividing net income available by the weighted-average number of shares of common stock outstanding, participating securities and, if dilutive, potential class A common stock equivalent shares outstanding during the period. Dilutive class A common stock equivalents may consist of: (1) shares of class A common stock issuable upon the conversion of UK&I and Europe preferred stock and class B and C common stock based on the conversion rates in effect through the period, and (2) incremental shares of class A common stock calculated by applying the treasury stock method to the assumed exercise of employee stock options, the assumed purchase of stock under the Company's Employee Stock Purchase Plan and the assumed vesting of unearned performance shares.

The following table[1] presents earnings per share for the three months ended March 31, 2019:

	Basic Earnings Per Share			Diluted Earnings Per Share			
	(in millions, except per share data)						
	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)	Earnings per Share = (A)/(B)	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)		Earnings per Share = (A)/(B)
Class A common stock	$2,287	1,748	$ 1.31	$2,977	2,279	(3)	$ 1.31
Class B common stock	523	245	$ 2.13	$523	245		$ 2.13
Class C common stock	61	12	$ 5.23	$61	12		$ 5.23
Participating securities[4]	106	Not presented	Not presented	$106	Not presented		Not presented
Net income	$2,977						

The following table[1] presents earnings per share for the six months ended March 31, 2019:

	Basic Earnings Per Share			Diluted Earnings Per Share			
	(in millions, except per share data)						
	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	$4,577	1,754	$ 2.61	$5,954	2,285	(3)	$ 2.61
Class B common stock	1,044	245	$ 4.25	$1,043	245		$ 4.25
Class C common stock	122	12	$ 10.44	$122	12		$ 10.42
Participating securities[4]	211	Not presented	Not presented	$211	Not presented		Not presented
Net income	$5,954						

The following table[1] presents earnings per share for the three months ended March 31, 2018:

	Basic Earnings Per Share			Diluted Earnings Per Share			
	(in millions, except per share data)						
	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)	Earnings per Share = (A)/(B)	Income Allocation (A)[2]	Weighted-Average Shares Outstanding (B)		Earnings per Share = (A)/(B)
Class A common stock	$2,007	1,798	$ 1.12	$2,605	2,337	(3)	$ 1.11
Class B common stock	452	245	$ 1.84	$451	245		$ 1.84
Class C common stock	55	12	$ 4.46	$55	12		$ 4.46
Participating securities[4]	91	Not presented	Not presented	$91	Not presented		Not presented
Net income	$2,605						

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

The following table[1] presents earnings per share for the six months ended March 31, 2018:

	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	$3,952	1,805	$ 2.19	$5,127	2,345	(3)	$ 2.19
Class B common stock	886	245	$ 3.61	$885	245		$ 3.60
Class C common stock	110	13	$ 8.76	$109	13		$ 8.74
Participating securities[4]	179	Not presented	Not presented	$178	Not presented		Not presented
Net income	$5,127						

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

(2) Net income is allocated based on proportional ownership on an as-converted basis. The weighted-average number of shares of as-converted class B common stock used in the income allocation was 400 million for the three and six months ended March 31, 2019, and 405 million for the three and six months ended March 31, 2018. The weighted-average number of shares of as-converted class C common stock used in the income allocation was 47 million for the three and six months ended March 31, 2019, and 49 million and 50 million for the three and six months ended March 31, 2018, respectively. The weighted-average number of shares of preferred stock included within participating securities was 32 million of as-converted UK&I preferred stock for the three and six months ended March 31, 2019 and 2018, and 44 million of as-converted Europe preferred stock for the three and six months ended March 31, 2019 and 2018.

(3) Weighted-average diluted shares outstanding are calculated on an as-converted basis and include incremental common stock equivalents, as calculated under the treasury stock method. The computation includes approximately 3 million common stock equivalents for the three and six months ended March 31, 2019 and 4 million common stock equivalents for the three and six months ended March 31, 2018, because their effect would have been dilutive. The computation excludes 1 million of common stock equivalents for the three and six months ended March 31, 2019, and 2 million of common stock equivalents for the three and six months ended March 31, 2018, because their effect would have been anti-dilutive.

(4) Participating securities include preferred stock outstanding and unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, such as the Company's UK&I and Europe preferred stock, restricted stock awards, restricted stock units and earned performance-based shares. Participating securities' income is allocated based on the weighted-average number of shares of as-converted stock.

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, or the EIP, during the six months ended March 31, 2019:

	Granted	Weighted-Average Grant Date Fair Value	Weighted-Average Exercise Price
Non-qualified stock options	1,109,645	$ 25.89	$ 134.76
Restricted stock units ("RSUs")	2,616,550	$ 135.19	
Performance-based shares[1]	540,538	$ 153.42	

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

The Company's non-qualified stock options 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. The Company recorded share-based compensation cost related to the EIP of $106 million and $201 million for the three and six months ended March 31, 2019, respectively, and $82 million and $146 million for the three and six months ended March 31, 2018, respectively, net of estimated forfeitures, which are adjusted as appropriate.

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

Note 12—Income Taxes

The effective income tax rate was 19% for the three and six months ended March 31, 2019, and 19% and 21% for the three and six months ended March 31, 2018, respectively. The effective tax rate for the six months ended March 31, 2019 differs from the effective tax rate in the same prior-year period primarily due to the effects of U.S. tax reform legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), enacted on December 22, 2017, as discussed below:

- The Tax Act reduced the statutory federal corporate income tax rate from 35% to 21% effective January 1, 2018. In fiscal 2018, the Company's statutory federal corporate rate was a blended rate of 24.5%. Federal tax expense for the six months ended March 31, 2019 was determined at a 21% tax rate compared to the 24.5% tax rate in the prior-year period;
- The Tax Act enacted a new deduction for foreign-derived intangible income ("FDII") and a new tax on global intangible low-tax income ("GILTI"). Both FDII and GILTI became effective for the Company on October 1, 2018; and
- The absence of the following items recorded during the six months ended March 31, 2018:
  - an $80 million benefit due to a non-recurring audit settlement during the three months ended March 31, 2018;
  - a $1.1 billion non-recurring, non-cash benefit from the remeasurement of deferred tax balances recorded in the three months ended December 31, 2017, in connection with the reduction in U.S. federal tax rate enacted by the Tax Act; and
  - a $1.1 billion one-time transition tax expense on certain untaxed foreign earnings recorded in the three months ended December 31, 2017, in connection with the requirement enacted by the Tax Act.

The Company previously recorded provisional amounts for the transition tax and the tax effects of various other tax provisions enacted by the Tax Act. As permitted by ASU 2018-05, the Company completed the determination of the accounting impacts of the transition tax and the tax effects of these various tax provisions in the three months ended December 31, 2018. The adjustments to the provisional amounts were not material. In addition, the Company adopted the accounting policy of accounting for taxes on GILTI in the period that it is subject to such tax.

During the three and six months ended March 31, 2019, the Company's gross unrecognized tax benefits increased by $108 million and $146 million, respectively. The Company's unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate increased by $44 million and $83 million, respectively. The change in unrecognized tax benefits is primarily related to various tax positions across several jurisdictions. During the three and six months ended March 31, 2019 and 2018, there were no significant changes in interest and penalties related to uncertain tax positions.

The Company's tax filings are subject to examination by the U.S. federal, state and foreign taxing authorities. The timing and outcome of the final resolutions of the various ongoing income tax examinations are highly uncertain. It is not reasonably possible to estimate the increase or decrease in unrecognized tax benefits within the next twelve months.

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.

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

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 the activity related to accrued litigation:

	Six Months Ended March 31,	
	2019	2018
	(in millions)	
Balance at beginning of period	$1,434	$982
Provision for uncovered legal matters	35	—
Provision for covered legal matters	159	1
Payments for legal matters	(714)	(153)
Balance at end of period	$914	$830

Accrual Summary—U.S. Covered Litigation

Visa Inc., Visa U.S.A. and Visa International are parties to certain legal proceedings that are covered by the U.S. retrospective responsibility plan, which the Company refers to as the U.S. covered litigation. See further discussion below under U.S. Covered Litigation and Note 4—U.S. and Europe Retrospective Responsibility Plans. An accrual for the U.S. covered litigation and a charge to the litigation provision are recorded when a 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 total accrual related to the U.S. covered litigation could be either higher or lower than the escrow account balance.

The following table summarizes the activity related to U.S. covered litigation:

	Six Months Ended March 31,	
	2019	2018
	(in millions)	
Balance at beginning of period	$1,428	$978
Payments for U.S. covered litigation	(600)	(150)
Balance at end of period	$828	$828

Accrual Summary—VE Territory Covered Litigation

Visa Inc., Visa International and Visa Europe are parties to certain legal proceedings that are covered by the Europe retrospective responsibility plan. Unlike the U.S. retrospective responsibility plan, the Europe retrospective responsibility plan does not have an escrow account that is used to fund settlements or judgments. The Company is entitled to recover VE territory covered losses through periodic adjustments to the conversion rates applicable to the UK&I preferred stock and Europe preferred stock. An accrual for the VE territory covered losses and a reduction to stockholders' equity will be recorded when the loss is deemed to be probable and reasonably estimable. See further discussion below under VE Territory Covered Litigation and Note 4—U.S. and Europe Retrospective Responsibility Plans.

The following table summarizes the activity related to VE territory covered litigation:

	Six Months Ended March 31,	
	2019	2018
	(in millions)	
Balance at beginning of period	$—	$ 1
Accrual for VE territory covered litigation	159	1
Payments for VE territory covered litigation	(98)	(2)
Balance at end of period	$61	$ —

U.S. Covered Litigation

Interchange Multidistrict Litigation (MDL) – Putative Class Actions

On December 6, 2018, the district court held a hearing on the Damages Class plaintiffs' motion for preliminary approval of the Amended Settlement Agreement, and on January 24, 2019, the district court granted preliminary approval.

Settlement discussions with plaintiffs purporting to act on behalf of the putative Injunctive Relief Class are ongoing. On January 16, 2019, the bank defendants moved to dismiss the claims brought against them by the Injunctive Relief Class, on the grounds that plaintiffs lack standing and fail to state a claim against the bank defendants.

VE Territory Covered Litigation

UK Merchant Litigation

Since July 2013, in excess of 450 Merchants (the capitalized term "Merchant," when used in this section, means a merchant together with subsidiary/affiliate companies that are party to the same claim) have commenced proceedings against Visa Europe, Visa Inc. and Visa International relating to interchange rates in Europe, and in some cases relating to fees charged by Visa and certain Visa rules. As of the filing date, Visa Europe, Visa Inc. and Visa International have settled the claims asserted by over 100 Merchants, leaving more than 350 Merchants with outstanding claims. In addition, over 30 additional Merchants have threatened to commence similar proceedings. Standstill agreements have been entered into with respect to some of those threatened Merchant claims, several of which have been settled.

On November 29, 2018, Visa was granted permission to appeal aspects of the Court of Appeal's judgment to the Supreme Court of the United Kingdom, including the question of whether Visa's UK interchange restricted competition.

Other Litigation

European Commission Proceedings

Inter-regional Interchange Investigation. On December 4, 2018, the European Commission (EC) announced formal public consultation (known as "market testing") of commitments proposed by Visa pursuant to Article 9 of Council Regulation (EC) No 1/2003 in order for the EC to conclude its investigation. Subject to market testing, the EC intends to adopt a decision declaring the commitments to be binding on Visa and concluding that there are no longer grounds for action by the EC and without any finding of infringement of the law by Visa. If accepted by the EC, the proposed commitments require Visa to cap its inter-regional multilateral interchange rates at 1.50% credit and 1.15% debit for "Card-Not-Present" transactions and 0.30% credit and 0.20% debit for "Card Present" transactions on consumer debit and credit cards issued outside of the European Economic Area when used at merchants located inside of the European Economic Area. The commitments would last for a period of five years following implementation. No fine will be imposed against Visa, and the commitments are proposed without prejudice to Visa's position that its conduct did not infringe any law. The EC's market testing was completed in January 2019, and the EC is expected to decide whether to formally adopt the proposed commitments in the first half of calendar year 2019.

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

Canadian Merchant Litigation
Wal-Mart Canada and/or Home Depot of Canada Inc. have filed notices of appeal of the British Columbia, Ontario, Saskatchewan, Quebec and Alberta decisions approving the settlements.
EMV Chip Liability Shift
Plaintiffs filed a renewed motion for class certification on July 16, 2018, following an earlier denial of the motion without prejudice. Plaintiffs’ renewed motion was terminated without prejudice to reinstatement on October 17, 2018, but was subsequently reinstated and is currently pending.
Kroger
The litigation was stayed until February 2, 2019. Visa and Kroger have reached an agreement in principle to resolve this lawsuit.
Nuts for Candy
On October 18, 2018, the court stayed the Nuts for Candy case pending the district court’s decision on preliminary approval of the Amended Settlement Agreement discussed above under Interchange Multidistrict Litigation (MDL) – Putative Class Actions, and pending final approval of that agreement if preliminary approval is granted. Preliminary approval was granted on January 24, 2019, which extended the stay in the Nuts for Candy case pending final approval of the Amended Settlement Agreement.
Ohio Attorney General Civil Investigative Demand

On January 8, 2019, the State of Ohio Office of the Attorney General informed Visa that the investigation has been terminated.

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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,” “us,” “our” or the “Company”) on a historical ba 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 that relate to, among other things, our future operations, prospects, developments, strategies and growth of our business; anticipated expansion of our products in certain countries; industry developments; expectations regarding litigation matters, investigations and proceedings; timing and amount of stock repurchases; sufficiency of sources of liquidity and funding; effectiveness of our risk management programs; and expectations regarding the impact of recent accounting pronouncements on our consolidated financial statements. Forward-looking statements generally are identified by words such as “believes,” “estimates,” “expects,” “intends,” “may,” “projects,” “could,” “should,” “will,” “continue” and other similar expressions. All statements other than statements of historic fact could be forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond our control and are difficult to predict. We describe risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, any of these forward-looking statements in our SEC filings, including our Annual Report on Form 10-K, for the year ended September 30, 2018 and our subsequent reports on Forms 10-Q and 8-K. Except as required by law, we do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise.

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Overview

Visa is a global payments technology company that enables fast, secure and reliable electronic payments across more than 200 countries and territories. We facilitate global commerce through the transfer of value and information among a global network of consumers, merchants, financial institutions, businesses, strategic partners and government entities. Our advanced transaction processing network, VisaNet, enables authorization, clearing and settlement of payment transactions and allows us to provide our financial institution and merchant clients a wide range of products, platforms and value-added services.

Financial overview. Our financial results for the six months ended March 31, 2018 reflected the impact of certain significant items that we believe were not indicative of our operating performance in these or future periods, as they were either non-recurring or had no cash impact. There were no comparable adjustments recorded for the three and six months ended March 31, 2019 and the three months ended March 31, 2018. Our as-reported U.S. GAAP and adjusted non-GAAP net income and diluted earnings per share for these periods were as follows:

	Three Months Ended March 31,		2019 vs. 2018	Six Months Ended March 31,		2019 vs. 2018
(in millions, except percentages and per share data)	2019	2018	% Change(1)	2019	2018	% Change(1)
Net income, as reported	$2,977	$2,605	14 %	$ 5,954	$5,127	16 %
Diluted earnings per share, as reported	$1.31	$1.11	17 %	$ 2.61	$2.19	19 %
Net income, as adjusted(2)	$2,977	$2,605	14 %	$ 5,954	$5,141	16 %
Diluted earnings per share, as adjusted(2)	$1.31	$1.11	(51,759)	424,319		

Income taxes (benefit)	111,532	66,734	(151)	(19,488)	158,627
	263,601	109,759	(75,397)	(32,271)	265,692
Equity in net income of subsidiaries	14,519			(14,519)	
Net loss attributable to noncontrolling interests			12,428		12,428
Net income (loss) attributable to Steel Dynamics, Inc.	$278,120	$109,759	$ (62,969)	$ (46,790)	$278,120

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Condensed Consolidating Information (Continued)

For the Year Ended, December 31, 2010	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net sales	$ 2,866,541	$ 7,067,399	$ 118,141	$ (3,751,194)	$ 6,300,887
Costs of goods sold	2,467,780	6,701,621	164,400	(3,708,580)	5,625,221
Gross profit (loss)	398,761	365,778	(46,259)	(42,614)	675,666
Selling, general and administrative	98,410	215,723	8,724	(11,944)	310,913
Operating income (loss)	300,351	150,055	(54,983)	(30,670)	364,753
Interest expense, net of capitalized interest	99,639	67,659	13,168	(10,237)	170,229
Other (income) expense, net	(14,629)	(15,123)	(296)	11,113	(18,935)
Income (loss) before income taxes and equity in net income of subsidiaries	215,341	97,519	(67,855)	(31,546)	213,459
Income taxes (benefit)	84,718	36,325	(26,477)	(10,706)	83,860
	130,623	61,194	(41,378)	(20,840)	129,599
Equity in net income of subsidiaries	10,086			(10,086)	
Net loss attributable to noncontrolling interests			11,110		11,110
Net income (loss) attributable to Steel Dynamics, Inc.	$ 140,709	$ 61,194	$ (30,268)	$ (30,926)	$ 140,709

Condensed Consolidating Statements of Cash Flows (in thousands)

For the Year Ended, December 31, 2012	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net cash provided by (used in) operating activities	$ 306,613	$ 209,579	$ (76,363)	$ 5,865	$ 445,694
Net cash used in investing activities	(104,242)	(107,274)	(95,314)	115,229	(191,601)
Financing activities					
Issuance of long term debt	1,025,257		111,085	(86,373)	1,049,969
Repayments of long term debt	(1,213,022)	(29,901)	(115,162)	99,243	(1,258,842)
Other	7,028	(89,428)	156,300	(133,964)	(60,064)
Net cash provided by (used in) financing activities	(180,737)	(119,329)	152,223	(121,094)	(268,937)
Increase (decrease) in cash and equivalents	21,634	(17,024)	(19,454)		(14,844)
Cash and equivalents at beginning of period	301,073	58,699	30,989		390,761
Cash and equivalents at end of period	$ 322,707	$ 41,675	$ 11,535	$	$ 375,917

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13. Condensed Consolidating Information (Continued)

For the Year Ended, December 31, 2011	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net cash provided by (used in) operating activities	$ 380,171	$ 173,574	$ (68,110)	$ 720	$ 486,355
Net cash used in investing activities	(230,314)	(50,576)	(65,144)	110,197	(235,837)
Financing activities					
Issuance of long term debt		10,103	101,686	(101,686)	10,103
Repayments of long term debt	(6,505)	(1,075)	(82,241)	82,081	(7,740)
Other	(15,842)	(83,955)	142,476	(91,312)	(48,633)
Net cash provided by (used in) financing activities	(22,347)	(74,927)	161,921	(110,917)	(46,270)
Increase in cash and equivalents	127,510	48,071	28,667		204,248
Cash and equivalents at beginning of period	173,563	10,628	2,322		186,513
Cash and equivalents at end of period	$ 301,073	$ 58,699	$ 30,989	$	$ 390,761

For the Year Ended, December 31, 2010	Parent	Guarantors	Combined Non-Guarantors	Consolidating Adjustments	Total Consolidated
Net cash provided by (used in) operating activities	$ 262,155	$ 17,011	$ (109,221)	$ (638)	$ 169,307
Net cash used in investing activities	(38,811)	(51,414)	(59,491)	638	(149,078)
Financing activities					
Issuance of long term debt	554,001		110,743	(108,191)	556,553
Repayments of long term debt	(361,383)	14,979	(559)		(346,963)
Other	(242,829)	23,690	58,634	108,191	(52,314)
Net cash provided by (used in) financing activities	(50,211)	38,669	168,818		157,276
Increase in cash and equivalents	173,133	4,266	106		177,505
Cash and equivalents at beginning of period	430	6,362	2,216		9,008
Cash and equivalents at end of period	$ 173,563	$ 10,628	$ 2,322	$	$ 186,513

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14. Quarterly Financial Information (unaudited, in thousands, except per share data)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2012:				
Net sales	$ 1,982,040	$ 1,909,803	$ 1,693,390	$ 1,705,001
Gross profit	201,264	182,136	156,401	180,097
Operating income	119,816	103,699	72,721	94,929
Net income	41,777	39,305	6,105	55,094
Net income attributable to Steel Dynamics, Inc.	45,675	44,472	12,833	60,571
Earnings per share:				
Basic	.21	.20	.06	.28
Diluted	.20	.20	.06	.27
2011:				
Net sales	$ 2,015,969	$ 2,079,731	$ 2,043,455	$ 1,858,345
Gross profit	295,754	276,386	199,243	160,135
Operating income	205,326	188,219	108,785	82,490
Net income	104,230	95,826	39,857	25,779
Net income attributable to Steel Dynamics, Inc.	105,903	98,710	43,304	30,203
Earnings per share:				
Basic	.49	.45	.20	.14
Diluted	.46	.43	.19	.14

The first and third quarter of 2012 reflect other non-operating expenses of $13.9 million and $26.4 million, respectively, associated with the cost of long-term debt refinancing activity, as discussed in Note 2 Long-Term Debt.

Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total for the year.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

As required, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2012, the end of the period covered by this annual report, our disclosure controls and procedures were designed to provide and were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's report on our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) and the independent registered public accounting firm's related audit report are included in Item 8 of this Form 10-K and are incorporated herein by reference.

(b) Changes in Internal Control Over Financial Reporting.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our Management's Report on Internal Control Over Financial Reporting, as of December 31, 2012, can be found on page 61 of this Form 10-K, and the related Report of Our Independent Registered Public Accounting Firm, Ernst & Young LLP, can be found on page 62 of this Form 10-K, each of which is incorporated by reference into this Item 9A.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERANCE

The information required to be furnished pursuant to Item 10 with respect to directors, executive officers, code of ethics, and audit committee and audit committee financial experts is incorporated herein by reference from the section entitled "Governance of the Company" and "Election of Directors" in our Proxy Statement for the 2013 Annual Meeting of Shareholders, which we will file with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required to be furnished pursuant to Item 11 with respect to executive compensation is incorporated herein by reference from the section entitled "Executive Compensation" in our Proxy Statement for the 2013 Annual Meeting of Shareholders, which we will file with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information relating to security ownership of certain beneficial owners and management required by Item 12 is incorporated herein by reference from the section entitled "Information on Directors and Executive Officers" in our Proxy Statement for the 2013 Annual Meeting of Shareholders, which we will file with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year. The Equity Compensation Plan Information required by Item 12 is set forth in the table below.

Equity Compensation Plan Information

Our stockholders approved the *Steel Dynamics, Inc. 2006 Equity Incentive Plan* at our annual meeting of stockholders held May 18, 2006, and at our annual meeting of stockholders held May 17, 2012, stockholders approved the *Amended and Restated Steel Dynamics, Inc. 2006 Equity Incentive Plan* (2006 Plan). Our stockholders approved the *Steel Dynamics, Inc. 2008 Equity Incentive Compensation Plan* (2008 Plan) at our annual meeting of stockholders held May 22, 2008. The following table summarizes information about our equity compensation plans at December 31, 2012:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights(1)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
2006 Plan	8,440,154	$ 14.56	14,462,193
2008 Plan	170,319		1,904,135
Equity compensation plans not approved by security holders			

(1) The weighted average exercise price for the 2006 Plan does not take into account 97,138 DSU's and 1,269,307 RSU's issuable upon expiration of the deferral period or vesting, which have no exercise price.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required to be furnished pursuant to Item 13 with respect to certain relationships and related transactions is incorporated herein by reference from the section entitled "Certain Relationships and Related Transactions" in our Proxy Statement for the 2013 Annual Meeting of Shareholders, which we will file with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required to be furnished pursuant to Item 14 with respect to principal accountant fees and services is incorporated herein by reference from the section entitled "Principal Accounting Fees and Services" in our Proxy Statement for the 2013 Annual Meeting of Shareholders, which we will file with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)
The following documents are filed as a part of this report:

1.
Financial Statements:

See the Audited Consolidated Financial Statements of Steel Dynamics Inc. included as part of Item 8 and described in the Index on page 60 of this Report.

2.
Financial Statement Schedules: All schedules for which provision is made in the applicable regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(b)
Exhibits:

Articles of Incorporation

3.1a Amended and Restated Articles of Incorporation of Steel Dynamics, Inc., incorporated herein by reference from Exhibit 3.1a to our Registration Statement on Form S-1, SEC File No. 333-12521, effective November 21, 1996.

3.1b Amendment to Article IV of the Amended and Restated Articles of Incorporation of Steel Dynamics, Inc., effective November 2, 2006, increasing the authorized shares to 200 million, incorporated herein by reference from Exhibit 3.1b to our report on Form 10-Q filed May 7, 2008.

3.1c Amendment to Article IV of the Amended and Restated Articles of Incorporation of Steel Dynamics, Inc., effective March 27, 2008, increasing the authorized common shares to 400 million, incorporated herein by reference from Exhibit 3.1c to our report on Form 10-Q, filed May 7, 2008.

3.1d Amendment to Article IV of the Amended and Restated Articles of Incorporation of Steel Dynamics, Inc., effective June 2, 2009, increasing the authorized common shares to 900 million, incorporated herein by reference from Exhibit 3.1 to our Form 8-K filed June 2, 2009.

3.2a Amended and Restated Bylaws of Steel Dynamics, Inc., incorporated herein by reference from Exhibit 3.1 to our Form 8-K filed July 6, 2006.

3.2b Amendment adding Section 3.15 to Amended and Restated Bylaws of Steel Dynamics, Inc., incorporated herein by reference from Exhibit 99.1 to our Form 8-K filed August 6, 2009.

Instruments Defining the Rights of Security Holders, Including Indentures

4.6 Indenture relating to our issuance of $500 million of 6$^3/_4$% Senior Notes due 2015, between Steel Dynamics, Inc. as issuers, the Initial Subsidiary Guarantors, and the Bank of New York Trust Company, N.A., as trustee, dated as of April 3, 2007, incorporated herein by reference from Exhibit 4.7 to our Form 8-K filed April 3, 2007.

4.7 Indenture relating to our issuance of $287.5 million of 5.125% Convertible Senior Notes due 2014 dated as of June 9, 2009 among Steel Dynamics, Inc., as Issuer, the Initial Subsidiary Guarantors, and Wells Fargo Bank, National Association, as Trustee, incorporated herein by reference from Exhibit 4.1 to our Form 8-K filed June 9, 2009.

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4.10	Indenture relating to our issuance of $375 million of 7 3/4% Senior Notes due 2016, dated as of April 3, 2008, between Steel Dynamics, Inc., as Issuer, the Initial Subsidiary Guarantors, and Wells Fargo Bank, National Association, as Trustee, incorporated herein by reference from our Exhibit 4.7 to our Form 8-K filed April 8, 2008.
4.14	Indenture relating to our issuance of $350 million of 7 5/8% Senior Notes due 2020, dated as of March 17, 2010, between Steel Dynamics, Inc., as Issuer, the Initial Subsidiary Guarantors, and Wells Fargo Bank, National Association, as Trustee, incorporated herein by reference from our Exhibit 4.14 to our Form 8-K filed March 18, 2010.
4.15	Registration Rights Agreement among Steel Dynamics, Inc., the subsidiaries of the Company listed therein, and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. as representatives of the several initial purchasers as set forth therein, dated August 16, 2012, relating to our issuance of $400 million of 6 1/8% Senior Notes due 2019, and $350 million of 6 3/8% Senior Notes due 2022 incorporated herein by reference from Exhibit 4.15 to our Form 8-K filed August 20, 2012.
4.17	Indenture relating to our issuance of $400 million of 6 1/8% Senior Notes due 2019, and $350 million of 6 3/8% Senior Notes due 2022 among Steel Dynamics, Inc., as Issuer, the Initial Subsidiary Guarantors, and Wells Fargo Bank, National Association, as Trustee, dated as of August 16, 2012, incorporated herein by reference from Exhibit 4.17 to our Form 8-K filed August 20, 2012.

Material Contracts

10.3	Amended and Restated Credit Agreement among Steel Dynamics, Inc. and various lenders, dated as of June 19, 2007, incorporated herein by reference from Exhibit 10.3 to our 8-K filed June 21, 2007.
10.3a	Amendment No. 2 to our Amended and Restated Credit Agreement, dated September 11, 2007, incorporated herein by reference from Exhibit 10.3a to our 8-K filed September 14, 2007.
10.03b	Amendment No. 3 to our Amended and Restated Credit Agreement and Amendment No. 1 to the Amended and Restated Security Agreement dated March 31, 2008, relating to the Credit Agreement described in Exhibit 10.03, filed June 21, 2007, incorporated herein by reference from our Exhibit 10.03b to our Form 8-K filed April 2, 2008.
10.3c	Amendment No. 4 to our Amended and Restated Credit Agreement, dated June 12, 2009, incorporated herein by reference from Exhibit 10.3c to our 8-K filed June 21, 2009.
10.3d	Amendment No. 5 to our Amended and Restated Credit Agreement, dated April 26, 2010, incorporated herein by reference from Exhibit 10.3d to our 8-K filed April 27, 2010.
10.3e	Amendment No. 6 to our Amended and Restated Credit Agreement, dated January 21, 2011, incorporated herein by reference from Exhibit 10.3e to our 2010 Form 10-K filed February 23, 2011.
10.6	Agreement and Plan of Merger among The Techs Holdings, Inc. and Steel Dynamics, Inc., dated as of June 6, 2007, incorporated herein by reference from Exhibit 10.6 to our 8-K filed July 6, 2007.

10.7	Shareholders Agreement, dated as of October 26, 2007, by and among Steel Dynamics, Inc. and the Shareholders of OmniSource Corporation, incorporated herein by reference from Exhibit 10.7 to our 8-K/A filed November 6, 2007.
10.8	Real Estate Purchase Agreement and Master Lease Agreement entered into with HS Processing and Heidtman Steel Products, Inc., described in Item 8.01 and incorporated herein by reference to our 8-K filed September 21, 2009.
10.12	Loan Agreement between Indiana Development Finance Authority and Steel Dynamics, Inc. re Taxable Economic Development Revenue bonds, Trust Indenture between Indiana Development Finance Authority and NBD Bank, N.A., as Trustee re Loan Agreement between Indiana Development Finance Authority and Steel Dynamics, Inc., incorporated herein by reference from Exhibit 10.12 to Registrant's Registration Statement on Form S-1, File No. 333-12521, effective November 21, 1996.
10.20	Steel Products, Inc., Change in Control Benefit Plan, incorporated herein by reference to our 8-K filed December 4, 2012.
10.25	2004 Employee Stock Purchase Plan, approved by stockholders on May 20, 2004, incorporated herein by reference from our Exhibit 10.25 to our 2004 Annual Report on Form 10-K, filed March 4, 2005.
10.41	2006 Equity Incentive Plan, approved by stockholders on May 18, 2006, incorporated herein by reference from our Form 10-K filed February 26, 2007.
10.41a	Steel Dynamics, Inc. 2006 Equity Incentive Plan, as amended, incorporated herein by reference from Exhibit 10.41a to our 8-K filed June 2, 2011.
10.41b	Amended and Restated Steel Dynamics, Inc. 2006 Equity Incentive Plan, as approved by shareholders on May 17, 2012, incorporated herein by reference from our Exhibit 10.41c to our 8-K filed August 21, 2012.
10.41c	Steel Dynamics, Inc. Long-Term Incentive Compensation Program, adopted August 15, 2012, incorporated herein by reference from our Exhibit 10.41c to our 8-K filed August 21, 2012.
10.42	2008 Executive Incentive Compensation Plan, approved by stockholders on May 22, 2008, incorporated herein by reference to our May 22, 2008 Notice of Annual Meeting of Stockholders filed April 3, 2008.
10.43	Amended and Restated Credit Agreement dated September 29, 2011, incorporated herein by reference from Exhibit 10.43 to our Form 8-K filed October 4, 2011.
10.44	Amendment No 1. To Amended and Restated Credit Agreement dated January 11, 2012, incorporated herein by reference from Exhibit 10.44 to our Form 8-K filed January 13, 2012.
10.50	Retirement Agreement between Keith E. Busse, dated October 14, 2011, incorporated herein by reference from Exhibit 10.50 to our Form 8-K filed October 20, 2011.
10.51	Consulting Agreement between Keith E. Busse, dated October 14, 2011, incorporated herein by reference from Exhibit 10.51 to our Form 8-K filed October 20, 2011.
10.52	Director Agreement between the Company and Keith E. Busse, dated October 14, 2011, incorporated herein by reference from Exhibit 10.52 to our Form 8-K filed October 20, 2011.

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Other

12.1*	Computation of Ratio of Earnings to Fixed Charges
21.1*	List of our Subsidiaries
23.1*	Consent of Ernst & Young LLP.
24.1	Powers of attorney (see signature page on page 107 of this Report).
95*	Mine Safety Disclosures

Executive Officer Certifications

31.1*	Certification of Chief Executive Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and 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.

XBRL Documents

101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Document
101.DEF*	XBRL Taxonomy Extension Definition Document
101.LAB*	XBRL Taxonomy Extension Label Document
101.PRE*	XBRL Taxonomy Presentation Document

* Filed concurrently herewith

Indicates a management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of Securities Exchange Act of 1934, Steel Dynamics, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 27, 2013

STEEL DYNAMICS, INC.
By: /s/ MARK D. MILLETT

Mark D. Millett
Chief Executive Officer
(Principal Executive Officer)

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Mark D. Millett and Theresa E. Wagler, either of whom may act without the joinder of the other, as his true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him, and in his name, place and stead, in any and all capacities to sign any and all amendments, and supplements to this 2012 Annual Report on Form 10-K, filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and performs each and every act and thing requisite and necessary to be done, as full to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or their substitute or substitutes may lawfully do or cause to be done by virtue thereof. **Pursuant to the requirements of the Securities Exchange Act of 1934, this 2012 Annual Report on Form 10-K has been signed below by the following persons on behalf of Steel Dynamics, Inc. and in the capacities and on the dates indicated.**

Signatures	Title	Date
/s/ MARK D. MILLETT Mark D. Millett	Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2013
/s/ THERESA E. WAGLER Theresa E. Wagler	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 27, 2013
/s/ RICHARD P. TEETS, JR. Richard P. Teets, Jr.	Executive Vice President and Director	February 27, 2013
/s/ JOHN C. BATES John C. Bates	Director	February 27, 2013

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Signatures	Title	Date
/s/ KEITH E. BUSSE Keith E. Busse	Director	February 27, 2013
/s/ DR. FRANK BYRNE Dr. Frank Byrne	Director	February 27, 2013
/s/ TRACI M. DOLAN Traci M. Dolan	Director	February 27, 2013
/s/ PAUL E. EDGERLEY Paul E. Edgerley	Director	February 27, 2013
/s/ DR. JÜRGEN KOLB Dr. Jürgen Kolb	Director	February 27, 2013
/s/ JAMES C. MARCUCCILLI James C. Marcuccilli	Director	February 27, 2013
/s/ GABRIEL L. SHAHEEN Gabriel L. Shaheen	Director	February 27, 2013
/s/ JAMES A. TRETHEWEY James A. Trethewey	Director	February 27, 2013