

MASTERCARD INC
Form S-1
September 15, 2005
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As filed with the Securities and Exchange Commission on September 15, 2005.

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

MASTERCARD INCORPORATED

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

7389
(Primary Standard Industrial
Classification Code Number)
2000 Purchase Street

13-4172551
(I.R.S. Employer
Identification No.)

Purchase, New York 10577

Telephone: (914) 249-2000

(Address, including zip code, and telephone number,
including area code, of Registrant's principal executive offices)

Noah J. Hanft, Esq.

General Counsel

MasterCard Incorporated

2000 Purchase Street

Purchase, New York 10577

Telephone: (914) 249-2000

(Name, address, including zip code, and telephone number,

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including area code, of agent for service)

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Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. "

CALCULATION OF REGISTRATION FEE

| Title Of Each Class Of Securities To Be Registered | Proposed Maximum Aggregate Offering Price(1)(2) | Amount of Registration Fee |
|---|--|-------------------------------|
| Class A common stock, par value \$.0001 per share | \$2,450,000,000 | \$288,365 |

- (1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.
- (2) Includes shares subject to the underwriters' option to purchase additional shares.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated September 15, 2005.

61,535,098 Shares

MasterCard Incorporated

Class A Common Stock

This is an initial public offering of shares of Class A common stock of MasterCard Incorporated. MasterCard is offering all of the 61,535,098 shares of Class A common stock to be sold in this offering.

Prior to this offering, there has been no public market for the Class A common stock. It is currently estimated that the initial public offering price per share will be between \$ _____ and \$ _____. MasterCard intends to list the Class A common stock on the New York Stock Exchange under the symbol MA.

See Risk Factors on page 11 to read about factors you should consider before buying shares of Class A common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

| | <u>Per Share</u> | <u>Total</u> |
|--|------------------|--------------|
| Initial public offering price | \$ | \$ |
| Underwriting discount | \$ | \$ |
| Proceeds, before expenses, to MasterCard | \$ | \$ |

To the extent that the underwriters sell more than 61,535,098 shares of Class A common stock, the underwriters have the option to purchase up to an additional 4,615,132 shares of Class A common stock from MasterCard at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on _____, _____.

Goldman, Sachs & Co.

Prospectus dated _____, _____.

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SUMMARY

This summary does not contain all the information you should consider before investing in our Class A common stock. You should read this entire prospectus carefully, including the section entitled Risk Factors and our consolidated financial statements and the notes to those statements, before you decide to invest in our Class A common stock.

In this prospectus, references to the Company, MasterCard, we, us or our refer to the MasterCard brand generally, and to the business conducted by MasterCard Incorporated and its consolidated subsidiaries, including our principal operating subsidiary, MasterCard International Incorporated. Our customers are the principal and affiliate members of MasterCard International, which we refer to collectively as our customers or members. We refer to the customers that issue our cards as issuers and those that enroll merchants into programs to accept our cards as acquirers. We use the term card to refer to the plastic cards carrying our brands or those of our competitors, together with the underlying credit, charge, deposit or other account.

MasterCard

MasterCard is a leading global payment solutions company that provides a variety of services in support of our customers credit, debit and related payment programs. We manage a family of well-known, widely accepted payment card brands, including MasterCard®, MasterCard Electronic, Maestro® and Cirrus®, which we license to the nearly 25,000 financial institutions that are our customers. As part of managing these brands, we also provide our customers with a sophisticated set of information and transaction processing services and establish and enforce rules and standards surrounding the use of our payment card system by customers and merchants. We generate revenues from the fees that we charge our customers for providing these transaction processing and other payment-related services (operations fees) and by assessing our customers based on the dollar volume of activity on the cards that carry our brands (assessments).

Using our transaction processing services, our customers facilitate payment transactions between cardholders and merchants throughout the world, providing merchants with an efficient and secure means of receiving payment, and consumers and businesses with a convenient payment method accepted worldwide. We guarantee the settlement of many of these transactions among our customer financial institutions to ensure the integrity of our payment system. In addition, we undertake a variety of marketing activities designed to maintain and enhance the value of our brands. However, cardholder and merchant relationships are managed principally by our customers. Accordingly, we do not issue cards, extend credit to cardholders, determine the interest rates (if applicable) or other fees charged to cardholders by issuers, or establish the merchant discount charged by acquirers in connection with the acceptance of cards that carry our brands.

Our business has a global reach and has experienced significant growth. Gross dollar volume on cards carrying the MasterCard brand as reported by our customers (GDV) was \$1.5 trillion in 2004, reflecting a compound annual growth rate in U.S. dollar terms of 14.2% over the last three years. For the first six months of 2005, GDV was \$790.5 billion, a 14.4% increase in U.S. dollar terms over the GDV reported in the first six months of 2004. In 2004, we processed 12.4 billion transactions (including 2.3 billion Cirrus and Maestro online debit transactions), reflecting a compound annual growth rate of 15.9% over the last three years. In 2004, we generated revenue of \$2.6 billion, operating income of \$347 million and net income of \$238 million. In the first six months of 2005, we generated revenue of \$1.4 billion, operating income of \$344 million and net income of \$214 million, as compared to revenue of \$1.2 billion, operating income of \$217 million and net income of \$139 million in the first six months of 2004.

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We believe there is a trend within the global payments industry from paper-based forms of payment such as cash and checks toward electronic forms of payment such as cards, which creates significant opportunities for continued growth in our business. We believe this trend is driven by the following elements:

Increasing Usage of Electronic Forms of Payment. Credit and debit card usage has grown at significant rates and is displacing cash and checks, the traditional forms of payment. Consumers are migrating to card-based forms of payment, motivated in part by the convenience, enhanced services and reward programs that cards offer. Corporations, small businesses and governments have also increased their usage of card-based forms of payment for travel, purchasing and fleet management in order to gain better transaction information, more efficiently manage their supply chains and reduce administrative costs. Other forms of electronic payments, including pre-paid cards, chip-based cards and mobile commerce, offer opportunities for further usage and growth.

Increasing Acceptance of Electronic Forms of Payment. Merchants of all sizes have increased their acceptance of electronic payments as a way to augment their sales and increase consumer convenience. Electronic forms of payment are gaining wider acceptance in corporate payment applications and in important merchant categories such as supermarkets, gas stations, convenience stores, utilities and fast-food restaurants. In addition, governments have begun accepting electronic payments in order to reduce their administrative costs. Payment cards and other electronic forms of payment continue to be the preferred method of payment in certain higher growth channels of commerce, such as the Internet.

Innovation in the Payments Industry. Innovation at the point of sale, including the incorporation of new technologies such as smart cards and contactless cards, continues to reduce transaction times and otherwise enhance the attractiveness of payment cards to both consumers and merchants. In addition, issuers are making payment cards more attractive to cardholders through value-adding initiatives such as rewards and co-branding programs.

Favorable Trends in Global Commerce. A wide range of factors has increased global commerce, particularly cross-border business and leisure travel. This trend benefits card-based forms of payment, which afford cardholders increased convenience and efficiency when making international transactions compared with cash and checks. In addition, in many emerging markets, increased consumer card usage is being driven by the growth of middle-class consumer populations and the development of modern payment systems to serve them. Globalization is also encouraging the replacement of domestic payment solutions with payment solutions that have a worldwide reach.

Competitive Strengths

We believe the following key strengths enhance our ability to compete successfully in the global payments industry:

Leading Worldwide Payments System. We believe that the strong worldwide recognition of our brands, our long-standing relationships with our issuers and acquirers and the extensive global reach of our payment card system are valuable corporate assets that provide us with a strong platform from which we can deliver value to our customers, merchants and cardholders.

Global Brand. Through our global brand-building initiatives, we have established strong worldwide recognition for MasterCard and our other brands. We believe that our brands are valuable strategic assets that drive card acceptance and usage and facilitate our ability to successfully introduce new service offerings and access new

markets.

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Long-Standing Customer Relationships. Our business originated in 1966 when a number of banks in the United States formed the Interbank Card Association and, over time, we have grown into a global organization that serves nearly 25,000 financial institutions in 210 countries and territories. We believe that the breadth and depth of our relationships with our issuers and acquirers provide us with valuable insights into their businesses, which in turn facilitate our ability to pursue opportunities to deliver additional value-added services to these customers.

Worldwide Acceptance. Based on information from our customers and other sources, as of June 30, 2005, cards carrying the MasterCard brand were accepted at over 23 million locations around the world. We believe that the extensive global acceptance of cards carrying our brands is unsurpassed by any of our competitors, which is a significant competitive strength that facilitates the use of our cards and contributes to the growth of our business globally.

Global, Branded Processing Platform. We operate a proprietary, worldwide computer and telecommunications system that links issuers and acquirers around the globe for transaction processing services and permits cardholders to use their cards at millions of merchants worldwide. This system, in which we have made significant recent investments, is a highly reliable, scalable asset that we believe provides us with the flexibility to provide additional services to our customers with relatively low incremental costs. We also believe that the strength of our global brands and our processing experience enhance our ability to compete for new processing business.

Global Reach of Business. We have offices in 37 countries worldwide and a senior management team with extensive international experience. Through these resources, we have developed substantial knowledge of local customer practices and cardholder behavior in the key markets in which we operate. In addition, our integrated management structure enables us to provide globally coordinated payment solutions to our multinational customers. As customers continue to consolidate, we believe this structure will enhance our ability to support their differing needs. We also believe that our global operations and worldwide customer base moderate our exposure to the varying economic conditions of different regions.

Business Strategy

Our strategy is to drive growth by further penetrating our existing customer base and by expanding our role in targeted areas of the global payments industry. Primary elements in implementing our strategy include:

Focus on Key Customers. We are committed to providing our key customers with coordinated services through integrated, dedicated account teams in a manner that allows us to leverage our expertise in payment programs, brand marketing, product development, technology, processing and consulting services for these customers. We have historically applied this customer-focused model to our largest global customers and are now expanding this approach to include customers around the world representing a substantial majority of our revenue. In addition, through MasterCard Advisors, we seek to leverage our deep functional expertise in many important areas of the payments industry for these customers. By further investing in strong relationships over the long term with our key customers, we believe that we can increase our volume of business with them over time.

Continued Expansion in Targeted Geographies and Higher-Growth Programs. We believe that there are significant opportunities to expand our role in targeted geographies and higher-growth programs. For example, while we process a large majority of the domestic MasterCard-

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branded card transactions in the United States, Canada, the United Kingdom and Australia, the proportion of domestic MasterCard-branded card transactions that we process outside these markets is significantly lower. Accordingly, we believe that there are substantial opportunities for us to capture additional operations fees through transaction processing arrangements in selected markets. We are also focused on expanding the role of MasterCard in higher-growth segments of the global payments industry, such as commercial, debit and pre-paid cards. Among other initiatives, we intend to expand our business in these segments by continuing to invest in developing new payment solutions and customized services applicable to them. For example, MasterCard PayPass, a contactless payment solution that enables consumers simply to tap or wave their payment card on a specially equipped terminal, is designed to help our customers further grow their businesses by enhancing the functionality of MasterCard cards in fast throughput environments.

Enhance Merchant Relationships and Maintain Unsurpassed Acceptance. We recognize that merchants are important stakeholders for the growth of our business, and we are focused on strengthening our merchant relationships by providing merchants with direct input into our business via merchant advisory boards and other initiatives. We intend to maintain the unsurpassed acceptance of MasterCard-branded programs by focusing on three core initiatives. First, we seek to increase the number of categories of merchants that accept cards carrying our brands. We are presently focused on expanding acceptance in electronic commerce environments, in fast food restaurants and convenience stores, and in public sector payments, such as those involving taxes, fees, fines and tolls, among other categories. Second, we seek to increase the number of payment channels where MasterCard programs are accepted, such as by expanding MasterCard acceptance in connection with recurring payment applications. Third, we seek to increase usage of our programs at selected merchants through a range of business development programs on a global basis.

Continued Investment in our Brands. We are committed to maintaining and enhancing our brands and image through advertising and marketing efforts on a global scale. Our approach to marketing activities combines advertising, sponsorships, promotions, interactive media and public relations as part of an integrated package designed to increase MasterCard brand awareness and preference and usage of MasterCard cards. Among numerous other initiatives, we intend to continue our award-winning Priceless[®] advertising campaign, which is now running in 105 countries and 48 languages.

Risks Related to our Business, Industry and Strategy

The operation of our business involves a variety of risks, including increased regulatory scrutiny of interchange fees and the operation of four-party payment systems such as ours, together with exposure to antitrust and other types of litigation. Interchange fees represent a sharing of payment system costs among acquirers and issuers. Although we establish interchange fees and collect and remit them on behalf of those of our customers entitled to receive them, we do not generally earn revenues in connection with interchange fees. In addition, competition and pricing pressure within the global payments industry is increasing, due in part to consolidation within the banking sector. These risks and pressures are heightened by the growing power of merchants within the payments industry. See Risk Factors for a discussion of factors you should carefully consider before deciding to invest in shares of our Class A common stock.

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The Offering Transactions

We are currently owned by the principal members of MasterCard International, who are our customers. Prior to this offering of shares of our newly-authorized Class A common stock, we will reclassify all of our 100,000,348 outstanding shares of common stock, causing each of our existing stockholders to receive 1.35 shares of our Class B common stock for each share of common stock that they held prior to the reclassification and a single share of our Class M common stock. In addition, at the time of this offering, we will issue 13,500,047 shares of our Class A common stock as a donation to The MasterCard Foundation, a private charitable foundation. The Class A common stock and the Class B common stock will have the same economic rights, although the Class B common stock will be non-voting (except as may be required by Delaware law). The Class M common stock will have no economic rights. The holders of the Class M common stock will, however, have the right to elect up to three of our directors (but no more than one-quarter of all directors) and approve specified significant corporate transactions. See Description of Capital Stock.

We intend to use all but \$650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters' option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters' option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital. See Use of Proceeds.

Following the reclassification, the issuance of shares of our Class A common stock as a donation to The MasterCard Foundation and in this offering and the subsequent redemption of shares of our Class B common stock from our existing stockholders, which we refer to collectively as the offering transactions, investors in this offering will own 61,535,098 shares of Class A common stock representing 46% of our equity and 82% of our general voting power (or 66,150,230 shares representing 49% of our equity and 83% of our general voting power if the underwriters exercise their option to purchase additional shares in full), The MasterCard Foundation will own 13,500,047 shares of Class A common stock representing 10% of our equity and 18% of our general voting power (or 17% of our general voting power if the underwriters exercise their option to purchase additional shares in full) and our existing stockholders will own 59,965,325 shares of Class B common stock representing 44% of our equity (or 55,350,193 shares representing 41% of our equity if the underwriters exercise their option to purchase additional shares in full) and shares of Class M common stock that entitle them to elect up to three of our directors and approve specified significant corporate actions but are otherwise non-voting. In the event that the underwriters do not exercise in full their option to purchase up to an additional 4,615,132 shares of Class A common stock from us in connection with this offering, our certificate of incorporation will require us, prior to the time of our 2007 annual meeting of stockholders, to issue additional shares of Class A common stock in a public offering and to use the proceeds from such offering to redeem additional shares of Class B common stock so that, immediately following such subsequent offering and redemption, our existing stockholders will own approximately 41% of the aggregate number of shares of Class A common stock and Class B common stock outstanding at that time.

We believe that the new ownership and governance structure that we will achieve through the offering transactions will enhance our business over the long term in various ways. In particular, we believe that perceived conflicts of interest in our business will be addressed by transitioning to a board of directors that includes a majority of directors who are independent of us and of our customers and through the broader diversity of our share ownership. As a result, we believe that we will have a more

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stable base from which to execute our customer-focused strategy and that we will be more competitive within the global payments industry as customers are attracted to this base to build, manage and grow their payments businesses. We also believe that the new structure will benefit our business by providing us with publicly traded equity that we may use as a tool to better align the incentives of our management with those of our stockholders and to attract, retain and motivate our employees and as a currency with which to effect acquisitions, as well as by providing us with enhanced access to the public markets to raise capital. See Business Reasons for Transition to New Ownership and Governance Structure.

Our principal executive offices are located at 2000 Purchase Street, Purchase, New York 10577 and our telephone number is (914) 249-2000.

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The Offering

Class A common stock offered 61,535,098 shares

Class A common stock and Class B common stock outstanding after the offering transactions:

Class A common stock 75,035,145 shares

Class B common stock 59,965,325 shares

135,000,470 shares

Common stock Following this offering, we will have three classes of common stock outstanding: Class A common stock, all of the outstanding shares of which will have been issued in this offering or to The MasterCard Foundation; and Class B common stock and Class M common stock, all of the outstanding shares of which will be held by our existing stockholders.

Voting rights Each share of Class A common stock will entitle its holder to one vote per share. Except as may be required by Delaware law, holders of Class B common stock will not be entitled to vote and will have no voting power. Although the Class M common stock is generally non-voting, the holders of the Class M common stock will have the right to elect up to three of our directors (but not more than one-quarter of all directors) and approve specified significant corporate actions.

Dividend rights The Class A common stock and Class B common stock will share equally in any dividends declared by our board of directors, subject to any preferential rights of any outstanding preferred stock. Holders of Class M common stock will not be entitled to receive dividends.

Liquidation rights Upon liquidation, dissolution or winding up, holders of Class A common stock and Class B common stock will be entitled to receive ratably the assets available for distribution to the stockholders after payment of our liabilities and accrued but unpaid dividends and liquidation preferences on any outstanding preferred stock. Holders of Class M common stock will not be entitled to receive any assets upon a liquidation, dissolution or winding up.

Conversion rights Subject to the provisions of our amended and restated certificate of incorporation that prohibit our members, former members and certain other persons from beneficially owning Class A common stock and other conditions, any holder of Class B common stock may at any time and from time to time commencing on the fourth anniversary of the consummation of this offering, at such holder's option, convert all or any portion of such holder's shares of Class B common stock into an equal number of shares of Class A common stock in connection with a transfer of

these shares to a permitted owner.

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In addition, in the event that the number of shares of Class B common stock outstanding is less than 41% of the aggregate number of shares of Class A common stock and Class B common stock outstanding, our members will in certain circumstances be permitted to acquire shares of Class A common stock in the open market or otherwise, which acquired shares would thereupon convert into an equal number of shares of Class B common stock.

Shares of Class M common stock are not convertible into any other class of our capital stock.

See Description of Capital Stock.

Use of proceeds

We intend to use all but \$650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters' option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters' option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital for general corporate purposes. See Use of Proceeds.

Risk factors

See Risk Factors beginning on page 11 of this prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our Class A common stock.

Proposed New York Stock Exchange symbol

MA

Dividend policy

Upon completion of this offering, our board of directors currently intends to adopt a policy of declaring, subject to legally available funds, a quarterly cash dividend at an annual rate initially equal to \$ per share of Class A common stock and Class B common stock, unless our board of directors, in its sole discretion, determines otherwise, commencing with the quarter of 2006. See Dividend Policy.

Unless indicated otherwise, the information included in this prospectus gives effect to the reclassification of our outstanding shares of common stock and assumes no exercise by the underwriters of their option to purchase up to an additional 4,615,132 shares from us and that the shares to be sold in this offering are sold at \$ per share, which is the midpoint of the range indicated on the front cover of this prospectus.

In addition, shares outstanding and other information based thereon do not reflect 5,400,000 shares of Class A common stock reserved for issuance under our long term incentive plan. See Management MasterCard Long Term Incentive Plan.

Table of Contents**Summary Consolidated Financial and Other Data**

The statement of operations data presented below for the years ended December 31, 2004, 2003 and 2002, and the balance sheet data as of December 31, 2004 and 2003, were derived from the audited consolidated financial statements of MasterCard Incorporated included in this prospectus. The statement of operations data presented below for the years ended December 31, 2001 and 2000, and balance sheet data as of December 31, 2002, 2001 and 2000, were derived from the audited consolidated financial statements of MasterCard Incorporated and MasterCard International not included in this prospectus. The summary consolidated financial data presented below as of and for the six months ended June 30, 2005 and June 30, 2004 have been derived from the unaudited consolidated financial statements of MasterCard Incorporated included in this prospectus and, in the opinion of management, contain all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of our financial position and results of operations for such periods. Interim results for the six months ended June 30, 2005 are not necessarily indicative of, and are not projections for, the results to be expected for the full year ending December 31, 2005. The results of MasterCard Europe's operations have been included in our consolidated statements of operations from June 28, 2002 to the present. The data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes to those statements included in this prospectus.

| | Year Ended December 31, | | | | | Six Months Ended June 30, | |
|--|---|--------------|--------------|--------------|--------------|---------------------------------|--------------|
| | 2000 | 2001 | 2002(1) | 2003 | 2004 | 2004 | 2005(4) |
| | (In thousands, except per share and operating data) | | | | | | |
| Statement of Operations Data: | | | | | | | |
| Revenue | \$ 1,445,409 | \$ 1,611,334 | \$ 1,891,811 | \$ 2,230,851 | \$ 2,593,330 | \$ 1,241,585 | \$ 1,430,105 |
| General and Administrative | 737,259 | 813,927 | 965,299 | 1,098,552 | 1,185,837 | 561,494 | 625,803 |
| Advertising and Market Development | 470,733 | 505,732 | 694,010 | 851,150 | 915,851 | 396,320 | 403,257 |
| U.S. Merchant Lawsuit and Other Legal Settlements | | | | 763,460 | 21,653 | 3,896 | |
| Depreciation and Amortization | 59,397 | 69,973 | 90,505 | 119,551 | 123,317 | 62,942 | 57,096 |
| Operating Income (Loss) | 178,020 | 221,702 | 141,997 | (601,862) | 346,672 | 216,933 | 343,949 |
| Other Income (Expense) | 22,211 | 11,237 | 16,391 | (9,658) | (22,972) | (12,978) | (12,360) |
| Income (Loss) before cumulative effect of accounting change | 118,149 | 142,061 | 116,429 | (390,742) | 238,060 | 139,275 | 213,542 |
| Net Income (Loss) | 118,149 | 142,061 | 116,429 | (385,793) | 238,060 | 139,275 | 213,542 |
| Net Income (Loss) Per Share before cumulative effect of accounting change (Basic and Diluted)(5) | 1.65 | 1.98 | 1.35 | (3.91) | 2.38 | 1.39 | 2.14 |
| Net Income (Loss) Per Share (Basic and Diluted)(5) | 1.65 | 1.98 | 1.35 | (3.86) | 2.38 | 1.39 | 2.14 |
| Balance Sheet Data (at period end): | | | | | | | |
| Cash and Cash Equivalents | \$ 125,503 | \$ 165,943 | \$ 218,575 | \$ 248,119 | \$ 328,996 | \$ 314,875 | \$ 520,081 |
| Investment Securities current | 439,266 | 504,443 | 653,349 | 662,391 | 808,893 | 662,456 | 742,657 |
| Total Assets | 1,187,060 | 1,486,305 | 2,260,875 | 2,900,905 | 3,264,670 | 2,945,153 | 3,347,924 |
| Long-Term Debt | 82,992 | 80,065 | 80,107 | 229,574 | 229,569 | 229,515 | 229,476 |
| Obligations under U.S. Merchant Lawsuit and Other Legal Settlements, Long-term | | | | 516,686 | 468,547 | 542,420 | 491,559 |
| Stockholders /Members Equity | 462,408 | 606,661 | 1,023,406 | 698,721 | 974,952 | 820,928 | 1,128,528 |
| Operating Data: | | | | | | | |
| GDV (in billions)(2) | \$ 865 | \$ 986 | \$ 1,154 | \$ 1,282 | \$ 1,467 | \$ 691 | \$ 791 |

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| | | | | | | | |
|---|-------|-------|-------|--------|--------|-------|-------|
| Processed Transactions (in millions)(3) | 5,814 | 7,766 | 8,945 | 10,127 | 12,401 | 5,829 | 6,574 |
|---|-------|-------|-------|--------|--------|-------|-------|

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- (1) On June 28, 2002, we converted from a membership to a stock company through the creation of MasterCard Incorporated, a new holding company. Also on June 28, 2002, MasterCard Incorporated directly and indirectly acquired all of the outstanding stock of Europay International S.A. In 2002, Europay International was renamed and reorganized in Belgium as MasterCard Europe sprl. Note 18 to our consolidated financial statements more fully describes these transactions.
- (2) GDV represents the aggregate dollar amount of purchases made and cash disbursements obtained with MasterCard-branded cards and includes the impact of balance transfers and convenience checks. Maestro and Cirrus online debit transactions and other branded transactions are not included. The data set forth for GDV is derived from information provided by MasterCard members and includes information with respect to MasterCard-branded transactions that are not processed by MasterCard and for which MasterCard does not earn significant revenues. All data is subject to revision and amendment by MasterCard's members subsequent to the date of its release, which revisions and amendments may be material.
- (3) The data set forth for processed transactions represents all transactions processed by MasterCard, including Maestro and Cirrus online debit transactions, except for the year ended December 31, 2000, which does not include Maestro and Cirrus online debit transactions.
- (4) MasterCard is party to a number of currency conversion litigations. See Business Legal Proceedings. Based upon current developments in these cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, MasterCard recorded an additional \$48 million of legal reserves in September 2005. Based on future developments, this estimate may be revised.
- (5) In conjunction with the offering, MasterCard Incorporated will reclassify its existing shares of common stock into a higher number of shares of common stock. Accordingly, MasterCard will restate its shares outstanding and earnings per share for historical periods once its transition to being a publicly traded company is completed.

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RISK FACTORS

An investment in our Class A common stock involves a number of risks. You should carefully consider the following information about these risks, together with the other information contained in this prospectus, before investing in our Class A common stock. The following risks could materially adversely affect our business, financial condition or operating results. In that case, the trading price of our Class A common stock could decline and you could lose all or part of your investment.

Risks Related to Our Business

Legal and Regulatory Risks

Interchange fees are subject to increasingly intense legal and regulatory scrutiny worldwide, which may have a material adverse impact on our revenue, our prospects for future growth and our overall business.

Interchange fees, which represent a sharing of payment system costs among the financial institutions participating in a four-party payment card system such as ours, are generally the largest component of the costs that merchants pay to accept payment cards. Interchange fees, including MasterCard's multilateral interchange fees (MIFs), are subject to increasingly intense regulatory scrutiny worldwide. Regulators are seeking to reduce these costs through regulatory action. For example:

In the European Union, the European Commission has issued a Statement of Objections challenging MasterCard's cross-border MIF under European Union competition rules. If we do not obtain a favorable ruling, the European Commission could order us to change the manner in which MasterCard calculates its cross-border MIF.

In the United Kingdom the Office of Fair Trading (OFT) issued a decision on September 6, 2005 concluding that MasterCard's U.K. MIFs contravene U.K. and European Union competition law. If this decision is upheld on appeal, it could have a significant adverse impact on the revenues of MasterCard's U.K. members and on MasterCard's competitive position and overall business in the U.K. In addition, the OFT has stated that it will commence a new investigation of MasterCard's current U.K. MIFs and, if it determines that they contravene U.K. and European Union competition law, it will issue a new decision and possibly levy fines accruing from the date of its first decision.

In Australia, the Reserve Bank of Australia has enacted regulations controlling the costs that can be considered in setting interchange fees for four-party payment card systems such as ours, but do not regulate the merchant discount charged by proprietary end-to-end networks (such as those offered by American Express or Discover), which have already benefited from these regulations.

Interchange fees are also being reviewed in a number of other jurisdictions, including Colombia, Mexico, New Zealand, Poland, Portugal, South Africa, Spain and Switzerland. In the United States, interchange fees have also been the topic of increased Congressional and regulatory interest.

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In addition, merchants are seeking to reduce interchange fees through litigation. In the United States, merchants have filed several class-action suits alleging, among other things, that our interchange fees violate federal antitrust laws.

We believe that regulators are increasingly adopting a coordinated approach to interchange matters, as a result of which developments in any one jurisdiction may influence regulators' approach to interchange in other jurisdictions. We are devoting substantial management and financial resources to the defense of MIFs and to the other legal and regulatory challenges we face.

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If issuers cannot collect or are forced to reduce interchange fees, they may be unable to recoup a portion of the costs incurred for their services. This could reduce the number of financial institutions willing to participate in a four-party payment card system, lower overall transaction volumes, and/or make proprietary end-to-end networks or other forms of payment more attractive. Issuers could also charge higher fees to consumers, thereby making our card programs less desirable and reducing our transaction volumes and profitability, or attempt to decrease the expense of their card programs by seeking a reduction in the fees that we charge. If we are less successful than Visa in defending interchange fees, we could also be competitively disadvantaged against Visa. If we are ultimately unsuccessful in our defense of interchange fees, such regulation may have a material adverse impact on our revenue, our prospects for future growth, and our overall business.

If we are found liable in any of the cases brought by American Express or Discover, we may be forced to pay damages.

In 1998, the U.S. Department of Justice filed suit against MasterCard International, Visa U.S.A., Inc. and Visa International Corp. in the U.S. District Court for the Southern District of New York alleging that certain aspects of the governance of MasterCard and Visa were unlawful, and that MasterCard's Competitive Programs Policy (CPP) and a similar Visa bylaw provision that prohibited financial institutions participating in the respective systems from issuing competing proprietary payment cards (such as American Express or Discover) acted to restrain competition. Although we successfully defended the relevant aspects of our governance structure at trial, the Second Circuit Court of Appeals affirmed the trial court judge's ruling that our CPP and Visa's bylaw constituted unlawful restraints of trade under the U.S. federal antitrust laws. Based on the final judgment in this matter, we repealed our CPP in October 2004. Thereafter, Discover and American Express each filed suit against us, Visa U.S.A., Inc. and Visa International Services Association alleging that the CPP and Visa's bylaw provision caused each injury by unlawfully restraining trade under the U.S. federal antitrust laws. Discover also alleges that it suffered injury by reason of our rules which required merchants in the United States to accept our debit cards if they accepted other MasterCard-branded cards, before these rules were modified as part of the U.S. merchant lawsuit described below. The American Express claim names a number of member banks as co-defendants. If we are unsuccessful in defending against these lawsuits, we may have to pay treble damages, which could have a material adverse effect on our business. See Business Legal Proceedings.

If we are ultimately unsuccessful in any of our various lawsuits relating to our currency conversion practices, or if competing dynamic currency conversion services reduce the volume of foreign currency transactions we process, our business may be materially and adversely affected.

We generate significant revenue from processing foreign currency transactions for members. However, we are defendants in several state and federal lawsuits alleging that our currency conversion practices are deceptive, anti-competitive or otherwise unlawful. In particular, a trial judge in California found that our currency conversion practice is deceptive under California state law, and ordered us to mandate that members disclose the currency conversion process to cardholders in cardholder agreements, applications, solicitations and monthly billing statements. The judge also ordered unspecified restitution to California cardholders. The final judgment and restitution process have been stayed pending MasterCard's appeal. In addition, we have been served with similar complaints in several state courts seeking to, in effect, extend the judge's decision to our cardholders outside of California. We have succeeded in having several of these cases dismissed or transferred to the U.S. District Court for the Southern District of New York and combined with putative federal class actions. The class actions allege that our currency conversion practices violate federal antitrust laws. See Business Legal Proceedings. If we are unsuccessful in defending against these lawsuits, we may have to pay restitution to cardholders who make claims that they used their cards in another country, or may be required to modify our currency conversion practices.

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Based upon current developments in these cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, MasterCard recorded an additional \$48 million of legal reserves in September 2005. Based on future developments, this estimate may be revised.

In addition, some of our members and competitors provide currency conversion services at the point of sale (known as dynamic currency conversion) which, if chosen by the cardholder, could replace our own currency conversion processing services. If we are forced to change our pricing or practices for our currency conversion processing, or if we process fewer transactions because of competing dynamic currency conversion services or otherwise, our business may be materially and adversely affected.

If we are found liable in any of the other litigations that have been brought against us or in any other litigation to which we may be subject in the future, we may be forced to pay damages and/or change our business practices or pricing structure, any of which could have a material adverse effect on our revenue and profitability.

There are currently actions against MasterCard International in a number of state courts and the District of Columbia. In a number of these state courts, there are multiple complaints against MasterCard International brought under state unfair competition statutes on behalf of putative classes of consumers. The claims in these actions mirror the allegations made in the U.S. merchant lawsuit, which was brought by a number of U.S. merchants against MasterCard International and Visa and challenged, among other things, our Honor All Cards rule and a similar Visa rule and also asserted that we and Visa conspired to monopolize what they characterized as the point-of-sale debit card market. In June 2003, MasterCard International entered into a settlement agreement that resolved the U.S. merchant lawsuit and contract disputes with certain customers. See Business Legal Proceedings U.S. Merchant Opt Out and Consumer Litigations for a description of the settlement agreement. The putative consumer class actions are not covered by the terms of the June 2003 settlement agreement. These actions assert that merchants, faced with excessive merchant discount fees, have passed these overcharges to consumers in the form of higher prices on goods and services sold. In addition to these litigations, we are also being sued in several other state and federal courts in connection with our rules related to chargeback transactions. See Business Legal Proceedings. We may also be sued in the future in the United States or in other jurisdictions by our customers, merchants or consumers for substantial damages or injunctive relief in connection with our business practices. If we are unsuccessful in our defense against the consumer class actions, the merchant chargeback litigations, or any other litigation, we may be forced to pay damages and/or change our business practices and pricing structure, any of which could have a material adverse effect on our revenue and profitability.

If we determine in the future that we are required to establish reserves or we incur liabilities for any litigation that has been or may be brought against us, our results of operations, cash flow and financial condition could be materially and adversely affected and you could lose your investment.

Except with respect to currency conversion litigations, we have not established reserves for any of the legal proceedings in which we are currently involved and we are unable to estimate at this time the amount of charges, if any, that may be required to provide reserves for these matters in the future. We may determine in the future that a charge for all or a portion of any of our legal proceedings is required, including charges related to legal fees. In addition, we may be required to record an additional charge if we incur liabilities in excess of reserves that we have previously recorded. Such charges, particularly in the event we may be found liable in a large class-action lawsuit or on the basis of a claim entitling the plaintiff to treble damages, could be significant and could materially and adversely affect our results of operations, cash flow and financial condition and result in a significant reduction in the value, or the loss, of your investment. See Business Legal Proceedings.

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The payments industry is generally the subject of increasing global regulatory focus, which may impose costly new compliance burdens on us and our customers and lead to decreased transaction volumes through our systems.

We are subject to regulations that affect the payment industry in the many countries in which our cards are used. In particular, our customers are subject to numerous regulations applicable to banks and other financial institutions in the United States and abroad, and, consequently, MasterCard is at times affected by such regulations. Regulation of the payments industry, including regulation applicable to us and our customers, has increased significantly in recent years. For example, in 2002 MasterCard became subject to the regulatory requirements of Section 352(a) of the USA PATRIOT Act, which has required our customers and us to create and implement comprehensive anti-money laundering programs. Increased regulatory focus in this area could result in additional obligations or restrictions with respect to the types of products that we may offer to consumers, the countries in which our cards may be used, and the types of cardholders and merchants who can obtain or accept our cards.

The U.S. Congress is also presently considering regulatory initiatives in the areas of Internet gambling, Internet prescription drug purchases and copyright and trademark infringement, among others, that could impose additional compliance burdens on us and/or our customers. Most U.S. states are considering a variety of similar legislation. If implemented, these initiatives may require us or our customers to monitor, filter, restrict, or otherwise oversee various categories of payment card transactions, thereby increasing our costs or decreasing our transaction volumes. Various regulatory agencies are also considering regulations covering identity theft, account management guidelines, disclosure rules, security, and marketing that would impact our customers directly, in part due to increased scrutiny of our customers' underwriting standards. These new requirements may restrict our customers' ability to extend credit through the use of payment cards, which could decrease our transaction volumes. In some circumstances, new regulations could have the effect of limiting our customers' ability to offer new types of payment programs or restricting their ability to offer existing programs such as stored value cards, which could materially and adversely reduce our revenues and revenue growth.

In addition, in 2004, a number of regulations were issued implementing the Fair and Accurate Credit Transactions Act which, among other things, makes permanent the preemptive effect of several key provisions of the Fair Credit Reporting Act that could have a material impact on our customers' businesses. Additional implementing regulations are anticipated later this year. One such regulation pertaining to risk-based pricing could have a significant impact on the application process for credit cards, resulting in increased costs of issuance and/or a decrease in the flexibility of card issuers to set the price of credit. Regulators and Congress have also increased their scrutiny of our customers' pricing of credit. Any legislative or regulatory restrictions on our customers' ability to price credit freely could result in reduced amounts of credit available to consumers, which could materially and adversely affect our transaction volume and revenues.

Increased regulatory focus on us, such as in connection with the matters discussed above, may increase our costs, which could materially and adversely impact our financial performance. Similarly, increased regulatory focus on our customers may cause them to reduce the volume of transactions processed through our systems, which would reduce our revenues materially and adversely impact our financial performance.

Existing and proposed regulation in the areas of consumer privacy and data use and security could decrease the number of payment cards issued and could increase our costs.

We and our customers are also subject to regulations related to privacy and data use and security in the jurisdictions in which we do business, and we and our customers could be negatively impacted by these regulations. For example, in the United States, we and our customers are subject to the Federal

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Trade Commission's information safeguards rule under the Gramm-Leach-Bliley Act. The rule requires that each financial institution (including us) develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution's size and complexity, the nature and scope of the financial institution's activities, and the sensitivity of any customer information at issue. In 2005, there has been a heightened legislative and regulatory focus on data security, including requiring consumer notification in the event of a data breach. In the United States, there are a number of bills pending in Congress and there have been several congressional hearings to address these issues. Congress will likely consider data security/data breach legislation in 2005 or 2006 which, if implemented, could affect us and our customers. In addition, a number of states have enacted security breach legislation, requiring varying levels of consumer notification in the event of a security breach, and several other states are considering similar legislation.

In Europe, the European Parliament and Council have passed the European Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data, which obligates the controller of an individual's personal data to take the necessary technical and organizational measures to protect personal data. The Directive has been implemented through local laws regulating data protection in European Union member states to which we and our customers are subject.

Regulation of privacy and data use and security in these and other jurisdictions may increase the costs of our customers to issue payment cards, which may decrease the number of our cards that they issue. Any additional regulations in these areas may also increase our costs to comply with such regulations, which could materially and adversely affect our profitability. Finally, failure to comply with the privacy and data use and security laws and regulations to which we are subject could result in fines, sanctions or other penalties, which could materially and adversely affect our results of operations and overall business.

Business Risks

We face increasingly intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability.

We generate revenue from the fees that we charge our customers for providing transaction processing and other payment-related services and from assessments on the dollar volume of activity on cards carrying our brands. In order to increase transaction volumes, we seek to enter into business agreements with customers through which we offer incentives, pricing discounts and other support to issue and promote our cards. In order to stay competitive, we may have to increase the amount of these incentives and pricing discounts. Over the past several years, we experienced continued pricing reductions. The demand from our customers for better pricing arrangements and greater rebates and incentives moderates our growth. To date, our rapid overall volume growth, particularly in international markets, has allowed us to mitigate the impact on revenue of these pricing reductions or incentive increases. However, we may not be able to continue our expansion strategy, to process additional transaction volumes or to provide additional services to our customers at levels sufficient to compensate for such lower fees or increased costs in the future, which could materially and adversely affect our revenue and profitability. In addition, increased pressure on prices enhances the importance of cost containment and productivity initiatives in areas other than those relating to customer incentives. We may not succeed in these efforts.

Our strategy is to grow our business by, among other things, focusing on our key customers and entering into customized business agreements with key customers around the globe. We may in the future not be able to enter into such agreements on terms that we consider favorable, and we may be required to modify existing agreements in order to maintain relationships and to compete with others in the industry. Some of our competitors are larger or have greater financial resources than we do. In

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addition, to the extent that we offer discounts or incentives under such agreements, we will need to further increase transaction volumes or the amount of services provided thereunder in order to benefit incrementally from such agreements and to increase revenue and profit. Furthermore, a number of customers from which we earn substantial revenue are principally aligned with one of our competitors. A significant loss of revenue or transaction volumes from these customers could have a material adverse impact on our business.

Consolidation or other changes affecting the banking industry could result in a loss of business for MasterCard and may create pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability.

Over the last several years, the banking industry has undergone rapid consolidation, and we expect this trend to continue in the future. Consolidation represents a competitive threat to us because our strategy contemplates entering into business agreements with our largest customers in exchange for significant business commitments. Significant ongoing consolidation in the banking industry may result in a financial institution with a substantial MasterCard portfolio being acquired by an institution that has a strong relationship with a competitor, resulting in the loss of business for MasterCard. In addition, one or more of our customers could seek to merge with, or acquire, one of our competitors, and any such transaction could have a material adverse impact on our business and prospects.

The continued consolidation in the banking industry also produces a smaller number of larger customers, which generally have a greater ability to negotiate pricing discounts with MasterCard. In addition, consolidations could prompt our customers to renegotiate our business agreements to obtain more favorable terms. This pressure on the prices we charge our customers could materially and adversely affect our revenue and profitability.

In addition, changing regulatory environments in certain regions may lead us to change our pricing arrangements and could reduce our overall revenues.

Our revenue would decline significantly if we lose one or more of our most significant customers, which could have a material adverse impact on our business.

Most of our customer relationships are not exclusive and in certain circumstances may be terminated by our customers. Our customers can reassess their commitments to us at any time in the future and/or develop their own competitive services. Until October 15, 2006, we are required to permit issuers with which we have entered into business agreements in the United States before October 15, 2004 to terminate those agreements without penalty in order to enter into agreements with American Express or Discover as a result of the antitrust litigation that was brought against us by the U.S. Department of Justice. See Business Legal Proceedings. Accordingly, our business agreements with customers may not reduce the risk inherent in our business that customers may terminate their relationships with us in favor of our competitors, or for other reasons, or might not meet their contractual obligations to us.

In addition, a significant portion of our revenue is concentrated among our five largest customers. In 2004, these customers represented an aggregate of approximately \$931 million, or 36%, of total revenue. For the first six months of 2005, these customers represented an aggregate of approximately \$485 million, or 34%, of total revenue. One of our large customers, JPMorgan Chase Bank and its affiliates, generated 12% of our consolidated revenue in 2004 and 11% in the first six months of 2005. JPMorgan

Chase Bank also acts as our U.S. settlement bank and has a significant commitment under our revolving credit facility. Loss of business from JPMorgan Chase Bank or any of our other large customers could have a material adverse impact on our business.

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Merchants are increasingly focused on the costs of accepting card-based forms of payment, which may lead to additional litigation and regulatory proceedings and may increase the costs of our incentive programs, which could materially and adversely affect our profitability.

We rely on merchants and their relationships with our customers to expand the acceptance of our cards. We believe that consolidation in the retail industry is producing a set of larger merchants with increasingly global scope. These merchants are having a significant impact on all participants in the global payments industry, including MasterCard. For instance, as a result of the settlement agreement in connection with the U.S. merchant lawsuit, merchants have the right to reject our debit cards in the United States while still accepting other MasterCard-branded cards, and vice versa. See Business Legal Proceedings U.S. Merchant Opt Out and Consumer Litigations. In addition, some large merchants are supporting many of the legal and regulatory threats to interchange fees that MasterCard is now defending, since interchange fees represent a significant component of the costs that merchants pay to accept payment cards. See Interchange fees are subject to increasingly intense legal and regulatory scrutiny worldwide, which may have a material adverse impact on our revenue, our prospects for future growth and our overall business. The increasing focus of merchants on the costs of accepting cash-based forms of payment may lead to additional litigation and regulatory proceedings. Large merchants are also able to negotiate pricing discounts and other incentives from us and our customers in order to accept our payment cards. As merchants consolidate and become even larger, we may have to increase the amount of incentives that we provide to certain merchants, which could materially and adversely affect our revenues and profitability.

Our operating results may suffer because of substantial and increasingly intense competition worldwide in the global payments industry.

The global payments industry is highly competitive. Our payment programs compete against all forms of payment, including paper-based transactions (principally cash and checks), electronic transactions such as wire transfers and Automated Clearing House payments and other electronic forms of payment, including card-based payment systems. See Business Competition. Some of our competitors have developed, or may develop, substantially greater financial and other resources than we have, may offer a wider range of programs and services than we offer or may use more effective advertising and marketing strategies to achieve broader brand recognition or merchant acceptance than we have. We may not continue to be able to compete effectively against these threats. In addition, our competitors may be more efficient in introducing innovative programs and services than we are. As a result, our revenue or profitability may decline.

We have repealed our Competitive Programs Policy as a result of a final judgment in our litigation with the U.S. Department of Justice, and our business may suffer as a result.

Based on a final judgment of our litigation with the U.S. Department of Justice, in October 2004 we repealed our CPP, which prohibited financial institutions participating in our system from issuing competing proprietary payment cards. See Business Legal Proceedings Department of Justice Antitrust Litigation and Related Private Litigation. As a result, our issuers are now permitted to issue general purpose credit or debit cards in the United States on any other general purpose card network (such as American Express or Discover). This may cause our members to issue fewer cards with our brand and to enter into arrangements with our competitors to issue cards, thereby reducing the volume of transactions that we process, decreasing our revenues. A number of our large customers, including MBNA Corporation, Citibank and GE Finance, have announced that they will issue American Express or Discover-branded cards. Accordingly, the repeal of the CPP may have a material adverse affect on our business, revenue and profitability.

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We depend significantly on our relationships with our customers to manage our payment system. If we are unable to maintain those relationships, or if our customers are unable to maintain their relationships with cardholders or merchants that accept our cards for payment, our business may be materially and adversely affected.

We are, and will continue to be, significantly dependent on our relationships with our issuers and acquirers and their further relationships with cardholders and merchants to support our programs and services. We do not issue cards, extend credit to cardholders or determine the interest rates (if applicable) or other fees charged to cardholders using cards that carry our brands. Each issuer determines these and most other competitive card features. In addition, we do not solicit merchants to process transactions or establish the discount rate that merchants are charged for card acceptance, which are responsibilities of our acquirers. As a result, our business significantly depends on the continued success and competitiveness of our issuer and acquirer customers. In turn, our customers' success depends on a variety of factors over which we have little or no influence. If our customers become financially unstable, we may lose revenue or we may be exposed to settlement risk as described below.

With the exception of the United States and a select number of other jurisdictions, most in-country (as opposed to cross-border) transactions conducted using MasterCard, Maestro and Cirrus cards are authorized, cleared and settled by our customers or other processors without involving our central processing systems. Because we do not provide domestic processing services in these countries and do not, as described above, have direct relationships with cardholders or merchants, we depend on our close working relationships with our customers to effectively manage our brands, together with the perception of our payment system, among regulators, merchants and consumers in these countries. From time to time, our customers may take actions that we do not believe to be in the best interests of our payment system overall, which may materially and adversely impact our business. In addition, our competitors may process a greater percentage of domestic transactions in jurisdictions outside the United States than we do. As a result, our inability to control the end-to-end processing on cards carrying our brands in many markets may put us at a competitive disadvantage by limiting our ability to introduce value-added programs and services that are dependent upon us processing the underlying transactions.

We rely on the continuing expansion of merchant acceptance of our brands and programs. Although our business strategy is to invest in strengthening our brands and expanding our acceptance network, there can be no guarantee that our efforts in these areas will continue to be successful. If the rate of merchant acceptance growth slows or reverses itself, our business could suffer.

If we are unable to grow our debit business, particularly in the United States, we may fail to maintain and increase our revenue growth.

In recent years, we believe that industry-wide offline and online debit transactions have grown more rapidly than credit or charge transactions. However, in the United States, we believe that transactions involving our brands account for a smaller share of all offline, signature-based debit transactions than they do credit or charge transactions. In addition, many of our competitors process a greater number of online, PIN-based debit transactions at the point of sale than we do, since our Maestro brand has relatively low market penetration in the United States. We may not be able to increase our market penetration for debit transactions in the United States since many of our competitors have long-standing and strong market positions. We may also be impacted adversely by any tendency among U.S. consumers or financial institutions to migrate from offline, signature-based debit transactions to online, PIN-based transactions, because the latter types of transactions are more likely to be processed by other ATM/debit point-of-sale networks. In addition, we generally earn higher revenues on point-of-sale purchase transactions than on cash access transactions, and on domestic credit and offline debit transactions than on comparable online debit transactions.

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Furthermore, in June 2003, following the settlement of the U.S. merchant lawsuit, Visa enacted a bylaw requiring its 100 largest issuers of debit cards in the United States to pay a so-called settlement service fee if these issuers reduce their debit Visa volume by more than 10%. This bylaw was later modified to clarify that the settlement service fee would only be imposed if an issuer shifted its portfolio of debit cards to MasterCard. See Business Legal Proceedings Department of Justice Antitrust Litigation and Related Private Litigation for a description of our response to this bylaw provision. If Visa is permitted to impose this settlement service fee on issuers of debit cards according to this bylaw, it would penalize Visa members seeking to do debit business with MasterCard and would effectively prohibit them from converting their debit card programs to our programs.

Any of these factors may inhibit the growth of our debit business, which could materially and adversely affect our revenues and overall prospects for future growth.

The changes to our governance structure in connection with this offering could have a material adverse effect on our business relationship with our members.

A number of our key customers are currently represented on our board of directors. Upon the consummation of this offering, the organization and composition of our board of directors will be substantially restructured. In particular, our certificate of incorporation will be amended to provide that, with the exception of the directors to be elected by the holders of our Class M common stock, any person who is or has been during the prior three years a director, officer, employee, agent or representative of, or otherwise has any business relationship that is material to such person with, a member or former member of MasterCard International, or of an operator, member, or licensee of any competing general purpose payment card system, or any affiliate of such person, may not serve as a director of MasterCard. In addition, our members will be able to own only Class B common stock, which has no voting power, and Class M common stock, which is generally non-voting except that it provides the right to elect up to three directors (but not more than one-quarter of all directors) and approve specified significant corporate actions. If certain of our members are dissatisfied with these changes to our corporate governance structure, this could have a material adverse effect on our business relationship with them and they may elect to instead do business with a competitor with a different governance structure. In addition, our members' ownership in our company will be reduced substantially in connection with this offering. The reduced ownership may reduce their interest in the continued success of our business. A significant loss of revenue or transaction volumes from our members could have a material adverse effect on our business.

Global economic, political and other conditions may adversely affect trends in consumer spending and in cross-border travel, which may materially and adversely impact our revenue and profitability.

The global payments industry depends heavily upon the overall level of consumer, business and government spending. A sustained deterioration in general economic conditions, particularly in the United States or Europe, or increases in interest rates in key countries in which we operate, may adversely affect our financial performance by reducing the number or average purchase amount of transactions involving payment cards carrying our brands. In addition, a significant portion of the volume generated on cards carrying our brands (and a significant portion of the revenue we earn outside the United States) are associated with cross-border business and leisure travel, which may be adversely affected by world geopolitical and other conditions. In particular, revenue from processing foreign currency transactions for our customers fluctuates with cross border travel and our customers need for transactions to be converted into their base currency.

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As a guarantor of certain obligations of principal members and affiliate debit licensees, we are exposed to risk of loss or illiquidity if any of our members default on their MasterCard, Cirrus or Maestro settlement obligations.

We may incur liability in connection with transaction settlements if an issuer or acquirer fails to fund its daily settlement obligations due to technical problems, liquidity shortfall, insolvency or other reasons. If a principal member or affiliate debit licensee is unable to fulfill its settlement obligations to other members, we may bear the loss even if we do not process the transaction. In addition, although we are not contractually obligated to do so, we may elect to keep merchants whole if an acquirer defaults on its merchant payment obligations, in order to maintain the integrity and acceptance of our brands. Our estimated gross legal settlement exposure was approximately \$13.9 billion as of June 30, 2005. We established a revolving credit facility in the amount of \$2.25 billion to provide liquidity in the event of one or more settlement failures by our members. While we believe that we have sufficient liquidity to cover a settlement failure by any of our largest customers on their peak day, concurrent settlement failures of more than one of our largest customers or of several of our smaller customers may exceed our available resources and could materially and adversely affect our business and financial condition. In addition, even if we have sufficient liquidity to cover a settlement failure, we may not be able to recover the cost of such a payment and may therefore be exposed to significant losses, which could materially and adversely affect our results of operations, cash flow and financial condition. For more information on our settlement exposure, see Note 11 to our consolidated interim financial statements.

Upon completion of this offering, we will no longer have the right to impose special assessments upon the members of MasterCard International, which could leave us exposed to significant losses that could materially and adversely affect our results of operations, cash flow and financial condition or could lead to a downgrading of our ratings by ratings agencies.

In connection with this offering, the certificate of incorporation and the bylaws of MasterCard International will be amended to eliminate the right of MasterCard International to impose special assessments upon its members. This special assessment right allows MasterCard International to recover all or a portion of its expenses and liabilities arising out of extraordinary events, such as settlements or judgments in major litigations and catastrophic occurrences that may cause significant risk or damage to MasterCard. The loss of this special assessment right accordingly leaves us exposed to significant risks and losses from these types of extraordinary events and could materially and adversely affect our results of operations, cash flow and financial condition. In addition, the loss of this special assessment right could lead to a downgrading of our ratings by rating agencies, which could result in an increase of our interest expense for borrowings under our credit facility. Following the announcement of this offering, Standard & Poor's Ratings Services placed us on credit watch with negative implications. Downgrading of our ratings could materially and adversely affect our future ability to obtain funding or materially increase the cost of any additional funding.

If our transaction processing systems are disrupted or we are unable to process transactions efficiently or at all, our revenue or profitability would be materially reduced.

Our transaction authorization, clearing and settlement systems may experience service interruptions as a result of fire, natural disasters, power loss, disruptions in long distance or local telecommunications access, fraud, terrorism or accident. Most of our transaction processing systems are controlled by a single facility, supported by a separate smaller co-processing facility. A natural disaster or other problem at our primary and/or back-up facilities or our other owned or leased facilities could interrupt our services. Additionally, we rely on third-party service providers, such as AT&T, for the timely transmission of information across our global data transportation network. If a service provider fails to provide the communications capacity or services we require, as a result of natural

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disaster, operational disruption, terrorism or any other reason, the failure could interrupt our services, adversely affect the perception of our brands' reliability and materially reduce our revenue or profitability.

Account data breaches involving card data stored by us or third parties could adversely affect our reputation and revenue.

We, our customers, and other third parties store cardholder account information in connection with our payment cards. In addition, our customers may sponsor third-party processors to process transactions generated by cards carrying our brands. Breach of the systems on which sensitive cardholder data and account information are stored could lead to fraudulent activity involving our cards, damage the reputation of our brands and lead to claims against us. For example, in 2005, a third-party processor that held account information for approximately 40 million cards, approximately 10.1 million of which were MasterCard cards. As a result, we have been named in a lawsuit and may be subject to additional lawsuits in connection with data security breaches involving payment cards carrying our brands. If we are unsuccessful in defending lawsuits involving such data security breaches, we may be forced to pay damages, which could materially and adversely affect our profitability. In addition, any damage to our reputation or that of our brands resulting from an account data breach could decrease the use and acceptance of our cards, which could have a material adverse impact on our transaction volumes, revenue and future growth prospects.

An increase in fraudulent activity using our cards could lead to reputational damage to our brands and could reduce the use and acceptance of our cards

Criminals are using increasingly sophisticated methods to capture cardholder account information to engage in illegal activities such as fraud and identity theft. As outsourcing and specialization become a more acceptable way of doing business in the payments industry, there are more third parties involved in processing transactions using our cards. If fraud levels involving our cards were to rise, it could lead to regulatory intervention (such as mandatory card reissuance) and reputational and financial damage to our brands, which could reduce the use and acceptance of our cards, and have a material adverse impact on our business.

If we are not able to keep pace with the rapid technological developments in our industry to provide customers, merchants and cardholders with new and innovative payment programs and services, the use of our cards could decline, which would reduce our revenue and income.

The payment card industry is subject to rapid and significant technological changes, including continuing developments of technologies in the areas of smart cards, radio frequency and proximity payment devices (such as contactless cards), electronic commerce and mobile commerce, among others. We cannot predict the effect of technological changes on our business. We rely in part on third parties, including some of our competitors and potential competitors, for the development of and access to new technologies. We expect that new services and technologies applicable to the payments industry will continue to emerge, and these new services and technologies may be superior to, or render obsolete, the technologies we currently use in our card programs and services. In addition, our ability to adopt new services and technologies that we develop may be inhibited by a need for industry-wide standards or by resistance from customers or merchants to such changes. Our future success will depend, in part, on our ability to develop or adapt to technological changes and evolving industry standards.

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Adverse currency fluctuations and foreign exchange controls could decrease revenue we receive from our international operations.

During 2004 and the first six months of 2005, approximately 42% and 45% of our revenue, respectively, was generated from activities outside the United States. Some of the revenue we generate outside the United States is subject to unpredictable and indeterminate fluctuations if the values of other currencies change relative to the U.S. dollar. Resulting exchange gains and losses are included in our net income. Our risk management activities provide protection with respect to adverse changes in the value of only a limited number of currencies. Furthermore, we may become subject to exchange control regulations that might restrict or prohibit the conversion of our other revenue currencies into U.S. dollars. The occurrence of any of these factors could decrease revenues we receive from our international operations and have a material adverse impact on our business.

Any acquisitions that we make could disrupt our business and harm our financial condition.

We may evaluate or make strategic acquisitions of complementary businesses, products or technologies. We may not be able to successfully finance or integrate any such businesses, products or technologies. Furthermore, the integration of any acquisition may divert management's time and resources from our core business and disrupt our operations. We may spend time and money on projects that do not increase our revenue. To the extent we pay the purchase price of any acquisition in cash, it would reduce our cash reserves, including the proceeds from this offering available to us for other uses, and to the extent the purchase price is paid with our stock, it could be dilutive to our stockholders. While we from time to time evaluate potential acquisitions of businesses, products and technologies, and anticipate continuing to make these evaluations, we have no present understandings, commitments or agreements with respect to any material acquisitions.

We expect to record a significant net loss for the first quarter of 2006 as a result of the donation of shares of our Class A common stock and cash to The MasterCard Foundation.

At the time of this offering, we intend to donate 13,500,047 newly-issued shares of our Class A common stock and \$ of cash to The MasterCard Foundation, a private charitable foundation. In connection with this donation we expect to record an expense that is equal to the aggregate value of the cash and shares we are donating, which expense will generally not be deductible for tax purposes. The value of the shares of Class A common stock we donate will be determined based on the initial public offering price per share of Class A common stock in this offering less a marketability discount of %. Based on an initial public offering price per share of \$ (the mid-point of the price range set forth on the cover page of this prospectus), we expect to record an expense of \$. As a result of this expense, we expect to record a significant net loss for the three months ended March 31, 2006 and may record a net loss for the 2006 fiscal year. As a result of the difference between the financial statement treatment and tax treatment of the donation, we expect there to be a significant increase to our effective tax rate in the period in which the transaction closes and for that fiscal year. See Management's Discussion and Analysis of Financial Condition and Results of Operations Donation of Shares of Class A Common Stock and Cash to The MasterCard Foundation.

Risks Related to Our Class A Common Stock and This Offering

There may not be an active trading market for shares of our Class A common stock, which may cause our Class A common stock to trade at a discount from its initial offering price and make it difficult to sell the shares you purchase.

Prior to this offering, there has been no public trading market for shares of our Class A common stock. Although we intend to apply to list our Class A common stock on the NYSE, it is possible that, after this offering, an active trading market will not develop or continue. The initial public offering price

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per share of our Class A common stock will be determined by agreement among us and the representative of the underwriters, and may not be indicative of the price at which the shares of our Class A common stock will trade in the public market after this offering.

Future sales of our shares of Class A common stock could depress the market price of our Class A common stock.

The market price of our Class A common stock could decline as a result of sales of a large number of shares in the market after the offering or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us or you to sell equity securities in the future. Upon completion of this offering, we will have 75,035,145 outstanding shares of Class A common stock (or 79,650,277 shares if the underwriters exercise their option to purchase additional shares in full), of which 61,535,098 shares (or 66,150,230 shares if the underwriters exercise their option to purchase additional shares in full) will have been sold in this offering and may be resold immediately in the public market and 13,500,047 shares will have been issued as a donation to The MasterCard Foundation and, under the terms of the donation, may be resold by The MasterCard Foundation commencing on the fourth anniversary of the consummation of this offering to the extent necessary to comply with charitable giving requirements. In addition, The MasterCard Foundation will be permitted to sell all of the remaining shares held by it starting twenty years and eleven months after the consummation of this offering. Also, in the event that the underwriters do not exercise in full their option to purchase up to an additional 4,615,132 shares of Class A common stock from us in connection with this offering, our certificate of incorporation will require us, prior to the time of our 2007 annual meeting of stockholders, to issue additional shares of Class A common stock in a public offering and to use the proceeds from such offering to redeem additional shares of Class B common stock so that, immediately following such subsequent offering and redemption, our existing stockholders will own approximately 41% of the aggregate number of shares of Class A common stock and Class B common stock at that time.

In addition, immediately following the offering transactions, our existing stockholders will hold 59,965,325 shares of our Class B common stock (or 55,350,193 shares if the underwriters exercise their option to purchase additional shares in full), each of which will, commencing on the fourth anniversary of the consummation of this offering, be convertible for shares of our Class A common stock on a one-for-one basis, subject to certain rights of first refusal by the other holders of Class B common stock. All of the shares of Class A common stock issuable upon conversion of such shares will be freely tradable without restriction or registration under the Securities Act by persons other than our affiliates. These future sales, or the perception that such sales may occur, could depress the market price of our Class A common stock.

We have agreed with the underwriters not to dispose of or hedge any of our Class A common stock or securities convertible into or exchangeable for shares of our Class A common stock, subject to specified exceptions, during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of Goldman, Sachs & Co. Subject to these agreements, we may issue and sell in the future additional shares of Class A common stock.

Because a substantial portion of the proceeds from this offering will be used to redeem shares of Class B common stock, we will not have any of those proceeds available to invest in our business.

We estimate that our proceeds from this offering (based on an initial public offering price of \$ _____ per share), after deducting underwriting discounts and estimated offering expenses, will be approximately \$ _____, or \$ _____ if the underwriters exercise their option to purchase additional _____

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shares in full. We intend to use all but \$650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters' option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters' option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital. We will not have any of the proceeds from this offering that we use to redeem shares of our Class B common stock available to us to invest in and grow our business. See "Use of Proceeds."

Anti-takeover provisions in our charter documents and Delaware law could delay or prevent entirely a takeover attempt or a change in control.

Provisions contained in our amended and restated certificate of incorporation and bylaws and Delaware law could delay or prevent entirely a merger or acquisition that our stockholders consider favorable. These provisions may also discourage acquisition proposals or have the effect of delaying or preventing entirely a change in control, which could harm our stock price. For example, subject to limited exceptions, our amended and restated certificate of incorporation will prohibit any person from beneficially owning more than 15% of any of the Class A common stock, the Class B common stock or any other class or series of our stock with general voting power, or more than 15% of our total voting power. Further, no member or former member of MasterCard International, or any operator, member or licensee of any competing general purpose payment card system, or any affiliate of any such person, may beneficially own any share of Class A common stock or any other class or series of our stock entitled to vote generally in the election of directors. In addition,

our board of directors will be divided into three classes, with approximately one-third of our directors elected each year;

up to three of our directors (but no more than one-quarter of all directors) will be elected by the holders of our Class M common stock;

any representative of a competitor of MasterCard or of The MasterCard Foundation will be disqualified from service on our board of directors;

our directors, other than the directors elected by the holders of our Class M common stock (who may be removed without cause by the holders of the Class M common stock), may be removed only for cause and only upon the affirmative vote of at least 80% in voting power of all the shares of stock then entitled to vote at an election of directors, voting together as a single class;

our stockholders are not entitled to the right to cumulate votes in the election of directors;

holders of our Class A common stock are not entitled to act by written consent;

our stockholders must provide timely notice for any stockholders proposals and director nominations;

we have adopted limited liability provisions that eliminate the personal liability of directors and the members of our European Board for monetary damages for actions taken as a director or member, with certain exceptions; and

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a vote of 80% or more of all of the outstanding shares of our stock then entitled to vote is required to amend certain sections of our amended and restated certificate of incorporation and for stockholders to amend any provision of our bylaws.

See Description of Capital Stock Anti-Takeover Effects of Certain Provisions of Our Amended and Restated Certificate of Incorporation and Bylaws and Delaware Law Anti-Takeover Statute.

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A substantial portion of our voting power will be held by The MasterCard Foundation, which will be restricted from selling shares for an extended period of time.

Following completion of this offering, The MasterCard Foundation is expected to own 13,500,047 shares of Class A common stock, representing approximately 10% of our equity and 18% of our general voting power (or 17% of our general voting power if the underwriters exercise their option to purchase additional shares in full). Under the terms of the donation, The MasterCard Foundation may not sell or otherwise transfer its shares of Class A common stock prior to the date which is twenty years and eleven months following the consummation of this offering, except to the extent necessary to comply with charitable giving requirements starting on the fourth anniversary of the consummation of this offering. The ownership of Class A common stock by The MasterCard Foundation, together with the restrictions on transfer, could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock. In addition, The MasterCard Foundation may not have the same incentive to approve a corporate action that may be favorable for the other public stockholders, or their interests may otherwise conflict with yours.

The holders of our Class M common stock have the right to elect up to three of our directors and to approve significant corporate transactions, and their interests in our business may be different than yours.

Our amended and restated certificate of incorporation will require us to obtain the approval of the holders of our Class M common stock, voting separately as a class, for a variety of enumerated items. For example, the approval of the holders of our Class M common stock will be required to make certain amendments to our certificate of incorporation, to approve the sale, lease or exchange of all or substantially all of our assets, to approve the consummation of mergers or consolidations of MasterCard or for us to cease to engage in the business of providing core network authorization, clearing and settlement services for branded payment card transactions. In addition, the holders of our Class M common stock will have the right to elect up to three of our directors. Because shares of the Class M common stock do not have any economic rights, the holders of the Class M common stock may not have the same incentive to approve a corporate action that may be favorable for the holders of Class A common stock, or their interests may otherwise conflict with yours. See [Description of Capital Stock](#) [Common Stock](#) [Voting Rights](#).

Certain aspects of our European operations will be managed by a European Board that will be elected by the European holders of Class M common stock and which may reach different decisions than our Global Board of Directors.

Certain aspects of our European operations, including review of membership applications, levying of fines and certain assessments and fees applicable to European members, establishment of intraregional operating rules, approval of the European annual expense budget, surplus funds, and implementation of certain intraregional product and enhancement developments and affinity and co-branding rules will be managed by or under the direction of our European Board. The European Board will be elected by holders of our Class M common stock who have their principal operations in Europe, and is expected to consist of representatives of our European members. Although our board of directors may, through a majority or a two-thirds vote depending on the circumstances, override decisions or temporarily assume any authority granted to the European Board, the European Board may reach different decisions than our board of directors would have reached on the same matter.

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Our ability to pay regular dividends to our holders of Class A common stock is subject to the discretion of our board of directors and will be limited by our ability to generate sufficient earnings and cash flows.

After consummation of this offering, we intend to pay cash dividends on a quarterly basis on our shares of Class A common stock and Class B common stock. Our board of directors may, in its discretion, decrease the level of dividends or discontinue the payment of dividends entirely. The payment of dividends will be dependent upon our ability to generate earnings and cash flows so that we may pay our obligations and expenses and pay dividends to our stockholders. However, sufficient cash may not be available to pay such dividends. Payment of future dividends, if any, would be at the discretion of our board of directors after taking into account various factors, including our financial condition, settlement guarantees, operating results and current and anticipated cash needs. If, as a consequence of these various factors, we are unable to generate sufficient earnings and cash flows from our business, we may not be able to make or may have to reduce or eliminate the payment of dividends on our shares of Class A common stock and Class B common stock.

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, in particular, statements about our plans, strategies and prospects under the headings Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business. You can identify these forward-looking statements by the use of words such as outlook, believes, anticipates, expects, potential, continues, may, will, should, seeks, approximately, predicts, estimates, anticipates, or the negative version of these words or variations on these words and similar expressions. Such forward-looking statements are subject to various risks and uncertainties and are not guarantees of future performance. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, those described under Risk Factors. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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USE OF PROCEEDS

We estimate that our net proceeds from this offering of shares of Class A common stock (based on an assumed initial public offering price of \$ _____ per share), after deducting underwriting discounts and estimated offering expenses, will be approximately \$ _____ million (or \$ _____ million if the underwriters exercise their option to purchase additional shares in full). We intend to use all but \$650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters' option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters' option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital for general corporate purposes.

DIVIDEND POLICY

Upon completion of this offering, our board of directors currently intends to adopt a policy of declaring, subject to legally available funds, a quarterly cash dividend at an annual rate initially equal to \$ _____ per share unless our board of directors, in its sole discretion, determines otherwise, commencing with the _____ quarter of 2006. However, sufficient cash may not be available to pay such dividends. Payment of future dividends, if any, would be at the discretion of our board of directors after taking into account various factors, including our financial condition, settlement guarantees, operating results and current and anticipated cash needs.

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The following table sets forth our consolidated capitalization as of June 30, 2005:

on an actual basis; and

on a pro forma as adjusted basis to give effect to:

the reclassification of our existing common stock into Class B common stock and Class M common stock;

the issuance and sale by us of 61,535,098 shares of Class A common stock in this offering, at an assumed initial public offering price of \$ per share and after deducting estimated underwriting discounts, commissions and offering expenses;

the donation by us of 13,500,047 newly-issued shares of Class A common stock and \$ of cash to The MasterCard Foundation; and

the redemption by us of 75,035,145 shares of Class B common stock, as described in Use of Proceeds.

You should read this table together with the other information contained in this prospectus, including Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes to those statements.

| | June 30, 2005 | |
|--|-----------------------|----------------------------------|
| | Actual | Pro forma as adjusted |
| | (in thousands) | |
| Cash and cash equivalents | \$ 520,081 | |
| Long-term debt | \$ 229,476 | |
| Stockholders' equity: | | |
| Common stock | 1,000 | |
| Additional paid-in capital | 967,368 | |
| Retained earnings | 92,338 | |
| Accumulated other comprehensive income, net of tax | 67,822 | |
| Total stockholders' equity | 1,128,528 | |

| | | |
|----------------------|--------------|----|
| Total Capitalization | \$ 1,358,004 | \$ |
|----------------------|--------------|----|

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The statement of operations data presented below for the years ended December 31, 2004, 2003 and 2002, and balance sheet data as of December 31, 2004 and 2003, were derived from the audited consolidated financial statements of MasterCard Incorporated included in this prospectus. The statement of operations data presented below for the years ended December 31, 2001 and 2000, and balance sheet data as of December 31, 2002, 2001 and 2000, were derived from the audited consolidated financial statements of MasterCard International not included in this prospectus. The selected consolidated financial data presented below for the six months ended June 30, 2005 and June 30, 2004 have been derived from the unaudited consolidated financial statements of MasterCard Incorporated included in this prospectus and, in the opinion of management, contain all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of our financial position and results of operations for such periods. Interim results for the six months ended June 30, 2005 are not necessarily indicative of, and are not projections for, the results to be expected for the full year ending December 31, 2005. The results of MasterCard Europe's operations have been included in our consolidated statements of operations from June 28, 2002 to present. The data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes to those statements included in this prospectus.

| | Year Ended December 31, | | | | | Six Months Ended June 30, | |
|--|----------------------------------|--------------|--------------|--------------|--------------|---------------------------------|--------------|
| | 2000 | 2001 | 2002(1) | 2003 | 2004 | 2004 | 2005(2) |
| | (In thousands, except per share) | | | | | | |
| Statement of Operations Data: | | | | | | | |
| Revenue | \$ 1,445,409 | \$ 1,611,334 | \$ 1,891,811 | \$ 2,230,851 | \$ 2,593,330 | \$ 1,241,585 | \$ 1,430,105 |
| General and Administrative | 737,259 | 813,927 | 965,299 | 1,098,552 | 1,185,837 | 561,494 | 625,803 |
| Advertising and Market Development | 470,733 | 505,732 | 694,010 | 851,150 | 915,851 | 396,320 | 403,257 |
| U.S. Merchant Lawsuit and Other Legal Settlements | | | | 763,460 | 21,653 | 3,896 | |
| Depreciation and Amortization | 59,397 | 69,973 | 90,505 | 119,551 | 123,317 | 62,942 | 57,096 |
| Operating Income (Loss) | 178,020 | 221,702 | 141,997 | (601,862) | 346,672 | 216,933 | 343,949 |
| Other Income (Expense) | 22,211 | 11,237 | 16,391 | (9,658) | (22,972) | (12,978) | (12,360) |
| Income (Loss) before cumulative effect of accounting change | 118,149 | 142,061 | 116,429 | (390,742) | 238,060 | 139,275 | 213,542 |
| Net Income (Loss) | 118,149 | 142,061 | 116,429 | (385,793) | 238,060 | 139,275 | 213,542 |
| Net Income (Loss) Per Share before cumulative effect of accounting change (Basic and Diluted)(3) | 1.65 | 1.98 | 1.35 | (3.91) | 2.38 | 1.39 | 2.14 |
| Net Income (Loss) Per Share (Basic and Diluted)(3) | 1.65 | 1.98 | 1.35 | (3.86) | 2.38 | 1.39 | 2.14 |
| Balance Sheet Data (at period end): | | | | | | | |
| Cash and Cash Equivalents | \$ 125,503 | \$ 165,943 | \$ 218,575 | \$ 248,119 | \$ 328,996 | \$ 314,875 | \$ 520,081 |
| Investment Securities current | 439,266 | 504,443 | 653,349 | 662,391 | 808,893 | 662,456 | 742,657 |
| Total Assets | 1,187,060 | 1,486,305 | 2,260,875 | 2,900,905 | 3,264,670 | 2,945,153 | 3,347,924 |
| Long-Term Debt | 82,992 | 80,065 | 80,107 | 229,574 | 229,569 | 229,515 | 229,476 |
| Obligations under U.S. Merchant Lawsuit and Other Legal Settlements, Long-term | | | | 516,686 | 468,547 | 542,420 | 491,559 |
| Stockholders /Members Equity | 462,408 | 606,661 | 1,023,406 | 698,721 | 974,952 | 820,928 | 1,128,528 |

- (1) On June 28, 2002, we converted from a membership to a stock company through the creation of MasterCard Incorporated, a new holding company. Also on June 28, 2002, MasterCard Incorporated directly and indirectly acquired all of the outstanding stock of Europay International S.A. In 2002, Europay International was renamed and reorganized in Belgium as MasterCard Europe sprl. Note 18 to our consolidated financial statements more fully describes these transactions.

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- (2) MasterCard is party to a number of currency conversion litigations. See Business - Legal Proceedings. Based upon current developments in these cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, MasterCard recorded an additional \$48,000 of legal reserves in September 2005. Based on future developments, this estimate may be revised.
- (3) In conjunction with the offering, MasterCard Incorporated will reclassify its existing shares of common stock into a higher number of shares of common stock. Accordingly, MasterCard will restate its shares outstanding and earnings per share for historical periods once its transition to being a publicly traded company is completed.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the consolidated financial statements of MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International and MasterCard Europe and the notes to those statements included elsewhere in this prospectus.

Overview

We are a global payment solutions company that provides a variety of services in support of our customers' credit, debit and related payment programs. We manage a family of well-known, widely accepted payment card brands including MasterCard®, MasterCard Electronic, Maestro® and Cirrus®, which we license to our financial institution customers. As part of managing these brands, we also provide our customers with information and transaction processing services and establish and enforce rules and standards surrounding the use of our payment card system by customers and merchants. We generate revenues from the fees that we charge our customers for providing these transaction processing and other payment-related services (operations fees) and by charging assessments to our customers based on the dollar volume of activity on the cards that carry our brands (assessments). Our operating expenses are comprised primarily of general and administrative expenses such as personnel, professional fees, data processing, telecommunications and travel and expenses to promote our brands such as advertising, marketing, promotions and sponsorships.

Our liquidity and capital position are strong. We had \$1.2 billion in cash, cash equivalents and available-for-sale securities, and \$1.1 billion in stockholders' equity as of June 30, 2005.

We achieved double-digit revenue growth of 16% in 2004 and 15% in the first six months of 2005 from the comparable periods in 2003 and 2004, respectively. Favorable foreign currency fluctuation from the euro to U.S. dollar in 2004 and the first six months in 2005 contributed 2% and 1%, respectively, to revenue growth. The increases in revenues are due to higher gross usage on cards carrying our brands for goods and services (gross dollar volume or GDV), a larger number of transactions processed by MasterCard, economic recovery in many countries and higher cross-border travel. In 2005, a portion of revenue growth was attributable to certain pricing changes which went into effect in the second quarter of 2005.

Operating expenses increased 7% in 2004, excluding the impact of the U.S. merchant lawsuit and other legal settlements, and 6% in the first six months of 2005 from the comparable periods in 2003 and 2004, respectively. Foreign currency fluctuations from the euro to U.S. dollar in 2004 and the first six months in 2005 contributed 2% and 1%, respectively, to the increase in operating expenses. During 2004, we continued to realign our operations and limit the growth of our operating expenses through successful vendor negotiations. In addition, 1% of the increase in operating expenses in 2004 was due to the impact of acquisitions.

We successfully complied with Sarbanes-Oxley Section 404 testing two years ahead of the U.S. Securities and Exchange Commission's deadline for non-accelerated filers. We concluded, based on our assessment, that our internal controls over financial reporting were effective as of December 31, 2004.

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We believe the trend within the global payments industry from paper-based forms of payment such as cash and checks toward electronic forms of payment such as cards creates significant opportunities for the continued growth in our business. Our strategy is to drive growth by further penetrating our existing customer base and by expanding our role in targeted geographies and higher-growth segments of the global payments industry, enhancing our merchant relationships,

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maintaining unsurpassed acceptance and continuing to invest in our brands. We are committed to providing our key customers with coordinated services through integrated, dedicated account teams in a manner that allows us to leverage our expertise in payment programs, brand marketing, product development, technology, processing and consulting services for these customers. By investing in strong customer relationships over the long term, we believe that we can increase our volume of business with key customers over time, and in support of this strategy we are hiring additional resources and developing sales and other personnel. There is increased regulatory scrutiny of interchange fees in the payments industry generally and, in addition to regulatory actions, we face exposure to antitrust and other types of litigation. In addition, competition and pricing pressure within the global payments industry is increasing, due in part to consolidation within the banking sector and the growing power of merchants. In addition, changing regulatory environments in certain regions may lead us to change our pricing arrangements and could reduce our overall revenues.

Donation of Shares of Class A Common Stock and Cash to The MasterCard Foundation

At the time of this offering, we intend to donate 13,500,047 newly-issued shares of our Class A common stock and \$ of cash to The MasterCard Foundation, a private charitable foundation. We believe the establishment of The MasterCard Foundation and this donation will underscore our commitment to the societies in which we operate and create a sizeable stockholder with a vested interest in our stability and long-term success. In connection with this donation we expect to record an expense that is equal to the aggregate value of the cash and shares we are donating, which expense will generally not be deductible for tax purposes. The value of the shares of Class A common stock we donate will be determined based on the initial public offering price per share of Class A common stock in this offering less a marketability discount of %. Based on an initial public offering price per share of \$ (the mid-point of the price range set forth on the cover page of this prospectus), we expect to record an expense of \$. As a result of this expense, we expect to record a significant net loss for the three months ended March 31, 2006 and may record a net loss for the 2006 fiscal year. As a result of this difference between the financial statement treatment and tax treatments of the donation, we expect there to be a significant increase to our effective tax rate for both the three months ended March 31, 2006 and the 2006 fiscal year compared to the same periods in 2005.

Impact of Foreign Currency Rates

Our operations are impacted by changes in foreign currency exchange rates. Assessment fees are calculated based on local currency volume, which is converted to U.S. dollar volume using average exchange rates for the quarter. As a result, assessment revenues increased in each period due to the devaluation of the U.S. dollar. In 2004 and for the first six months of 2005, the 14% increase in GDV on a U.S. dollar converted basis in each period exceeded local currency GDV growth of 11% and 12%, respectively, compared to the same period in the prior year. In addition, consumer behavior, particularly international travel and purchases, may vary with changes in foreign currency exchange rates.

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We are especially impacted by the movements of the euro relative to the U.S. dollar since MasterCard Europe's functional currency is the euro. The devaluation of the U.S. dollar against the euro and the impact of the translation of MasterCard Europe's operating results into U.S. dollar amounts are summarized as follows:

| | For the Years Ended December 31, | | | Six Months Ended June 30, | |
|--|-------------------------------------|---------|-----------|------------------------------|---------|
| | 2004 | 2003 | 2002 | 2005 | 2004 |
| Euro to U.S. dollar average exchange rate | \$ 1.24 | \$ 1.13 | \$.99(1) | \$ 1.28 | \$ 1.22 |
| Devaluation of U.S. dollar to euro | 10% | 14% | | 5% | 11% |
| Revenue growth attributable to translation of MasterCard Europe revenues to U.S. dollars | 2% | 2% | | 1% | 2% |
| Operating expense growth attributable to translation of MasterCard Europe expenses to U.S. dollars | 2% | 1% | | 1% | 2% |

(1) Average in 2002 is calculated from June 28, 2002, the date of our acquisition of Europay International.

Revenues

Our revenues are generated from the fees that we charge our customers for providing transaction processing and other payment-related services, and from assessments calculated on GDV. GDV represents gross usage (purchase and cash disbursements) on cards carrying our brands for goods and services, including balance transfers and convenience checks. Our revenues are based upon transactional information accumulated by our systems or reported by our customers. Certain revenues are estimated based upon aggregate transaction information and projected customer performance. A component of our revenue growth in the six months ended June 30, 2005 was the result of implementing new fees and changes to existing fees charged to our customers during the three months ended June 30, 2005.

We believe revenue growth in recent years has been positively impacted by a worldwide trend in which payments are migrating from paper-based forms to electronic forms such as payment cards and the growth in cross-border transactions. However, this growth is being moderated by the demand from our customers for better pricing arrangements and greater rebates and incentives. Accordingly, we have entered into business agreements with certain customers and merchants to provide GDV-based and other performance support incentives. Rebates and incentives as a percentage of gross revenues were approximately 16%, 17% and 16% in 2004, 2003 and 2002, respectively, and 18% and 15% of total revenues in the six months ended June 30, 2005 and 2004, respectively. These pricing arrangements reflect enhanced competition in the global payments industry and the continued consolidation and globalization of our key customers and merchants. The rebates and incentives are calculated on a monthly basis based upon estimated performance and the terms of the related business agreements. Rebates and incentives are recorded as a reduction of revenue in the same period that performance occurred.

We establish standards and procedures for the acceptance and settlement of our customer's transactions on a global basis. Our customers may choose to engage third parties for transaction processing and are responsible to ensure these third parties comply with our standards. Cardholder and merchant relationships are managed principally by our customers. Accordingly, we do not issue cards, extend credit to cardholders, determine the interest rates (if applicable) or other fees charged cardholders by issuers, or establish the merchant discount charged by acquirers in connection with the acceptance of cards that carry our brands.

Our operations fees and assessments vary significantly across regions and depend on the type of transaction processed. We generally earn higher revenues on cross-border transactions than on

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domestic transactions because, by operating a global system, we are able to charge more for our services. In addition, we generally earn higher revenues on point-of-sale purchase transactions than on cash access transactions, and on domestic credit and offline debit transactions than on comparable online debit transactions.

The United States remains our largest geographic market based on revenues. However, international revenues grew at a faster rate than U.S. revenues in 2004, particularly in the European region. The growth in the European region in 2004 was primarily due to new assessment revenue streams and increased transactions. Accordingly, revenue generated in the United States was approximately 58%, 63% and 61% of total revenues in 2004, 2003 and 2002, respectively, and 55% and 58% of total revenues in the six months ended June 30, 2005 and 2004, respectively. No individual country, other than the United States, generated more than 10% of total revenues in any period.

Our business is dependent on certain world economies and consumer behaviors. In the past, our revenues have been impacted by specific events such as the war in Iraq, the SARS outbreak and the September 11, 2001 terrorist attack. Consumer behavior can be impacted by a number of factors, including confidence in the MasterCard brand.

Results of Operations for the Six Months Ended June 30, 2005 and 2004

| | <u>Six Months Ended June 30,</u> | | <u>Percent Increase (Decrease)</u> |
|---|---|-------------|--|
| | <u>2005</u> | <u>2004</u> | <u>2005 vs. 2004</u> |
| | (In millions, except per share and GDV amounts) | | |
| Operations fees | \$ 901 | \$ 769 | 17% |
| Assessments | 529 | 473 | 12 |
| Revenue | 1,430 | 1,242 | 15 |
| General and administrative | 626 | 562 | 11 |
| Advertising and market development | 403 | 396 | 2 |
| U.S. merchant lawsuit and other legal settlements | | 4 | |
| Depreciation and amortization | 57 | 63 | (10) |
| Total operating expenses | 1,086 | 1,025 | 6 |
| Operating income | 344 | 217 | 59 |
| Total other income (expense) | (12) | (13) | 8 |
| Income before income tax expense | 332 | 204 | 63 |
| Income tax expense | 118 | 65 | 82 |
| Net income | \$ 214 | \$ 139 | 54 |
| Net income per share (basic and diluted) | \$ 2.14 | \$ 1.39 | 54 |
| Weighted average shares outstanding (basic and diluted) | 100 | 100 | |
| Effective income tax rate | 35.6% | 31.7% | |
| GDV on a U.S. dollar converted basis (in billions) | \$ 791 | \$ 691 | 14 |
| Processed transactions | 6,574 | 5,829 | 13 |

Revenues

Operations Fees

Operations fees primarily represent user fees for authorization, clearing, settlement and other payment-related services that facilitate transaction and information management among our customers

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on a global basis. Operations fees increased \$132 million, or 17%, in the six months ended June 30, 2005, compared to the same period in 2004. The significant changes in operations fees were as follows:

| | Change in Revenue | |
|--|----------------------------------|-------------|
| | Increase (Decrease) | |
| | Six Months Ended June 30, | |
| | 2005 vs. 2004 | |
| | (In millions) | |
| Authorization, settlement and switch | \$ | 60 |
| Acceptance development fees | | 32 |
| Currency conversion | | 22 |
| Consulting fees and research subscriptions | | 13 |
| Connectivity | | 8 |
| Other operations fees | | 19 |
| | | <hr/> |
| Gross operations fees change | | 154 |
| Increase in rebates | | (22) |
| | | <hr/> |
| Net change in operations fees | \$ | 132 |
| | | <hr/> <hr/> |

Authorization, settlement and switch revenues increased \$60 million, or 14%, in the six months ended June 30, 2005 compared to the same period in 2004. These revenues are driven by the number of transactions processed through our systems, which increased 13% in the six months ended June 30, 2005 compared to the same periods in 2004. In addition, these revenues increased due to the pricing of a component of these revenues being restructured during 2005.

Acceptance development fees assessed to members have increased to support our focus on developing merchant relationships and promote acceptance at the point of sale. New fees were implemented and the pricing on existing fees was increased during 2005.

Currency conversion revenues increased \$22 million, or 17%, in the six months ended June 30, 2005 compared to the same period in 2004. These revenues fluctuate with the level of cross-border transactions and our customers' need for transactions to be converted into their base currency.

Consulting fees and research subscriptions are primarily generated by MasterCard Advisors, our advisory services group. Consulting fees have increased due to new engagements with our customers. Additionally, in the first quarter of 2004, MasterCard acquired a research firm and revenues from this firm were greater in the six months ended June 30, 2005 compared to the same period in 2004.

Our connectivity fee structure changed in the three months ended June 30, 2005 to be based on the volume of information being transmitted through MasterCard systems and the number of connections. Previously, connectivity fees were solely based on the number of connections. This change resulted in incremental revenue in the six months ended June 30, 2005.

Other operations fees represent various revenue streams including system services, fees for non-compliance with MasterCard's standards, sales of holograms, manuals and publications. The change in any individual component of this revenue category is not considered material.

Rebates relating to operations fees are primarily based on transactions and volumes and, accordingly, increase as these variables increase. Rebates have been increasing due to agreements with new customers, renewals of existing agreements, ongoing consolidation of our customers and competition. Rebates as a percentage of gross operations fees were 8% and 7% in the six months ended June 30, 2005 and 2004, respectively.

Table of Contents*Assessments*

Assessments are revenues that are calculated based on our customers' GDV. In the six months ended June 30, 2005, assessments revenue, net of rebates and incentives, grew \$56 million, or 12%, and GDV increased 14% (on a U.S. dollar converted basis) or 12% (on a local currency basis) versus the same period in the prior year. Assessment rates vary based on the nature of the transactions that generate the GDV.

Specific countries in Europe and Latin America have separate marketing assessment fees based on volume. These fees are used by MasterCard to expand new and existing market development programs to promote our brand in these countries. In addition to the increase in GDV, assessments for these regions increased due to new or higher regional marketing assessment fees.

Rebates and incentives provided to customers and merchants relating to assessments increased \$78 million in the six months ended June 30, 2005 versus the comparable period in 2004. These rebates and incentives reduce revenue, moderate assessments growth and are generally based on GDV, as well as a fixed component for the issuance of new cards or the launch of new programs. Rebates and incentives as a percentage of gross assessments were 31% and 26% in the six months ended June 30, 2005 and 2004, respectively. We entered into pricing arrangements with certain large customers and merchants in 2004 that we expect will moderate net revenue growth in 2005 and subsequent years.

Operating Expenses

Our operating expenses are comprised of general and administrative, advertising and market development, and depreciation and amortization expenses. For the first six months of 2005, our operating expenses as a percentage of total revenues declined to 76% from 83% for the comparable period in 2004. Operating expenses increased 6%, or \$61 million, in the six months ended June 30, 2005 compared to the same period in the prior year.

General and Administrative

General and administrative expenses consist primarily of personnel, professional fees, data processing, telecommunications and travel. In the six months ended June 30, 2005, general and administrative expenses as a percentage of net revenues were approximately 44%, compared to 45% in the same period in 2004. The major components of changes in general and administrative expenses were as follows:

**Change
Increase (Decrease)**

Six Months

**Ended June 30,
2005 vs. 2004**

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| | (In millions) |
|---|---------------|
| Personnel | \$ 48 |
| Professional fees | 9 |
| Telecommunications | (3) |
| Travel | 9 |
| Other | 1 |
| | <hr/> |
| General and administrative expense change | \$ 64 |
| | <hr/> |

Personnel expense increased in 2005 primarily due to additional headcount to support our strategic initiatives and the acquisition of the two consulting firms in the first and second quarters of 2004. As we continue to expand our customer-focused approach and expand our relationships with merchants, additional personnel are required.

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Professional fees increased in the six months ended June 30, 2005 primarily due to legal fees and consulting services being utilized primarily to develop and implement our strategic initiatives.

Telecommunications expense in the six months ended June 30, 2005 decreased as a result of our ongoing evaluation of telecommunication needs, including renegotiation of certain contracts with service providers.

Travel expenses are incurred primarily for travel to customer and regional meetings. More travel in the six months ended June 30, 2005 than in the comparable period in 2004 was necessary to maintain and enhance our relationships with customers and merchants.

Other includes rental expense for our facilities, foreign exchange gains and losses and other miscellaneous administrative expenses. During the six months ended June 30, 2005, foreign exchange gains of \$3 million offset increases in other general and administrative expenses.

Advertising and Market Development

Advertising and market development consists of expenses associated with advertising, marketing, promotions and sponsorships, which promote our brand and assist our customers in achieving their goals by raising consumer awareness and usage of cards carrying our brands. Advertising and market development expenses increased \$7 million, or 2%, in the six months ended June 30, 2005. In the six months ended June 30, 2005, advertising and market development expenses as a percentage of net revenues were approximately 28% of total revenues compared to 32% in the same period in 2004.

Our brands, principally MasterCard, are valuable strategic assets that drive card acceptance and usage and facilitate our ability to successfully introduce new service offerings and access new markets. Our approach to marketing activities combines advertising, sponsorships, promotions, interactive media and public relations as part of an integrated package designed to increase MasterCard brand awareness and preference and usage of MasterCard cards. We are committed to maintaining and enhancing our brands and image through advertising and marketing efforts on a global scale.

Depreciation and Amortization

Depreciation and amortization expenses decreased \$6 million in the six months ending June 30, 2005 versus the comparable period in 2004. This decrease was primarily related to the maturity of certain capital leases and certain assets becoming fully depreciated.

Income Taxes

The effective tax rate for the six months ended June 30, 2005 was 35.6%, compared to 31.7% for the six months ended June 30, 2004. The rate in 2004 was lower than 2005 primarily due to the settlement and reassessment of various tax audit matters, the filing and recognition of refund claims and revaluation of MasterCard's deferred state tax assets due to a higher effective state tax rate.

Table of Contents**Results of Operations for the Years Ended December 31, 2004, 2003 and 2002**

Our acquisition of MasterCard Europe (formerly Europay International S.A.) on June 28, 2002 affects the comparability of our financial data. The results of MasterCard Europe's operations have been included in our consolidated statements of operations from June 28, 2002. However, MasterCard Europe's GDV and transactions are included in all periods, since MasterCard Europe operated a MasterCard branded business prior to the acquisition.

| | For the Years Ended | | | Percent | |
|--|---|-----------|----------|---------------------|------------------|
| | December 31, | | | Increase (Decrease) | |
| | 2004 | 2003 | 2002 | 2004 vs. 2003 | 2003 vs. 2002 |
| | (In millions, except per share, percent and GDV amounts) | | | | |
| Operations fees | \$ 1,637 | \$ 1,431 | \$ 1,232 | 14.4% | 16.2% |
| Assessments | 956 | 800 | 660 | 19.5 | 21.2 |
| Revenue | 2,593 | 2,231 | 1,892 | 16.2 | 17.9 |
| General and administrative | 1,186 | 1,099 | 965 | 7.9 | 13.9 |
| Advertising and market development | 916 | 851 | 694 | 7.6 | 22.6 |
| U.S. merchant lawsuit and other legal settlements | 22 | 763 | | (97.1) | ** |
| Depreciation and amortization | 122 | 120 | 91 | 1.7 | 31.9 |
| Total operating expenses | 2,246 | 2,833 | 1,750 | (20.7) | 61.9 |
| Operating income (loss) | 347 | (602) | 142 | 157.6 | (523.9) |
| Total other income (expense) | (23) | (10) | 16 | (130.0) | (162.5) |
| Income (loss) before income tax expense (benefit) and cumulative effect of accounting change | 324 | (612) | 158 | 152.9 | (487.3) |
| Income tax expense (benefit) | 86 | (221) | 42 | 138.9 | (626.2) |
| Cumulative effect of accounting change, net of tax | | 5 | | (100.0) | ** |
| Net income (loss) | \$ 238 | \$ (386) | \$ 116 | 161.7 | (432.8) |
| Net income (loss) per share (basic and diluted) | \$ 2.38 | \$ (3.86) | \$ 1.35 | 161.7 | (385.9) |
| Weighted average shares outstanding (basic and diluted) | 100 | 100 | 86 | | 16.3 |
| Effective income tax (benefit) rate | 26.5% | (36.1)% | 26.5% | ** | ** |
| GDV on a US dollar converted basis (in billions) | 1,466.7 | 1,282.3 | 1,153.7 | 14.4 | 11.1 |
| Processed transactions | 12,400.6 | 10,126.7 | 8,944.7 | 22.5 | 13.2 |

** Not meaningful

Table of Contents**Revenues***Operations Fees*

Operations fees increased \$206 million, or 14%, in 2004 and \$199 million, or 16%, in 2003, in each case compared to the prior year. The acquisition of MasterCard Europe accounted for \$111 million, or 56%, of the increase in operations fees in 2003. The significant changes in operations fees were as follows:

| | Change in Revenue Increase | |
|--------------------------------------|-------------------------------|---------------|
| | (Decrease) | |
| | 2004 | 2003 |
| | (In millions) | |
| Authorization, settlement and switch | \$ 128 | \$ 172 |
| Currency conversion | 47 | 30 |
| Consulting | 19 | |
| Customer/Cardholder services | 17 | 6 |
| Research subscriptions | 8 | |
| Excessive chargeback penalties | (12) | 15 |
| Other operations fees | 25 | (8) |
| | <u>232</u> | <u>215</u> |
| Gross operations fees change | 232 | 215 |
| Increase in rebates | (26) | (16) |
| | <u>\$ 206</u> | <u>\$ 199</u> |
| Net operations fees change | \$ 206 | \$ 199 |

Authorization, settlement and switch revenues increased \$128 million, or 16%, in 2004 and \$172 million, or 28%, in 2003. These revenues are driven by the number of transactions processed through our systems, which increased 23% and 13% in 2004 and 2003, respectively. In the third quarter 2003, MasterCard began processing the Switch brand in the U.K., significantly impacting processed transactions growth. Excluding Switch transactions, processed transaction growth would have been 13% and 10% in 2004 and 2003, respectively. In 2003, a significant portion of the increase in these revenues was due to the acquisition of MasterCard Europe. In 2004 and 2003, the volatility of exchange rates contributed to increased trading settlement revenue of \$16 million and \$33 million, respectively.

Currency conversion revenues increased \$47 million in 2004 and \$30 million in 2003. These revenues fluctuate with the level of cross-border transactions and our customers' need for transactions to be converted into their base currency. While the conflict in Iraq, threat of terrorism and outbreak of SARS negatively impacted cross-border travel in the beginning of 2003, travel increased significantly in the latter part of 2003 and in 2004. In 2003, the increase was principally due to the acquisition of MasterCard Europe.

Consulting fees are primarily generated by MasterCard Advisors, our advisory services group. During 2004, the incremental consulting revenue was primarily the result of the acquisition of a research firm and a consulting firm.

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Customer/Cardholder services include revenue earned for providing enhanced services to our customers or their cardholders. Examples of these services are telecommunication assistance, ATM locator and concierge programs. These revenues increased due to an overall increase in the demand for our programs and services.

Research subscriptions are generated by MasterCard Advisors. This represented a new revenue stream that resulted from the acquisition of a research firm in 2004.

Excessive chargeback fees are charged to acquirers with merchants that experience a high level of disputed claims from their customers. During 2004 and 2003, customers were

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assessed fees of \$13 million and \$25 million, respectively, for excessive chargebacks in accordance with MasterCard rules. The decrease in excessive chargeback fees in 2004 was the result of the imposition of such fees on one large acquiring customer in 2003 in connection with its merchant activity, in accordance with the MasterCard rules.

Other operations fees represent various revenue streams including system services, compliance, sales of holograms, and sales of manuals and publications. The change in any individual revenue line is not considered material.

Rebates to certain customers continued to increase in 2004, particularly in the United States, due to ongoing consolidation of our customers and increasingly intense competition. Accordingly, rebates as a percentage of gross operations fees increased to 7% in 2004 compared to 6% in 2003.

Assessments

In 2004 and 2003, assessments, net of rebates and incentives, grew \$156 million, or 20%, and \$140 million, or 21%, respectively. GDV growth was 11% and 7% in 2004 and 2003, respectively, when measured in local currency terms, and 14% and 11%, respectively, when measured on a U.S. dollar converted basis. The acquisition of MasterCard Europe accounted for \$94 million, or 68%, of the increase in assessments in 2003; excluding MasterCard Europe, assessments growth was 8% in 2003.

In addition to the increase in GDV, assessments grew due to the following factors:

In certain countries in Europe and Latin America, our customers are charged a marketing assessment fee based on volume. These fees are used by MasterCard to expand new and existing market development programs to promote our brand in these countries. These fees, which were extended to additional countries in 2003 and 2004, increased \$28 million, or 37%, in 2004 and \$49 million, or 185%, in 2003.

Assessment rates vary based on the nature of the transactions that generate the GDV. In 2004, there was stronger growth in international volumes and purchase volumes, which are assessed at higher rates than domestic volumes and cash volumes, respectively.

As described above, rebates and incentives provided to our customers and merchants relating to assessments increased in 2004 and 2003. These rebates and incentives reduce revenue, moderate assessments growth and are generally based on GDV, as well as a fixed component for the issuance of new cards or the launch of new programs. Rebates and incentives increased \$29 million and \$72 million in 2004 and 2003, respectively. Rebates and incentives as a percentage of gross assessments were 29%, 31% and 30% in 2004, 2003 and 2002, respectively. During 2004 and 2003, we increased the incentives offered to certain customers and merchants to promote usage and acceptance of our brands. Additionally, the increase in rebates in 2003 can be attributed to the addition of new member contracts by MasterCard Europe subsequent to its acquisition by MasterCard.

Operating Expenses

Our operating expenses are comprised of general and administrative, advertising and market development, U.S. merchant lawsuit and other legal settlements and depreciation and amortization expenses. We reduced our operating expenses, excluding the

impact of the U.S. merchant lawsuit and other legal settlements, as a percentage of total revenues to 86% in 2004 from 93% in 2003 and 92% in 2002. In 2004, there was a decrease in operating expenses of \$587 million, or 21%, compared to the prior year. Excluding the charges to earnings related to the U.S. merchant lawsuit and other legal settlements, there would have been an increase in operating expenses of \$154 million, or 7%, in 2004 compared to the prior year. Operating expenses increased in 2004 by \$31 million in connection with

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the acquisition of a research firm and a consulting firm. In 2003, there was an increase in operating expenses of \$1.1 billion, or 62%, compared to the prior year, of which \$763 million, or 70%, was a result of the U.S. merchant lawsuit and other legal settlements and \$197 million, or 18%, was due to the acquisition of MasterCard Europe.

General and Administrative

General and administrative expenses consist primarily of personnel, professional fees, data processing, telecommunications and travel. In 2004, 2003 and 2002, these activities accounted for approximately 46%, 49% and 51% of total revenues, respectively. General and administrative expenses increased \$87 million in 2004 and \$134 million in 2003, primarily due to increases in personnel expenses. The acquisition of MasterCard Europe accounted for \$110 million, or 82%, of the increase in general and administrative expenses in 2003. The major components of changes in general and administrative expenses were as follows:

| | Change Increase (Decrease) | |
|--|---|---------------|
| | 2004 | 2003 |
| | (In millions) | |
| Personnel | \$ 52 | \$ 98 |
| Professional fees | 30 | 10 |
| Telecommunications | (13) | 1 |
| Data processing | 5 | 10 |
| Travel | 5 | 2 |
| Other | 8 | 13 |
| | — | — |
| Net general and administrative change | \$ 87 | \$ 134 |
| | — | — |

Personnel expense increased in 2004 primarily due to performance and merit increases resulting from better than anticipated performance against company objectives and the acquisition of two consulting firms. In 2003, the increase was primarily due to a full year of salaries and benefits as compared to six months in 2002 resulting from the acquisition of MasterCard Europe.

Professional fees increased in 2004 primarily due to consulting services utilized in developing our strategic initiatives and services related to compliance with Section 404 of the Sarbanes-Oxley Act.

Telecommunications expense decreased in 2004 as a result of our ongoing evaluation of telecommunication needs, including renegotiation of certain contracts with service providers.

Data processing consists of expenses to operate and maintain MasterCard's computer systems. These expenses vary with business volume growth, system upgrades and usage.

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Travel expenses are incurred primarily for travel to customer and regional meetings and accordingly vary with business activity.

Other includes rental expense for our facilities, foreign exchange gains and losses, impairment expense and other miscellaneous administrative expenses.

Advertising and Market Development

Advertising and market development consists of expenses associated with advertising, marketing, promotions and sponsorships, which promote our brands and assist our customers in achieving their goals by raising consumer awareness and usage of cards carrying our brands. In 2004, 2003 and 2002 these activities accounted for approximately 35%, 38% and 37% of total revenues, respectively. Advertising and market development expenses increased \$65 million, or 8%, in 2004 and

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\$157 million, or 23%, in 2003. The acquisition of MasterCard Europe accounted for \$70 million or 45% of the increase in advertising and market development expenses in 2003.

MasterCard implemented a four-year plan in 2002 to accelerate our growth and enhance the global position of MasterCard and our customers by significantly expanding our spending in advertising and market development. For the year ended December 31, 2004, 2003 and 2002 we spent \$192 million, \$152 million and \$87 million, respectively, on advertising and marketing relating to this plan. The primary focus of these initiatives is to build brand recognition, promote brand acceptance and enhance the development of our programs and services in certain markets. We will continue to evaluate the extent of these initiatives in light of changing market conditions.

Merchant Lawsuit and Other Legal Settlements

In the first quarter of 2003, we recorded a pre-tax charge of \$721 million (\$469 million after-tax) consisting of (i) the monetary amount of the U.S. merchant lawsuit settlement (discounted at 8 percent over the payment term), (ii) certain additional costs in connection with, and in order to comply with, other requirements of the U.S. merchant lawsuit settlement, and (iii) costs to address the merchants who opted not to participate in the plaintiff class in the U.S. merchant lawsuit. The \$721 million pre-tax charge amount was an estimate, which was subsequently revised based on the approval of the U.S. merchant lawsuit settlement agreement by the court, and other factors. In addition, other legal settlements were made in 2004 and 2003. Total liabilities for the U.S. merchant lawsuit and other legal settlements changed as follows:

| | |
|---|--------|
| Balance as of December 31, 2002 | \$ |
| U.S. merchant lawsuit and other legal settlements | 763 |
| Interest accretion | 43 |
| Payments | (134) |
| | <hr/> |
| Balance as of December 31, 2003 | 672 |
| Currency conversion court award of plaintiff attorney's fees | 14 |
| Other legal settlements and revisions of U.S. merchant lawsuit opt-out estimate | 8 |
| Interest accretion | 51 |
| Payments | (149) |
| Other | 2 |
| | <hr/> |
| Balance as of December 31, 2004 | \$ 598 |
| | <hr/> |

Depreciation and Amortization

Depreciation and amortization expenses increased \$2 million in 2004 and \$29 million in 2003. In 2003, depreciation and amortization expense increased significantly due to the acquisition of MasterCard Europe as well as additional capitalized computer software. The acquisition of MasterCard Europe accounted for \$17 million, or 59%, of the increase in depreciation and amortization in 2003.

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Our business is dependent on the technology that we use to process transactions. This technology is continuously updated and improved. Therefore, our investment in capitalized software and related amortization also continues to increase. In recent years we have made the following significant changes to our technology and technology centers, which have caused an increase in our depreciation and amortization:

During 2003, our co-processing technology center was moved from Lake Success, New York to Kansas City, Missouri. The cost of the new facility and equipment was \$36 million.

During 2004 and 2003, we continued to invest in our System Enhancement Strategy, an upgrade of all of MasterCard's core systems to improve productivity and lower overall processing costs.

Table of Contents**Other Income and Expense**

Other income (expense) is comprised primarily of investment income and interest expense. Investment income decreased \$8 million in 2004 and increased \$31 million in 2003. The decrease in 2004 resulted from a decline in the market value of our trading securities portfolio. The increase in 2003 was primarily due to the consolidation of a variable interest entity and appreciation of the market value of our trading securities portfolio. Interest expense increased \$7 million and \$53 million in 2004 and 2003, respectively, primarily due to interest expense of \$51 million and \$43 million, respectively, related to imputed interest on the U.S. merchant lawsuit settlement. In addition, in 2003, the consolidation of a variable interest entity increased interest expense.

Income Taxes

The effective income tax expense (benefit) rate for years ended December 31, 2004, 2003 and 2002 was 26.5%, (36.1)% and 26.5%, respectively. The increase in the rate in 2004 was primarily attributable to the settlement and reassessment of various tax audit matters, the filing and recognition of refund claims and a one-time increase in our deferred state tax assets as a result of additional income subject to higher state and local tax rates. The 2003 tax benefit was primarily driven by the U.S. merchant lawsuit settlement. The amount of the litigation settlement and its impact on pretax income was so large that the permanent differences for 2003, which are shown in the table below, did not significantly affect the tax rate, resulting in a tax benefit at the highest marginal tax rate. The increase in the rate from 2002 to 2003 was primarily attributable to a one-time revaluation in 2002 of MasterCard Europe's deferred tax liabilities due to the reduction in the Belgium statutory tax rate from 40.2% to 34.0% in December 2002. The components impacting the effective tax rate are:

For the Years Ended December 31,

| | 2004 | | 2003 | | 2002 | |
|--|------------------|---------|------------------|---------|------------------|---------|
| | Dollar Amount | Percent | Dollar Amount | Percent | Dollar Amount | Percent |
| | (In millions) | | (In millions) | | (In millions) | |
| Income (loss) before income tax expense (benefit) and cumulative effect of accounting change | \$ 324 | | \$ (612) | | \$ 158 | |
| Federal statutory tax (benefit) | \$ 113 | 35.0% | \$ (214) | (35.0)% | \$ 55 | 35.0% |
| State tax effect, net of Federal benefit | 4 | 1.3 | 2 | 0.3 | 6 | 3.9 |
| Foreign tax effect, net of Federal benefit | 4 | 1.2 | (4) | (0.6) | (3) | (1.7) |
| Non-deductible expenses and other differences | 4 | 1.0 | 2 | 0.3 | 5 | 2.7 |
| Tax exempt income | (7) | (2.1) | (7) | (1.1) | (7) | (4.4) |
| Adjustment to deferred tax for change in tax rate: | | | | | | |
| United States state | (8) | (2.6) | | | | |
| Foreign | | | | | (11) | (6.9) |
| Refund claims and settlement of audit matters: | | | | | | |
| United States | (11) | (3.4) | | | | |
| Foreign | (13) | (3.9) | | | (3) | (2.1) |

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| | | | | | | |
|------------------------------|--------------|--------------|-----------------|----------------|--------------|--------------|
| Income tax expense (benefit) | <u>\$ 86</u> | <u>26.5%</u> | <u>\$ (221)</u> | <u>(36.1)%</u> | <u>\$ 42</u> | <u>26.5%</u> |
|------------------------------|--------------|--------------|-----------------|----------------|--------------|--------------|

Table of Contents**Liquidity**

We need capital resources and liquidity to fund our global development, to provide for credit and settlement risk, to finance capital expenditures and any future acquisitions and to service the payments of principal and interest on our outstanding debt and the settlement of the U.S. merchant lawsuit. At June 30, 2005 and December 31, 2004, we had \$1.2 billion and \$1.1 billion, respectively, of cash, cash equivalents and available-for-sale securities with which to manage operations. We expect that the cash generated from operations and our borrowing capacity will be sufficient to meet our operating, working capital and capital needs in 2005. However, our liquidity could be negatively impacted by the outcome of any of the legal or regulatory proceedings to which we are a party. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks.

| | | | | Percent Change | | Six Months Ended June 30, | | Percent Change |
|---|---------------|----------|----------|----------------|---------------|---------------------------|----------|---------------------------------|
| | 2004 | 2003 | 2002 | 2004 vs. 2003 | 2003 vs. 2002 | 2005 | 2004 | June 30, 2005 vs. June 30, 2004 |
| | (In millions) | | | | | (In millions) | | |
| Cash Flow Data: | | | | | | | | |
| Net cash provided by operating activities | \$ 344 | \$ 190 | \$ 310 | 81.1% | (38.7)% | \$ 197 | \$ 145 | 35.9% |
| Net cash provided by investing activities | (275) | (170) | (213) | (61.8)% | 20.2% | 13 | (76) | 117.1% |
| Net cash used in financing activities | | | (35) | ** | ** | | | ** |
| Balance Sheet Data: | | | | | | | | |
| Current assets | \$ 1,903 | \$ 1,610 | \$ 1,456 | 18.2% | 10.6% | \$ 2,039 | \$ 1,665 | 22.5% |
| Current liabilities | 1,301 | 1,189 | 930 | 9.4% | 27.8% | 1,222 | 1,101 | 11.0% |
| Long-term liabilities | 984 | 1,009 | 307 | (2.5)% | 228.7% | 993 | 1,019 | (2.6)% |
| Equity | 975 | 699 | 1,023 | 39.5% | (31.7)% | 1,129 | 821 | 37.5% |

** Not meaningful

Net cash provided by operating activities in the six months ended June 30, 2005 and 2004 was \$197 million and \$145 million, respectively. The increase in cash from operations was principally due to the increase in net income offset by an increase in accounts receivable in 2005 as compared to 2004, as well as the timing of payment of accounts payable versus the prior period. The source of cash from investing activities in the six months ended June 30, 2005 was primarily due to the sale or maturity of available-for-sale securities compared to the same period last year. In addition, in the six months ended June 30, 2004, the acquisition of businesses was a use of cash from investing activities.

Net cash provided by operating activities in 2004 and 2003 was generated principally by current period earnings (losses) exclusive of non-cash charges for depreciation and amortization and legal settlements. The liabilities related to the U.S. merchant lawsuit settlement and other legal settlements will be funded through existing cash and cash equivalents, investments, cash generated from operations and our borrowing capacity. We recorded expense of \$22 million and \$763 million for legal settlement costs in 2004 and 2003, respectively, and had related cash payments totaling \$149 million and \$134 million, respectively. The utilization of cash for investing activities in 2004 was primarily due to purchases of available-for-sale securities and the acquisition of certain businesses. In 2004 and 2003, we also invested in the internal development of capitalized software and purchase of fixed assets to

support our business. Our capitalized software is essential to providing payment card transaction processing to our customers through our proprietary global computer and telecommunications system. Our investing activities in 2003 included funding for a co-processing facility in Kansas City, Missouri, and associated equipment.

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In addition to our liquid investments, on June 17, 2005, we entered into a committed unsecured \$2.25 billion revolving credit facility (the Credit Facility) with certain financial institutions. The Credit Facility, which expires on June 16, 2006, replaced MasterCard Incorporated's prior \$1.95 billion credit facility which expired on June 17, 2005. Borrowings under the facility are available to provide liquidity in the event of one or more settlement failures by MasterCard International members and, subject to a limit of \$300 million, for general corporate purposes. Interest on borrowings under the Credit Facility is charged at the London Interbank Offered Rate (LIBOR) plus 28 basis points or an alternative base rate. An additional 10 basis points would be applied if the aggregate borrowings under the Credit Facility exceed 33% of the commitments. MasterCard agreed to pay a facility fee which varies based on MasterCard's credit rating and is currently equal to 7 basis points on the total commitment. MasterCard was in compliance with the Credit Facility covenants as of June 30, 2005. There were no borrowings under the Credit Facility at June 30, 2005. The majority of Credit Facility lenders are members or affiliates of members of MasterCard International.

Due to Standard & Poor's Ratings Services' assessment of MasterCard's vulnerability to legal risk, on May 16, 2003, Standard & Poor's Ratings Services lowered MasterCard's counterparty credit rating to A-/A-2, subordinated debt rating to BBB+ and placed MasterCard on negative outlook. Following the announcement of this offering, Standard & Poor's Ratings Services placed us on credit watch with negative implications. If our A- credit rating assigned by Standard & Poor's Ratings Services were to be downgraded, the facility fee we pay under the Credit Facility, and the interest we would pay on borrowings thereunder, would increase. For example, if Standard & Poor's Ratings Services were to downgrade our A- rating to BBB+, our facility fee would increase to 8 basis points on the total commitment, and interest on borrowings would increase to LIBOR plus 37 basis points (or 47 basis points if aggregate borrowings exceed 33% of the commitments) or an alternative base rate.

Risks Related to our Business, Industry and Strategy

The operation of our business involves a variety of risks, including increased regulatory scrutiny of interchange fees and the operation of four-party payment systems such as ours, together with exposure to antitrust and other types of litigation. Interchange fees represent a sharing of payment system costs among acquirers and issuers. Although we establish interchange fees and collect and remit them on behalf of those of our customers entitled to receive them, we do not generally earn revenues in connection with interchange fees. In addition, competition and pricing pressure within the global payments industry is increasing, due in part to consolidation within the banking sector. These risks and pressures are heightened by the growing power of merchants within the payments industry. See Risk Factors for a discussion of factors that may affect our results of operations and financial condition.

MasterCard is party to a number of currency conversion litigations. See Business Legal Proceedings. Based upon current developments in these cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, MasterCard recorded an additional \$48 million of legal reserves in September 2005. Based on future developments, this estimate may be revised.

Table of Contents**Future Obligations**

The following table summarizes, as of June 30, 2005, our contractual non-cancelable obligations that are expected to impact liquidity and cash flow in future periods.

| | Payments Due by Period | | | | |
|--|------------------------|----------------------|------------------|------------------|---------------|
| | Total | Remaining of 2005 | 2006 and 2007 | 2008 and 2009 | Thereafter |
| | (In millions) | | | | |
| Capital leases(a) | \$ 60 | \$ 5 | \$ 9 | \$ 4 | \$ 42 |
| Operating leases(b) | 109 | 23 | 55 | 29 | 2 |
| Sponsorship, licensing and other(c) | 546 | 199 | 275 | 65 | 7 |
| U.S. merchant lawsuit and other legal settlements(d) | 814 | 114 | 200 | 200 | 300 |
| Debt(e) | 248 | 3 | 11 | 234 | |
| Total | \$ 1,777 | \$ 344 | \$ 550 | \$ 532 | \$ 351 |

- (a) Most capital leases relate to certain property, plant and equipment used in our business. Our largest capital lease relates to our Kansas City, Missouri co-processing facility.
- (b) We enter into operating leases in the normal course of business, including the lease on our facility in St. Louis, Missouri. Substantially all lease agreements have fixed payment terms based on the passage of time. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional lease agreements.
- (c) Amounts primarily relate to sponsorships with certain organizations to promote our brand. The amounts included are fixed and non-cancelable. In addition, these amounts include purchase obligations. Obligations which result from performance based agreements with our members and merchants have been excluded from the table due to their contingent nature.
- (d) Amounts due in accordance with legal settlements entered into during 2003 and 2004, including the settlement agreement in the U.S. merchant lawsuit.
- (e) Debt primarily represents principal and interest owed on our subordinated notes due June 2008 and the principal owed on our Series A Senior Secured Notes due September 2009. We also have various credit facilities for which there were no outstanding balances at June 30, 2005 that, among other things, would provide liquidity in the event of settlement failures by our members. Our debt obligations would change if one or more of our customers failed to settle and we borrowed under these credit facilities to settle on our members' behalf or for other reasons.

Related Parties

We have approximately 1,400 existing stockholders who are also our customers. See **Related Party Transactions** for a description of certain agreements between us and our principal stockholders.

A significant portion of our revenue is concentrated among our five largest customers. In 2004, the net fees from these customers were approximately \$931 million, or 36%, of total revenue. For the first six months of 2005, net fees from these customers were approximately \$485 million, or 34%, of total revenue. One of these customers entered into an agreement in 2005 to purchase another of our key customers (not among our top five revenue contributors) and is expected to close this transaction in the fourth

quarter of 2005. Accordingly, the amounts for the first six months of 2005 for this customer include the net fees of the other customer to be acquired. The loss of any of these members could adversely impact our revenues and net income. See Risk Factors Risks Related to Our Business Business Risks Consolidation or other changes affecting the banking industry and could result in a loss of business for MasterCard and may create pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability. In addition, as part of our

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business initiative to grow our business, MasterCard, among other efforts, enters into business agreements with members. These agreements can be terminated in a variety of circumstances. See [Risk Factors](#) [Risks Related to Our Business](#) [Business Risks](#). We face increasingly intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability.

Seasonality

Portions of our business are seasonal. Our revenue is favorably affected by progressively increased card purchasing volume throughout the year, particularly in the fourth quarter during the holiday shopping period. However, advertising, holiday promotions and incentives also increase correspondingly, generally causing our profitability to decline in the fourth quarter.

Critical Accounting Estimates

Our accounting policies are integral to understanding our results of operations and financial condition. We are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. We have established detailed policies and control procedures to ensure that the methods used to make estimates and assumptions are well controlled and are applied consistently from period to period. The following is a brief description of our current accounting policies involving significant management judgments.

| Financial Statement | | |
|--|--|---|
| Caption/Critical Accounting | Effect if Actual Results Differ | |
| Estimate | Assumptions/Approach Used | from Assumptions |
| <i>Revenue Recognition</i> | | |
| Certain revenues are estimated. Our revenue recognition policies are fully described in our consolidated financial statements. | Certain revenues are recorded based on an estimate of our customers performance. Such estimates are subsequently validated against performance reported by our customers. Differences are adjusted in the period the customer reports. Customers performance is estimated by using historical performance, member reported information, transactional information accumulated from our systems and discussions with our customers. | If our customers actual performance is not consistent with our estimates of their performance, revenues may be materially different than initially recorded. |
| Rebates and incentives are estimated. | Rebates and incentives are generally recorded as contra- revenue based on our estimate of each customer s performance in a given period and according to the terms of the related | If our customers actual performance is not consistent with our estimates of their performance, contra-revenues may be materially different than initially recorded. |

customer agreements.

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| Financial Statement | | |
|--|---|---|
| Caption/Critical Accounting | | Effect if Actual Results Differ |
| Estimate | Assumptions/Approach Used | from Assumptions |
| <i>Legal and Regulatory Matters</i> | | |
| We are party to legal and regulatory proceedings with respect to a variety of matters. | We evaluate the likelihood of an unfavorable outcome of the legal or regulatory proceedings to which we are party in accordance with SFAS No. 5, Accounting for Contingencies. Our judgments are subjective based on the status of the legal or regulatory proceedings, the merits of our defenses and consultation with in-house and outside legal counsel. | Due to the inherent uncertainties of the legal and regulatory process in the multiple jurisdictions in which we operate, our judgments may be materially different than the actual outcomes. |
| <i>Discount Rate for Merchant Lawsuit Settlement</i> | | |
| We have entered into a settlement agreement in connection with the U.S. merchant lawsuit. This settlement was discounted over the ten year payment term of the settlement. | We estimated the discount rate we used to calculate the present value of our obligations under the Settlement Agreement in the U.S. merchant lawsuit to be 8 percent for the year ended December 31, 2003. The discount rate used was a matter of management judgment at the time of the settlement, which considered our expected post-settlement credit rating and rates for sources of credit that could be used to finance the payment of obligations with similar terms. | A 1 percent increase in the discount rate would increase annual interest expense by approximately \$4 million in 2005, and declining amounts thereafter. The reverse impact would be experienced for a 1 percent decrease in the discount rate. In addition, a 1 percent change in the discount rate would have impacted the amount we recorded as an after-tax charge for the year ended December 31, 2003 by approximately \$20 million. |

Table of Contents**Financial Statement**

| Caption/Critical Accounting | Effect if Actual Results Differ | |
|--|---|---|
| Estimate | Assumptions/Approach Used | from Assumptions |
| <i>Goodwill and Intangible Assets (except Capitalized Software)</i> | <p>In performing the analyses, we primarily utilize independent valuation experts. The test methods employed involve assumptions concerning interest and discount rates, growth projections and other assumptions of future business conditions. The assumptions employed are based on management's judgment using internal and external data.</p> | <p>During 2004, we identified and recorded impairment losses of approximately \$7 million for one of the acquisitions completed in 2004. We completed our annual impairment testing for all other goodwill and intangibles using the methodology described herein, and determined there was no impairment.</p> <p>If actual results are not consistent with our assumptions and estimates, we may be exposed to an additional impairment charge associated with goodwill and/or intangible assets. The carrying value of goodwill and intangible assets, excluding capitalized software, was \$381 million, including \$177 million of unamortized customer relationships, as of June 30, 2005.</p> |
| <i>Income Taxes</i> | <p>We have various tax filing positions, including the timing and amount of deductions and credits, the establishment of reserves for audit matters and the allocation of income among various tax jurisdictions.</p> <p>We considered projected future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance.</p> | <p>Although we believe that our estimates and judgments discussed herein are reasonable, actual results may differ by a material amount.</p> <p>If we realize a deferred tax asset in excess of the net deferred tax asset or we were unable to realize a net deferred tax asset; an adjustment to the deferred tax asset would increase or decrease earnings, respectively, in the period.</p> |

Table of Contents**Financial Statement**

| Caption/Critical Accounting | Effect if Actual Results Differ | |
|--|--|---|
| Estimate | Assumptions/Approach Used | from Assumptions |
| Capitalized Software | | |
| Our capitalized software, which includes internal and external costs incurred in developing or obtaining computer software for internal use, is included in other intangible assets. | We are required to make judgments to determine if each project will satisfy its intended use. In addition, we estimate the average internal costs incurred for payroll and payroll related expenses by department for the employees who directly devote time relating to the design, development and testing phases of the project. On an ongoing basis, we perform impairment analyses on various technologies. If the carrying value of the various technologies exceeds the fair value, impairment charges are recorded. | During the year, no significant impairment charges were recorded. However, if actual results are not consistent with our judgments, we may be exposed to an impairment charge. The net carrying value of capitalized software as of June 30, 2005 was \$108 million. |
| Pensions | | |
| Certain assumptions are used in the determination of our annual pension costs and the disclosure of the funded position of our pension plans. Key assumptions include the discount rate used to measure the plans projected benefit obligation and the expected rate of return on plan assets. | We utilized a discount rate of 5.75 percent in measuring the projected pension benefit obligation at December 31, 2004, 6.25 percent in calculating the net periodic pension cost and an expected return on plan assets of 8.5 percent. | A quarter of a percentage point decrease in our discount rate would increase our projected benefit obligation by \$1.5 million, and would have a negligible effect on our annual pension expense. An equal but opposite effect would be experienced for a quarter of a percentage point increase in the discount rate. A quarter of a percentage point increase or decrease in the expected rate of return on plan assets would decrease or increase the annual pension costs by \$0.3 million. |

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106 (SFAS 132). This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans

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required by SFAS No. 87, Employers Accounting for Pensions, SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits and SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions. SFAS 132 requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. We have fully implemented SFAS 132 for the year ended December 31, 2004.

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-01). EITF 03-01 provides guidance to determine whether an other-than-temporary impairment exists for available-for-sale or held-to-maturity investments under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Investments and investments accounted for under the cost method or the equity method. EITF 03-01 also requires certain disclosures related to investments that are in an unrealized loss position at the balance sheet date. The FASB has indefinitely deferred the recognition and measurement guidance in EITF 03-01, through FASB Staff Position (FSP) No. EITF Issue 03-1-1. We have fully implemented all of the required disclosures for the year ended December 31, 2004.

In December 2004, the FASB issued FSP No. FAS 109-2 (FSP 109-2), Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 (the Act). FSP 109-2 provides enterprises more time (beyond the financial-reporting period during which the Act took effect) to evaluate the Act's impact on the enterprise's plan for reinvestment or repatriation of certain foreign earnings for purposes of applying SFAS 109, Accounting for Income Taxes. We are not intending to repatriate under the Act, therefore FSP 109-2 is not expected to have an impact on our financial position or results of operations.

In December 2004, the FASB issued FAS 123 (revised 2004) (SFAS 123R), Share-Based Payment. SFAS 123R provides guidance on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. The Company intends to adopt SFAS 123R if equity instruments are utilized to obtain goods or services. We are unable to assess the impact of the adoption of SFAS 123R at this time.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of SFAS 154 is not expected to have a material impact on the Company's condensed consolidated results of operations, financial position or cash flows.

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential for economic losses to be incurred on market risk sensitive instruments arising from adverse changes in market factors such as interest rates, foreign currency exchange rates, and equity price risk. We have limited exposure to market risk from changes in interest rates, foreign exchange rates and equity price risk. Management establishes and oversees the implementation of policies, which have been approved by the board of directors, governing our funding, investments, and use of derivative financial instruments. We monitor aggregate risk exposures on an ongoing basis. There have been no material changes in our market risk exposures at June 30, 2005 as compared to December 31, 2004.

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Foreign Exchange Risk

We enter into forward exchange contracts to minimize risk associated with anticipated receipts and disbursements denominated in foreign currencies. We also enter into contracts to offset possible changes in value due to foreign exchange fluctuations of assets and liabilities denominated in foreign currencies. The objective of this activity is to reduce our exposure to transaction gains and losses resulting from fluctuations of foreign currencies against the U.S. dollar and euro. The terms of the forward currency contracts are generally less than 18 months.

At December 31, 2004 and 2003, forward currency contracts against the U.S. dollar were both purchased (with notional amounts of \$41 million and \$64 million, respectively) and sold (with notional amounts of \$20 million and \$60 million, respectively). Based on the year-end 2004 and 2003 foreign exchange positions, the effect of a hypothetical 10 percent strengthening of the U.S. dollar is estimated to create a loss valued at \$2.0 million and \$0.4 million at December 31, 2004 and 2003, respectively.

At December 31, 2004 and 2003, forward currency contracts against the euro were purchased (with notional amounts of \$128 million and \$178 million, respectively). Based on the year-end 2004 and 2003 foreign exchange positions, the effect of a hypothetical 10 percent strengthening of the euro is estimated to create a loss valued at \$11 million and \$16 million at December 31, 2004 and 2003, respectively.

Our settlement activities are subject to foreign exchange risk resulting from foreign exchange rate fluctuations. This risk is limited to the extent that the timeframe between setting the foreign exchange rates and clearing the financial transactions is typically one business day and by limiting the supported settlement currencies to the U.S. dollar or one of seventeen other stable transaction currencies. The remaining 143 transaction currencies are settled in one of the supported settlement currencies or require local settlement netting arrangements that minimize our foreign exchange exposure.

Interest Rate Risk

Our interest rate sensitive assets are fixed income instruments, which we hold as available-for-sale investments. They are rated AA or above and primarily consist of fixed rate short and medium-term instruments. With respect to fixed maturities, our general policy is to invest in high quality securities, while providing adequate liquidity and maintaining diversification to avoid significant exposure. Based on the net present value of expected future cash flows, a 100 basis point increase in interest rates, assuming a parallel shift of the yield curve, would have resulted in fair value changes and an unrealized pretax loss recorded in other comprehensive income of \$17 million for each of 2004 and 2003, respectively. Our held-to-maturity investments are not be subject to interest rate movements.

Our interest rate sensitive liabilities consist of subordinated debt securities. A 100 basis point decrease in rates would have resulted in a fair value pretax loss of \$9 million and \$12 million for December 31, 2004 and 2003, respectively.

At June 30, 2005, we had various credit facilities to provide liquidity in the event of material member settlement failures, settlement service operations and other operational needs. These credit facilities have variable rates, which are applied to the borrowing based on terms and conditions set forth in each agreement. There were no amounts outstanding at June 30, 2005 under these

credit facilities. See Note 11 to our consolidated financial statements and Note 6 to our consolidated interim financial statements.

Equity Price Risk

We own trading securities, which are comprised of equity securities selected to offset obligations in connection with an executive compensation plan. The effect of a hypothetical 10 percent decline in market value would have resulted in a pretax loss of \$3 million in each of the years ended December 31, 2004 and 2003, respectively. To the extent the executive compensation plan remains in a net appreciation position, an offsetting gain would be recorded in general and administrative expense.

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THE GLOBAL PAYMENTS INDUSTRY

The global payments industry consists of all forms of payment including:

Paper personal checks, cash, money orders, official checks, travelers cheques and other paper-based means of transferring value;

Cards credit cards, charge cards, debit cards (including ATM cards), stored value cards and other types of cards; and

Other Electronic wire transfers, electronic benefits transfers and Automated Clearing House payments, among others.

The most common card-based forms of payment are general purpose cards, which are payment cards carrying logos that permit widespread usage of the cards within countries, regions or around the world. General purpose cards have different attributes depending on the type of accounts to which they are linked:

pay later cards, such as credit or charge cards, typically access a credit account that either requires payment of the full balance within a specified period (a charge card) or that permits the cardholder to carry a balance in a revolving credit account (a credit card);

pay now cards, such as offline and online debit cards, typically access a demand deposit or current account maintained by the cardholder; and

pay before cards, such as pre-paid or electronic purse cards, typically access a pool of value previously funded by the cardholder.

The primary general purpose card brands include MasterCard, Visa, American Express, JCB, Diners Club and Discover. Historically, these brands including MasterCard were principally associated with pay later (credit or charge) cards in the United States and other major international markets. Today, MasterCard (and Visa) cards may be issued in any of the pay later, pay now or pay before categories.

Pay now cards may be further categorized into several sub-segments:

Offline debit cards, such as MasterCard-branded debit cards, are cards where the primary means of cardholder validation at the point of sale is for the cardholder to sign a sales receipt and where transaction data is exchanged in two discrete messages (one for authorization and again for clearing);

Online debit cards, such as Maestro-branded debit cards, are cards in connection with which cardholders generally enter a personal identification number (PIN) at a point of sale terminal for validation and where transaction data is exchanged through a single message with the initial authorization; and

Cash access cards, such as Cirrus-branded cards, are cards which permit cardholders to obtain cash principally at ATMs by entering a PIN.

MasterCard- and Visa-branded cards comprise the primary offline debit cards. In addition to Maestro, the primary online debit card brands are Electron and Interlink (owned by Visa) and various regional or country-specific online debit networks brands, such as Star, Pulse, NYCE and others in the United States, Interac in Canada and EFTPOS in Australia. In addition to Cirrus, the primary cash access card brands are Plus (owned by Visa) and the online debit network brands referenced above. Local domestic online debit brands are the primary brands in many countries. In these markets, issuers have historically relied on the Maestro and Cirrus brands (and Visa's Plus and Interlink brands) to enable cross-border transactions, which typically constitute a small portion of overall volume.

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In addition to general purpose cards, private label cards comprise a significant portion of all card-based forms of payment. Typically, private label cards are issued by a merchant (such as a department store or gasoline (petroleum) retailer) and can be used only at the issuing merchant's locations.

The table below provides an overview of the gross dollar volume and transactions for the year ended December 31, 2004 for all general purpose cards, as reported by The Nilson Report.

| All General Purpose Cards Gross Dollar Volume and Transactions for the Year Ended December 31, 2004 | | | |
|--|--|---|---------------------------------------|
| | Dollar Volume (in billions) | Year-Ago Growth in US\$(1) | Transactions (in millions) |
| All Credit, Charge, Debit (offline and online)(2) | | | |
| United States | \$ 2,686.7 | 14.4% | 38,822.8 |
| Europe | 2,795.0 | 14.3 | 30,039.6 |
| Worldwide | 7,503.0 | 13.1 | 92,052.0 |

(1) Year-ago growth is reported on a U.S. dollar converted basis.

(2) Data includes results for all principal brands in the credit, charge and offline debit categories, including the MasterCard and Visa families of brands, American Express, Discover, JCB and Diner's Club. Data includes results for most principal brands in the online debit category, including other online debit networks in the United States and domestic debit brands elsewhere.

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BUSINESS

Overview

MasterCard is a leading global payment solutions company that provides a variety of services in support of our customers' credit, debit and related payment programs. We manage a family of well-known, widely accepted payment card brands, including MasterCard®, MasterCard Electronic, Maestro® and Cirrus®, which we license to the nearly 25,000 financial institutions that are our customers. As part of managing these brands, we also provide our customers with a sophisticated set of information and transaction processing services and establish and enforce rules and standards surrounding the use of our payment card system by customers and merchants. We generate revenues from the fees that we charge our customers for providing these transaction processing and other payment-related services (operations fees) and by assessing our customers based on the dollar volume of activity on the cards that carry our brands (assessments).

Using our transaction processing services, our customers facilitate payment transactions between cardholders and merchants throughout the world, providing merchants with an efficient and secure means of receiving payment, and consumers and businesses with a convenient payment method accepted worldwide. We guarantee the settlement of many of these transactions among our customer financial institutions to ensure the integrity of our payment system. In addition, we undertake a variety of marketing activities designed to maintain and enhance the value of our brands. However, cardholder and merchant relationships are managed principally by our customers. Accordingly, we do not issue cards, extend credit to cardholders, determine the interest rates (if applicable) or other fees charged to cardholders by issuers, or establish the merchant discount charged by acquirers in connection with the acceptance of cards that carry our brands.

MasterCard Incorporated was incorporated as a Delaware stock corporation in May 2001. We conduct our business principally through MasterCard Incorporated's principal operating subsidiary, MasterCard International, a Delaware membership corporation that was formed in November 1966.

Our business has a global reach and has experienced significant growth.

Gross dollar volume on cards carrying the MasterCard brand as reported by our customers (GDV) was \$1.5 trillion in 2004, reflecting a compound annual growth rate in U.S. dollar terms of 14.2% over the last three years;

For the first six months of 2005, GDV was \$790.5 billion, a 14.4% increase in U.S. dollar terms over the GDV reported in the first six months of 2004;

In 2004, we processed 12.4 billion transactions (including 2.3 billion Cirrus and Maestro online debit transactions), reflecting a compound annual growth rate of 15.9% over the last three years;

In 2004, we generated revenue of \$2.6 billion, operating income of \$347 million and net income of \$238 million;

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In the first six months of 2005, we generated revenue of \$1.4 billion, operating income of \$344 million and net income of \$214 million, as compared to revenue of \$1.2 billion, operating income of \$217 million and net income of \$139 million in the first six months of 2004.

We believe there is a trend within the global payments industry from paper-based forms of payment such as cash and checks toward electronic forms of payment such as cards, which creates significant opportunities for continued growth in our business. We believe this trend is driven by the following elements:

Increasing Usage of Electronic Forms of Payment. Credit and debit card usage has grown at significant rates and is displacing cash and checks, the traditional forms of payment.

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Consumers are migrating to card-based forms of payment, motivated in part by the convenience, enhanced services and reward programs that cards offer. Corporations, small businesses and governments have also increased their usage of card-based forms of payment for travel, purchasing and fleet management in order to gain better transaction information, more efficiently manage their supply chains and reduce administrative costs. Other forms of electronic payments, including pre-paid cards, chip-based cards and mobile commerce, offer opportunities for further usage and growth.

Increasing Acceptance of Electronic Forms of Payment. Merchants of all sizes have increased their acceptance of electronic payments as a way to augment their sales and increase consumer convenience. Electronic forms of payment are gaining wider acceptance in corporate payment applications and in important merchant categories such as supermarkets, gas stations, convenience stores, utilities and fast-food restaurants. In addition, governments have begun accepting electronic payments in order to reduce their administrative costs. Payment cards and other electronic forms of payment continue to be the preferred method of payment in certain higher growth channels of commerce, such as the Internet.

Innovation in the Payments Industry. Innovation at the point of sale, including the incorporation of new technologies such as smart cards and contactless cards, continues to reduce transaction times and otherwise enhance the attractiveness of payment cards to both consumers and merchants. In addition, issuers are making payment cards more attractive to cardholders through value-adding initiatives such as rewards and co-branding programs.

Favorable Trends in Global Commerce. A wide range of factors has increased global commerce, particularly cross-border business and leisure travel. This trend benefits card-based forms of payment, which afford cardholders increased convenience and efficiency when making international transactions compared with cash and checks. In addition, in many emerging markets, increased consumer card usage is being driven by the growth of middle-class consumer populations and the development of modern payment systems to serve them. Globalization is also encouraging the replacement of domestic payment solutions with payment solutions that have a worldwide reach.

Competitive Strengths

We believe the following key strengths enhance our ability to compete successfully in the global payments industry:

Leading Worldwide Payments System

We believe that the strong worldwide recognition of our brands, our long-standing relationships with our issuers and acquirers and the extensive global reach of our payment card system are valuable corporate assets that provide us with a strong platform from which we can deliver value to our customers, merchants and cardholders.

Global Brand. Through our global brand-building initiatives, we have established strong worldwide recognition for MasterCard and our other brands. We believe that our brands are valuable strategic assets that drive card acceptance and usage and facilitate our ability to successfully introduce new service offerings and access new markets.

Long-Standing Customer Relationships. Our business originated in 1966 when a number of banks in the United States formed the Interbank Card Association and, over time, we have grown into a global organization that serves nearly 25,000 financial

institutions in 210 countries and territories. We believe that the breadth and depth of our relationships with our issuers and acquirers provide us with valuable insights into their businesses, which in turn facilitate our ability to pursue opportunities to deliver additional value-added services to these customers.

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Worldwide Acceptance. Based on information from our customers and other sources, as of June 30, 2005, cards carrying the MasterCard brand were accepted at over 23 million locations around the world. We believe that the extensive global acceptance of cards carrying our brands is unsurpassed by any of our competitors, which is a significant competitive strength that facilitates the use of our cards and contributes to the growth of our business globally.

Global Branded Processing Platform

We operate a proprietary, worldwide computer and telecommunications system that links issuers and acquirers around the globe for transaction processing services and permits cardholders to use their cards at millions of merchants worldwide. Our platform operates at 70% capacity on peak days and can scale substantially beyond this capacity upon demand, and we consistently maintain core systems availability for our global processing systems at a rate in excess of 99%. This system, in which we have made significant recent investments, is a highly reliable, scalable asset that we believe provides us with the flexibility to provide additional services to our customers with relatively low incremental costs. We also believe that the strength of our global brands and our processing experience enhance our ability to compete for new processing business.

Global Reach of Business

We have offices in 37 countries worldwide and a senior management team with extensive international experience. Through these resources, we have developed substantial knowledge of local customer practices and cardholder behavior in the key markets in which we operate. In addition, our integrated management structure enables us to provide globally coordinated payment solutions to our multinational customers. As customers continue to consolidate, we believe this structure will enhance our ability to support their differing needs. We also believe that our global operations and worldwide customer base moderate our exposure to the varying economic conditions of different regions.

Business Strategy

Our strategy is to drive growth by further penetrating our existing customer base and by expanding our role in targeted areas of the global payments industry. Primary elements in implementing our strategy include:

Focus on Key Customers

We are committed to providing our key customers with coordinated services through integrated, dedicated account teams in a manner that allows us to leverage our expertise in payment programs, brand marketing, product development, technology, processing and consulting services for these customers. We have historically applied this customer-focused model to our largest global customers and are now expanding this approach to include customers around the world representing a substantial majority of our revenue. In addition, through MasterCard Advisors, we seek to leverage our deep functional expertise in many important areas of the payments industry for these customers. By further investing in strong relationships over the long term with our key customers, we believe that we can increase our volume of business with them over time.

Continued Expansion in Targeted Geographies and Higher-Growth Programs

We believe that there are significant opportunities to expand our role in targeted geographies and higher-growth programs. For example, while we process a large majority of the domestic MasterCard-branded card transactions in the United States, Canada, the United Kingdom and Australia, the proportion of domestic MasterCard-branded card transactions that we process outside these markets is significantly lower. Accordingly, we believe that there are substantial opportunities for us to capture additional operations fees through transaction processing arrangements in selected markets. For example, the Single European Payments Area Initiative, which will create a more integrated payments

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market in the European Union, is an opportunity for MasterCard to further expand its role in domestic debit processing. We are also focused on expanding the role of MasterCard in higher-growth segments of the global payments industry, such as commercial, debit and pre-paid cards. Among other initiatives, we intend to expand our business in these segments by continuing to invest in developing new payment solutions and customized services applicable to them. For example, MasterCard PayPass, a contactless payment solution that enables consumers simply to tap or wave their payment card on a specially equipped terminal, is designed to help our customers further grow their businesses by enhancing the functionality of MasterCard cards in fast throughput environments.

Enhance Merchant Relationships and Maintain Unsurpassed Acceptance

We recognize that merchants are important stakeholders for the growth of our business, and we are focused on strengthening our merchant relationships by providing merchants with direct input into our business via merchant advisory boards and other initiatives. We intend to maintain the unsurpassed acceptance of MasterCard-branded programs by focusing on three core initiatives. First, we seek to increase the number of categories of merchants that accept cards carrying our brands. We are presently focused on expanding acceptance in electronic commerce environments, in fast food restaurants and convenience stores, and in public sector payments, such as those involving taxes, fees, fines and tolls, among other categories. Second, we seek to increase the number of payment channels where MasterCard programs are accepted, such as by expanding MasterCard acceptance in connection with recurring payment applications. Third, we seek to increase usage of our programs at selected merchants through a range of business development programs on a global basis.

Continued Investment in our Brands

We are committed to maintaining and enhancing our brands and image through advertising and marketing efforts on a global scale. Our approach to marketing activities combines advertising, sponsorships, promotions, interactive media and public relations as part of an integrated package designed to increase MasterCard brand awareness and preference and usage of MasterCard cards. Among numerous other initiatives, we intend to continue our award-winning Priceless® advertising campaign, which is now running in 105 countries and 48 languages.

Reasons for Transition to New Ownership and Governance Structure

We compete in a dynamic marketplace that is being shaped by several important trends. These include the migration of consumers and businesses to electronic forms of payment such as cards, the consolidation and globalization of our customer financial institutions, the growing role of merchants as important stakeholders in payment systems such as ours, and increased competition. See Overview, Competition and Risk Factors Risks Related to Our Business Business Risks. In particular, we have faced heightened regulatory scrutiny and legal challenges in recent years. See Legal Proceedings and Risk Factors Risks Related to Our Business Legal and Regulatory Risks. Our customer-focused strategy seeks to proactively address these trends, and we believe that, as discussed below, our new ownership and governance structure will provide us with a stronger, more stable base from which to execute our strategy.

Many of the legal and regulatory challenges we face are in part directed at our current ownership and governance structure, in which our customers our member financial institutions own all of our common stock and are involved in our governance by having representatives serve on our global and regional boards of directors. While we strongly dispute these challenges, we believe that a

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more open ownership and governance structure following the offering transactions should leave us less prone to challenges and provide us with additional defenses to the challenges we may face by:

ensuring that our members own a minority of the equity rights in our company and no voting rights, except over a limited range of matters that are not competitively sensitive;

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transitioning to a board of directors that includes a significant majority of directors who are independent of us and of our members; and

limiting the continued participation of our members in governance at a regional level to advisory bodies only or, in the case of Europe, to a regional board that is overseen by our independent board of directors.

Through these means, we believe that the offering transactions will address perceived conflicts of interest in our ownership structure and will be recognized as increasing the openness and transparency of our governance. We believe our new structure will place our business in a stronger position as we will be better able to defend ourselves against legal and regulatory challenges involving our ownership and governance. We also believe that we will be more competitive within the global payments industry as customers are attracted to our more stable base to build, manage and grow their payments businesses.

In addition, through the establishment of The MasterCard Foundation, we will be able to make a significant contribution to the societies in which we operate. We also believe that our new ownership and governance structure will benefit our business by providing us with publicly traded equity that we may use as a tool to better align the incentives of our management with those of our stockholders and to attract, retain and motivate our employees and as a currency with which to effect acquisitions, as well as by providing us with enhanced access to the public markets to raise capital.

Payment Services

We provide payment-related services to our customers. We switch branded payment card transactions among our customers through our transaction processing systems. We also deploy dedicated customer relationship management teams to our key customers to bring them value-added solutions built upon our expertise in payment programs, brand marketing, product development, technology, processing and consulting.

GDV and Processed Transactions

The table below provides information regarding the GDV for all MasterCard-branded card programs and MasterCard credit and charge card programs in each of the United States, Europe and globally for the six months ended June 30, 2005 and for the year ended December 31, 2004. Growth rates are provided on both a U.S. dollar and local currency basis for the periods indicated. GDV data is derived from information provided by MasterCard members and includes information with respect to MasterCard-branded transactions that are not processed by MasterCard and transactions for which MasterCard does not earn significant revenues. GDV represents the aggregate dollar amount of purchases made and cash disbursements obtained with MasterCard-branded cards and includes the impact of balance transfers and convenience checks. All data is subject to revision and amendment by MasterCard's members subsequent to the date of its release, which revisions and amendments may be material.

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(\$ in billions)

| | Six Months Ended June 30, 2005 | Year-Ago Growth | | Year Ended December 31, 2004 | Three Year Compound Annual Growth | |
|---|--------------------------------|-----------------|-------------|------------------------------|-----------------------------------|-------------|
| | | U.S. \$ | Local | | U.S. \$ | Local |
| | | | Currency(2) | | | Currency(2) |
| All MasterCard Branded Programs | | | | | | |
| United States | \$ 364.1 | 10.2% | 10.2% | \$697.9 | 10.4% | 10.4% |
| Europe | 217.7 | 17.8 | 12.7 | 397.7 | 25.4 | 14.2 |
| Worldwide | 790.5 | 14.4 | 11.6 | 1,466.7 | 14.2 | 11.1 |
| All MasterCard Credit and Charge Programs(3) | | | | | | |
| United States | \$ 273.0 | 4.6% | 4.6% | \$546.9 | 9.1% | 9.1% |
| Europe | 169.4 | 16.0 | 11.3 | 309.7 | 28.2 | 17.4 |
| Worldwide | 625.1 | 10.7 | 7.8 | 1,187.6 | 12.8 | 10.1 |

- (1) Maestro and Cirrus online debit transactions and other branded transactions are not included. The data set forth for GDV is derived from information provided by MasterCard members and includes information with respect to MasterCard-branded transactions that are not processed by MasterCard and for which MasterCard does not earn significant revenues. All data is subject to revision and amendment by MasterCard's members subsequent to the date of its release, which revisions and amendments may be material.
- (2) Local currency growth eliminates the impact of currency fluctuations and represents local market performance.
- (3) MasterCard offline debit transactions are not included.

The table below includes information for all transactions processed by MasterCard, including Maestro and Cirrus online debit transactions, for the six months ended June 30, 2005 and for the year ended December 31, 2004.

Processed Transactions

(Transactions in millions)

| | Six Months Ended June 30, 2005 | Year-Ago Growth | Year Ended December 31, 2004 | Three Year Compound Annual Growth Rate(1) |
|---|--------------------------------|-----------------|------------------------------|---|
| All Processed Transactions | 6,574.3 | 12.8% | 12,400.6 | 15.9% |
| MasterCard Branded Processed Transactions | 5,369.5 | 13.7 | 10,066.9 | 11.8 |
| Cirrus / Maestro Branded Processed Transactions | 1,204.8 | 9.0 | 2,333.7 | 45.7 |

- (1)

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Information in the Cirrus/Maestro Branded Processed Transaction line includes POS and ATM transactions and reflects the migration of the Switch® brand to Maestro in the United Kingdom and the acquisition of the Redeshop® brand in Brazil in 2002. We believe that without the Switch migration the compound annual growth rate would have been 11.5% instead of 15.9% for all processed transactions and 9.2% instead of 45.7% for Cirrus and Maestro transactions. Redeshop transactions have been processed over our system principally commencing in 2005. We do not believe the Redeshop acquisition has had a material impact on the three year compound annual growth rate.

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Transaction Processing

Introduction. We operate a system that links issuers and acquirers around the globe for transaction processing services and, through them, permits MasterCard cardholders to use their cards at millions of merchants worldwide. A typical transaction processed over our system involves four participants in addition to ourselves: issuers (the cardholders' banks), acquirers (the merchants' banks), merchants and cardholders. Consequently, the payment system we operate is often referred to as a four-party payment system. The following diagram depicts a typical point-of-sale card transaction.

In a typical transaction, a cardholder (A) purchases goods or services from a merchant (B) using a card. After the transaction is authorized by the issuer (D) using our network, the acquirer (C) pays the amount of the purchase, net of a discount, to the merchant. This discount, which we refer to as the merchant discount, takes into consideration the amount of the interchange fee described below. The issuer pays the acquirer an amount equal to the value of the transaction minus any interchange fee and posts the transaction to the cardholder's account. Our rules generally guarantee the payment of MasterCard transactions and certain Cirrus and Maestro transactions between issuers and acquirers.

For participants in a four-party payment system, the economics of a card transaction vary widely depending on such factors as whether the transaction is domestic or cross-border (and, if it is domestic, the country in which it takes place), whether it is a point-of-sale purchase transaction or cash-withdrawal, and whether the transaction is processed over a network such as MasterCard's or is handled solely by a financial institution that is both the acquirer for the merchant and the issuer to the cardholder (an on-us transaction).

A significant portion of the merchant discount is generally paid from the acquirer to the issuer in the form of an interchange fee. The balance of the merchant discount is retained by the acquirer to cover its costs and profit margin. Acquirers may charge merchants processing and related fees in addition to the merchant discount. Issuers may also charge cardholders fees for the transaction, including, for example, fees for extending revolving credit. As described below, we charge issuers and acquirers operational fees and assessments for the services we provide them.

Interchange fees represent a sharing of a portion of payment system costs among the financial institutions participating in a four-party payment card system such as ours. Generally, interchange fees are collected from acquirers and passed to issuers to reimburse the issuers for a portion of the costs incurred by them in providing services which benefit all participants in the system, including acquirers and merchants. In some circumstances, such as cash withdrawal transactions, this situation is

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reversed and interchange fees are paid by issuers. We establish multilateral interchange fees (MIFs) in certain circumstances as default fees that apply when there are no other interchange fee arrangements in place between an issuer and an acquirer. We administer the collection and remittance of MIFs through the settlement process; however, we generally do not earn revenues from them. As noted above, MIFs are a significant component of the costs that merchants pay to accept payment cards and are subject to regulatory or legal challenges in a number of jurisdictions. We are devoting substantial management and financial resources to the defense of MIFs and to the other legal and regulatory challenges we face. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks.

MasterCard Revenue Sources. MasterCard generates revenues by charging transaction processing and related fees and GDV and card-based assessments to both issuers and acquirers. On an aggregate basis, we earned approximately 63% of our revenues in connection with operations fees and approximately 37% of our revenues in connection with assessments in each of 2004 and the first six months of 2005. Operations fees are typically transaction-based and include core authorization, clearing and settlement fees, currency conversion fees, switch fees, connectivity fees, fees for warning bulletins and related compliance programs, other operations fees such as hologram and acceptance development fees, and user-pay fees for a variety of services. Rebates and incentives are recorded as contra-revenues in accordance with U.S. GAAP. See Management's Discussion and Analysis of Financial Condition and Results of Operations Revenues.

On a global basis, we generate a majority of our revenue from issuers. The allocation of our revenues between operations fees and assessments and among issuers and acquirers varies materially across our regions. Issuers typically pay operations fees and assessments. Acquirers principally pay assessments on GDV or cards and to a lesser extent certain operations fees.

Our operations fees and assessments vary significantly across regions and depend on the type of transaction processed. We generally earn higher revenues on cross-border transactions than on domestic transactions because, by offering a global system, we are able to charge more for our services. In addition, we generally earn higher revenues on point-of-sale purchase transactions than on cash access transactions, and on domestic credit and offline debit transactions than on comparable online debit transactions. In addition, transaction fees and assessments vary from customer to customer as a result of our tailored pricing, incentive and rebate structures.

We generate a significant amount of revenue from foreign currency conversion. On a global scale, we have the ability to process transactions denominated in more than 160 currencies. These revenues are the result of cross-border transactions by cardholders that require currency conversion to settle the transactions between issuers and acquirers. MasterCard generally uses a wholesale rate increased by a certain percentage or a government-mandated rate to convert transactions in foreign currencies into U.S. dollars. Revenues from processing currency conversion transactions fluctuate with cross-border travel.

Authorization, Clearing and Settlement. We facilitate the authorization, clearing and settlement of the transactions described above and similar transactions through our proprietary, worldwide computer and telecommunications network.

Authorization refers to the process by which a transaction is approved by the issuer or, in certain circumstances such as when the issuer's systems are unavailable or cannot be contacted, by MasterCard or others on behalf of the issuer in accordance with the issuer's instructions. MasterCard's network provides for the transmission of authorization requests and results among issuers, acquirers and other transaction processors or networks. Our rules, which may vary across regions, establish the circumstances under which merchants and acquirers must seek authorization of transactions.

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Clearing refers to the exchange of financial transaction information between issuers and acquirers after a transaction has been completed. MasterCard clears transactions among customers through our central processing systems.

Once transactions have been authorized and cleared, MasterCard provides services in connection with the settlement of the transactions that is, the exchange of funds along with associated fees. Settlement is provided through our Settlement Account Management system. Once clearing is completed, a daily reconciliation is provided to each customer involved in settlement, detailing the net amounts by clearing cycle and a final settlement position. The actual exchange of funds takes place between a clearing bank chosen by the customer and approved by MasterCard, and a settlement bank chosen by MasterCard. Customer settlement occurs in U.S. dollars or in a limited number of other selected currencies, in accordance with MasterCard's established rules.

Credit and Offline Debit Processing. Our transaction processing services are managed principally through our Global Technology and Operations headquarters in O'Fallon, Missouri, a state-of-the-art worldwide network control facility with over 52,000 square feet of white computer room environment. Our core processing systems are large and highly scalable. We have the capacity to handle over 3.8 billion instructions per second but operate at only 70% capacity at a peak day, and we can substantially scale this capacity upon demand. MasterCard processes transactions in 160 currencies from 210 countries.

MasterCard-branded transactions (credit and offline debit transactions) are generally cleared through our centralized processing system, known as the Global Clearing Management System (GCMS), and the related information is typically routed among customers via our data transport network, which we refer to as Banknet. Both GCMS and Banknet have benefited from significant recent investments as a result of our five year, \$160 million system enhancement strategy. As part of this strategy, we migrated Banknet to a virtual private network in 1997, a first for our industry. Since that time, our virtual private network has significantly reduced transaction processing times and enhanced data security for our customers. Our systems route transactions flow between nearly 1,000 endpoints throughout the world, rather than coming to a central location. This approach enhances the reliability of MasterCard transactions by providing several levels of redundancy.

GCMS has helped us to improve our time-to-market in introducing new programs and services. More importantly, using GCMS, we can partner with our customers to provide value-added services to merchants and cardholders. For example, issuers can use GCMS to develop promotions for segments of their card portfolios without investing in their own systems development. We believe that GCMS and our other recent systems enhancements position us well to pursue incremental processing opportunities. See Business Strategy.

Our transaction processing services are available 24 hours per day, every day of the year. In the event that our main processing facility in O'Fallon, Missouri, becomes disabled, we have a co-processing facility in Kansas City, Missouri. Our transaction processing systems have redundant power supplies and back-up processes to ensure continued operation in the event of a fault. We have consistently maintained core systems availability for our global processing systems at a rate in excess of 99.9%.

Online Debit Processing. We also operate the MasterCard Debit Switch (MDS), which principally supports the processing of Cirrus and Maestro online debit transactions. The MDS switches financial messages, provides transaction and statistical reporting, and performs clearing and settlement between customers and other debit transaction processing networks. Unlike the authorization and clearing processes described above, which involve the exchange of transaction data in two discrete messages (one for authorization and again for clearing), the MDS generally operates as a single message system in which clearing occurs simultaneously with the initial authorization request.

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In addition to continued investment in the MDS, MasterCard is enhancing its position in online debit processing through a series of initiatives. Since 2004, MasterCard has worked with issuers and acquirers to increase the routing priority of MasterCard's systems for the processing of PIN point-of-sale transactions, and has begun to establish direct processing connections to major U.S. merchants. In addition, MasterCard has entered into an agreement with eFunds Corporation to provide end-to-end debit processing services for mid-sized to large issuers. As part of this agreement, MasterCard provides network services and eFunds provides card issuer processing, ATM, risk management and other support services to our customers.

Regional Transaction Processing. We provide transaction processing (authorization, clearing and settlement) services for customers in the Europe region through our subsidiary MasterCard Europe. These services allow European customers to facilitate payment transactions between cardholders and merchants throughout Europe. Recently, we have substantially completed a multi-year technical convergence project to fully integrate our European authorization clearing and settlement systems with our global clearing and settlement systems. We also operate a separate regional processing facility for the Asia/Pacific region in Australia. This facility processes a majority of the MasterCard-branded transaction volumes in Australia and New Zealand.

Outside of the United States and a select number of other jurisdictions, most intra-country (as opposed to cross-border) transaction activity conducted with MasterCard, Maestro and Cirrus cards is authorized, cleared and/or settled by our customers or other processors without the involvement of our central processing systems. We do not earn transaction processing fees for such activity. Accordingly, we derive a significant portion of our non-U.S. revenues from processing cross-border transactions. As part of our strategy, we are developing and promoting domestic processing solutions for our customers that are designed to leverage our significant investments in our global and regional processing systems. For example, during 2003, MasterCard Europe began authorizing and clearing transactions for the members of S2 Limited, formerly known as Switch Card Services Limited, which operate an electronic domestic debit card network in the United Kingdom under the Switch® brand, as part of an agreement to migrate Switch branding to Maestro by 2007. In Brazil, we acquired the local debit brand Redeshop® in 2002. The Switch migration and Redeshop acquisition have resulted in significant increases in our local processing debit volume in the United Kingdom and Brazil, respectively.

Customer Relationship Management

We are committed to providing our key customers with coordinated services through integrated, dedicated account teams in a manner that allows us to leverage our expertise in payment programs, brand marketing, product development, technology, processing and consulting services for these customers. We have implemented an internal process to identify our key customers on a global and regional basis based on what we consider to be appropriate business opportunities and to organize our relationships with them to ensure that their priorities are consistently identified and incorporated into MasterCard's project, brand, processing, technology and related strategies. To achieve this, we undertake an integrated customer planning process with key customers on an annual basis.

We also seek to enter into business agreements with key customers through which we offer financial incentives and other financial support to issue and promote our cards. These incentives often consist of a reduction in our volume-based fees and assessments for certain customers based on the achievement of GDV hurdles or other performance metrics. We believe that our business agreements with key customers have contributed to our strong volume and revenue growth in recent years. See *Related Party Transactions* for a description of the business arrangements with certain of our largest customers.

The pricing terms and duration of the agreements with our customers vary significantly. Most of our customer relationships are not exclusive, and may be terminated in a variety of circumstances. See

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Risk Factors Risks Related to Our Business **Business Risks** We face increasingly intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability and Our revenue would decline significantly if we lose one or more of our most significant customers, which could have a material adverse impact on our business. In addition to our key customer agreements, we have standard licensing arrangements with all our customers that permit them to use our trademarks and subject them to the rules governing our payment programs. Those customers with whom we do not have customized agreements are generally subject to standardized pricing arrangements.

MasterCard Programs

MasterCard offers a wide range of payment solutions to enable our customers to design, package and implement programs targeted to the specific needs of their customers. Our principal payment programs, which are facilitated through our brands, include consumer credit and debit programs, commercial payment solutions and stored value programs. Our issuers determine the competitive features for the cards issued under our programs, including interest rates and fees. We determine other aspects of our card programs such as required services and marketing strategy in order to ensure that a consistent value proposition is provided to cardholders and/or merchants by our customers in connection with these programs.

Consumer Programs Credit and Charge

Overview. MasterCard offers a number of consumer credit and charge (pay later) programs that are designed to meet the needs of our customers. For the first half of 2005, our consumer credit and charge programs have generated approximately \$565.4 billion in GDV globally, representing 71.5% of our total GDV for the period. As of June 30, 2005, the MasterCard brand mark appeared on approximately 716.3 million cards worldwide, representing 12.1% growth from the same period in 2004.

United States. We offer customized programs to address specific consumer segments. Our consumer credit programs include Standard, Gold, Platinum and World MasterCard cards. Standard MasterCard cards are general purpose credit cards targeted to consumers with basic needs for a credit card. Gold MasterCard cards are targeted to consumers typically requiring a higher line of credit or spending limit and one or more card enhancement services, such as loyalty reward programs, associated with a card. Platinum MasterCard cards are offered with still higher credit lines or spending limits and also provide a full range of card enhancement services. World MasterCard cards, which are aimed at affluent households, have no preset spending limit and the option to revolve a designated portion of the charges made and to choose the categories in which reward points are received.

International. In addition to the programs offered in the United States, MasterCard also offers a variety of other consumer card programs in selected markets throughout the world. For example, MasterCard Electronic cards offer additional control and risk management features by requiring 100% issuer authorization. The MasterCard Electronic program is designed to curb fraud and control exposure in high risk markets. The MasterCard Unembossed program encourages merchants to submit transactions electronically for authorization while providing cardholders with a global acceptance network. MasterCard has also created innovative, alternate card forms to help our customers differentiate their programs. For example, MasterCard mc(2) cards are generally chip-enabled, which provides security and additional functionality, and feature a distinctive cutaway corner card design. MasterCard has launched MasterCard mc(2) programs in the Europe, Latin America/Caribbean and Asia/Pacific regions.

General Services. The services provided in connection with all MasterCard credit cards and for which we charge issuers include lost/stolen card reporting, emergency card replacement and emergency cash advance. Optional services, such as emergency

travel assistance, are also available

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on many MasterCard cards. These services are generally provided through third-party service providers arranged by MasterCard, including a licensed insurance company retained by MasterCard to provide insurance services.

Consumer Programs Deposit Access

Overview. MasterCard supports a range of payment solutions that allow our customers to provide consumers with convenient access to funds on deposit in checking, demand deposit and other accounts. Our deposit access (pay now) programs may be branded with the MasterCard, Maestro and/or Cirrus marks, and can be used to obtain cash in bank branches or at ATMs. In addition, MasterCard- and Maestro-branded debit cards may be used to make purchases at the point of sale. Like our consumer credit programs, we support debit Gold MasterCard programs and debit Platinum MasterCard programs that issuers can offer as premium services to cardholders. Issuers may also provide enhancement services and loyalty rewards programs in connection with debit cards carrying our brands. In recent years we have increased the size of our debit programs in key countries through our acquisition of the Redeshop® brand in Brazil in 2002 and through our agreement with S2 Limited to shift branding and processing from the Switch® brand to Maestro in the United Kingdom by 2007.

Offline Debit Card Programs. We offer MasterCard-branded offline debit card programs in the United States and other countries. In 2004, Associated Bank, Bank of the West and Washington Mutual, which collectively issue an estimated 10 million offline debit cards, selected MasterCard for their offline debit card programs. Through our agreement with eFunds Corporation, a provider of electronic payments software and processing solutions, we market eFunds processing services as an integrated component of our debit programs. The agreement is intended to add a flexible, end-to-end debit transaction processing solution to the package of services and products already available to our customers.

As a result of the settlement agreement in the U.S. merchant lawsuit, MasterCard has taken a number of actions to modify its MasterCard-branded offline debit card programs in the United States. Among other things, MasterCard has adopted rules that allow merchants to reject MasterCard-branded debit cards issued in the United States, while still accepting other MasterCard-branded cards, and vice versa. However, U.S. merchants who choose to accept MasterCard-branded debit cards must accept all MasterCard-branded debit cards. See Risk Factors Risks Related to Our Business Business Risks We have repealed our Competitive Programs Policy as a result of a final judgment in our litigation with the U.S. Department of Justice, and our business may suffer as a result.

Maestro. Maestro is MasterCard's global online debit program. Based on information from our customers and other sources, we estimate that, at June 30, 2005, the Maestro brand mark appeared on approximately 578.1 million cards worldwide, including 34.5 million MasterCard-branded cards, representing 5.9% growth versus the second quarter of 2004. Based on the same information, we also believe that Maestro was accepted for purchases at more than 9.2 million merchant locations globally. We believe that our Maestro brand has a leading position among online debit brands in many markets throughout the world, particularly in Europe. Maestro appears on over 70% of the debit cards now issued in the European Union, principally to accommodate cross-border card acceptance. In addition, over 85% of debit card payment terminals in the European Union already accept Maestro. We believe that the strong presence of Maestro in Europe will position us well when the Single European Payments Area initiative, which will create a more integrated payment market in Europe, is implemented. We believe that the global acceptance of Maestro contributes to the growth of our debit business and adds value to the services that we provide to our customers. Maestro cards are issued, and Maestro transactions are processed, pursuant to a set of rules and procedures that are separate from the rules applicable to MasterCard credit and offline debit transactions.

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Cirrus. We make the Cirrus brand available to customers to provide global cash access for our customers' proprietary ATM cards. We believe the Cirrus brand provides cash access at more than 1 million participating ATMs and other cash dispensing locations around the globe, making it one of the world's largest cash access brands. Generally, cardholders with cards bearing the MasterCard, Maestro or Cirrus logo may use a network ATM to access funds on deposit in their accounts (if a debit card is used) or to obtain a cash advance (if a credit card is used). Typically, ATM cards contain multiple cash access logos and the Cirrus brand enables a transaction (which will then be processed by MDS) only if there is no regional or domestic cash access branch that is capable of doing it.

Commercial Payment Solutions

MasterCard offers commercial payment solutions that help large corporations, mid-sized companies, small businesses and public sector organizations to streamline their payment processes, manage information and reduce administrative costs. In the first six months of 2005, our commercial credit and charge programs generated approximately \$59.7 billion in GDV globally, representing 7.5% of our total GDV for that period. GDV from commercial credit and charge programs grew globally by nearly 24% on a U.S. dollar basis for the first half of 2005, compared to the same period last year.

We offer various corporate payment products, including corporate cards, corporate executive cards, corporate purchasing cards and fleet cards that allow our customers to manage travel and entertainment expenses and provide customers with additional transactional detail. The MasterCard Corporate Multi Card[®] is an integrated card program that combines the functionality of one or more of our MasterCard corporate programs' travel, purchasing and fleet' into a single card or account, thereby reducing the costs of managing multiple card programs. Our Multinational Corporate Program allows issuers to manage and consolidate these corporate card programs for multinational organizations that require commercial cards in more than one country. We also offer a variety of payment programs for public sector entities that are similar to the travel, purchasing, fleet and Multi Card programs offered to corporations. The MasterCard BusinessCard[®] and Executive BusinessCard are targeted at the small-business segment, offering business owners the ability to gain access to working capital, extend payments and separate business expenses from personal expenses.

MasterCard has also developed programs that offer benefits to organizations ranging from small businesses to large corporations by integrating payment transaction data into financial systems. Such programs, which aim to facilitate paperless end-to-end corporate purchasing for our customers, include MasterCard e-P3 (accounts payable re-engineering), MasterCard ExpenSys (expense reporting), MasterCard Smart Data (management reporting) and MasterCard SmartLink (enterprise reporting systems).

Stored Value Programs

Stored value (pay before) programs involve a balance account that is funded with monetary value prior to use. Holders can access funds in the account via a traditional magnetic stripe or chip-enabled payment card (prepaid cards) or paper-based travelers cheques.

MasterCard's customers may implement prepaid payment programs using any of the MasterCard family of brands (MasterCard, MasterCard Electronic, Maestro or Cirrus). MasterCard provides processing services, including authorization, clearing and settlement, in support of either magnetic stripe or chip-enabled prepaid card programs and can maintain card account balance information. Prepaid card programs can be customized to meet the needs of unique corporate and consumer segments and can be

issued in connection with various programs such as gift, teen, employee benefit, payroll, travel, incentive and project management programs.

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Consulting, Information and Related Services

Our MasterCard Advisors group provides our customers with a wide range of consulting services and information and other products associated with their payments activities and programs. In 2004, MasterCard Advisors expanded existing services in the areas of research, customer relationship management, database marketing and researching, information and risk management consulting, and outsourcing. Such expansion included the acquisitions of The Tower Group, Inc., a research and advisory firm, in February 2004 and Watch Hill Partners, Inc., a customer relationship management consultancy, in May 2004. In addition, MasterCard Advisors introduced new services in the area of database researching, including the launch of the SpendingPulse national retail data service, which aggregates and analyzes MasterCard's transaction processing data in the United States to produce estimates of U.S. retail sales. In the second quarter of 2005, MasterCard Advisors launched MasterCard Rewards Services, a fully integrated end-to-end rewards program in Europe. MasterCard Advisors charges our customers and others fees for its professional services. MasterCard Advisors does not make a significant contribution to our revenues.

Emerging Technologies

MasterCard contributes to innovation in the payments industry through several initiatives, including developments in the areas of electronic commerce, smart cards and mobile commerce. MasterCard encourages new initiatives in the area of electronic commerce by researching and developing a range of emerging technologies designed to offer business opportunities to MasterCard and our customers. MasterCard manages smart card development by working with our customers to help them replace traditional payment cards relying solely on magnetic stripe technology with chip-enabled payment cards that offer additional point-of-sale functionality and the ability to capture more consumer data. As of June 30, 2005, more than 200 million smart cards bearing our brands had been issued worldwide. We are also involved in a number of organizations that facilitate the development and use of smart cards globally, including a smart cards standards organization with other participants in the industry that maintains specifications designed to ensure interoperability and acceptance of chip-based payment applications on a worldwide basis. MasterCard also encourages new initiatives in the area of mobile commerce and wireless payment development by working with customers and leading technology companies. Finally, MasterCard is working to develop standards and programs that will allow consumers to conduct their financial transactions securely using a variety of new point of interaction devices.

Marketing

We manage and promote our brands for the benefit of all customers through umbrella advertising, promotional and sponsorship initiatives. We strive to have our consumers associate the MasterCard brand with The Best Way to Pay for Everything that Matters®. Our marketing activities combine advertising, sponsorships, promotions, interactive media and public relations as part of an integrated package designed to increase consumer awareness of MasterCard and usage of MasterCard cards. We also seek to tailor our global marketing messages by customizing them in individual countries, while maintaining a common global theme. Our brand-building initiatives, which are conducted for our benefit as well as for the benefit of our customers, represent a substantial portion of our overall expenses approximately 41% in 2004 and 37% in the first six months of 2005.

Our advertising plays an important role in building brand visibility, usage and loyalty among cardholders globally. Our award-winning Priceless® advertising campaign, launched in the United States in 1997, is running in 48 languages across 105 countries. The Priceless campaign promotes MasterCard's acceptance and usage benefits that permit cardholders to pay for what they need, when they need it. It also provides MasterCard with a consistent, recognizable message that supports our

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brand positioning. In order to promote usage of our cards, we also sponsor frequent promotions on a regional and national basis, often in conjunction with merchants or our customers.

We also seek to increase MasterCard brand awareness and preference, and to encourage card usage and loyalty, by sponsoring a variety of sporting and entertainment properties that support the Priceless campaign and MasterCard brand positioning. In soccer, MasterCard is the exclusive payment system sponsor of the FIFA World Cup. We also sponsor other leading soccer events, including the Union of European Football Associations (UEFA) European Championship and the UEFA Champions League in Europe. In golf, we are a sponsor and the preferred card of the PGA Tour, the Champions Tour, the PGA of America, the LPGA, the European PGA Tour, the PGA Tour of Australasia, and other events. In baseball, we are the exclusive payments brand sponsor of Major League Baseball and have also established separate marketing and sponsorship arrangements with over half of the Major League Baseball teams. In football, we have established sponsorship arrangements with the majority of the National Football League teams. Finally, as part of our marketing strategy in family entertainment, we have a long-term sponsorship arrangement with certain business units of NBC Universal that entitles MasterCard to marketing and promotional programs with certain of Universal's motion picture, theme park, music and video properties.

Merchant Acceptance Initiatives

Based on information from our customers and other sources, we estimate that, at June 30, 2005, cards carrying the MasterCard brand were accepted at over 23 million locations around the world. Acceptance locations include merchant locations, ATMs and other locations where cash may be obtained.

Merchants are an important constituency in the MasterCard payment system and we are working to further develop our relationships with them. We believe that consolidation in the retail industry is producing a set of larger merchants with increasingly global scope. These merchants are having a significant impact on all participants in the global payments industry, including MasterCard. We believe that the growing role of merchants in the payments system represents both an opportunity and a challenge for MasterCard. On the one hand, large merchants are supporting many of the legal and regulatory threats to interchange fees against which MasterCard is now defending, since interchange fees represent a significant component of the costs that merchants pay to accept payment cards. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks and Risk factors Risks Related to Our Business Business Risks Merchants are increasingly focused on the costs of accepting card-based forms of payment, which may lead to additional litigation and regulatory proceedings and may increase the costs of our incentive programs, which could materially and adversely affect our profitability. In addition, we may be required to increase the amount and scope of incentives that we provide to merchants to encourage the acceptance and usage of our cards, which may adversely affect our business. On the other hand, we believe there are many opportunities to enhance our relationships with merchants and to continue to expand acceptance of our cards. For example, in 2004 we made available directly to merchants those portions of our rules that apply to card acceptance and related activities. We have also begun to hold meetings with merchant advisory groups that have been established in key global markets including the United States, Canada and Australia.

We aim to maintain the unsurpassed acceptance of MasterCard-branded programs by focusing on three core initiatives. First, we seek to increase the categories of merchants that accept cards carrying our brands. We are presently focused on expanding acceptance in electronic commerce environments, in fast through-put businesses such as fast food restaurants, and in public sector payments, such as those involving taxes, fees, fines and tolls, among other categories. Second, we seek to increase the number of payment channels where MasterCard programs are accepted, such as by introducing MasterCard acceptance in connection with recurring payment applications. Third, we

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seek to increase usage of our programs at selected merchants by sponsoring a wide range of promotional programs on a global basis. We also enter into arrangements with selected merchants under which these merchants provide incentives or discounts for the use of MasterCard-branded programs or otherwise indicate a preference for MasterCard-branded programs when accepting payments from consumers.

We also support technical initiatives designed to make MasterCard card acceptance more attractive for specific merchants, such as our Quick Payment Service for fast food restaurants and other merchants where rapid transactions are required. In addition, MasterCard PayPass, a contactless payment solution that enables consumers simply to tap or wave their payment card on a specially equipped terminal, is designed to help our customers further grow their businesses by capturing a portion of transactions that were previously cash-based and increasing card activity on underutilized card accounts. In 2004, McDonald's agreed to accept PayPass at thousands of its locations in the United States. PayPass pilot programs have been expanded to include customers and merchants in the Asia/Pacific region and Canada. As of the second quarter of 2005, approximately 100,000 PayPass Cards were issued in the United States, largely in Atlanta, Denver and New York.

We also view recurring payments as a significant opportunity to expand MasterCard card acceptance and usage, and we are working with customers to encourage consumers to make recurring bill payments in a variety of categories including telephone, cable, utilities and insurance on their MasterCard-branded cards.

In addition, we provide research, marketing support and financial assistance to our customers and their marketing partners in connection with the launch and marketing of co-branded and affinity card programs. Co-branded cards are payment cards bearing the logos or other insignia of an issuer and a marketing partner, such as an airline or retail merchant. Affinity cards are similar to co-branded cards except that the issuer's marketing partner is typically a charity, educational or similar organization.

Membership Standards

We establish and enforce rules and standards surrounding membership in MasterCard International and the use and acceptance of cards carrying our brands.

Rule Making and Enforcement

Membership in MasterCard International and its affiliates is generally open only to banks and other regulated and supervised financial institutions. Applicants for membership must meet specified membership eligibility requirements, which may vary between regions.

In general, MasterCard grants licenses by territory to applicants able to perform all obligations required of members. Licenses convey intellectual property rights to members, including access to the network and usage of our brands. Risk management reviews and anti-money laundering due diligence reviews are conducted on all new members prior to admission, as well as on existing members. All applicants and members must meet the requirements of MasterCard's anti-money laundering program. As a condition of our licenses, members agree to comply with our bylaws, policies, rules and operating regulations (Standards). MasterCard International and certain of its affiliates are the governing bodies that establish and enforce the Standards, which relate

to such matters as membership eligibility and financial soundness criteria; the standards, design and features of cards and card programs; the use of MasterCard trademarks; merchant acquiring activities (including acceptance standards applicable to merchants); and guaranteed settlement, member failures and allocation of losses. In Europe, certain of these standards will be established and enforced by our European Board (as described below).

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To help ensure that members conform to the Standards, we run a number of compliance programs including reviewing card programs proposed by members and requiring members to undergo an annual audit by an independent certified public accountant (or similar examination by a regulatory authority). To tailor MasterCard's programs and services to the needs of local markets, we have approved a number of variations to the Standards applicable to specific regions.

Member Risk Management

As a guarantor of certain card obligations of principal members, we are exposed to member credit risk arising from the potential financial failure of any of our approximately 2,200 principal members of MasterCard, Maestro and Cirrus, and approximately 3,000 affiliate debit licensees. Our estimated gross legal settlement risk exposure for MasterCard branded transactions was approximately \$13.9 billion as of June 30, 2005. Principal members participate directly in MasterCard programs and are responsible for the settlement and other activities of their sponsored affiliate members (approximately 22,700).

To minimize the contingent risk to MasterCard of a failure, we monitor principal members' and affiliate debit licensees' financial health, economic and political operating environments and compliance with our rules and standards. If the financial condition of a member or the state of a national economy in which it operates indicates that it may not be able to satisfy its obligations to us or other MasterCard members or its payment obligations to MasterCard merchants, we may require the member to post collateral, typically in the form of letters of credit and bank guarantees. If a member becomes unable or unwilling to meet its obligations to us or other members, we are able to draw upon such member's collateral, if provided, in order to minimize any potential loss to our members or ourselves. In addition to obtaining collateral from members, in situations where a member is potentially unable to meet its obligations to us or other members, we can block authorization and settlement of transactions and ultimately terminate membership.

For liquidity protection in the event of member settlement failure, we have established a \$2.25 billion committed credit facility, which is subject to renewal. See Risk Factors Risks Related to Our Business Business Risks As a guarantor of certain obligations of principal members and affiliate debit licensees, we are exposed to risk of loss or illiquidity if any of our members default on their MasterCard, Cirrus or Maestro settlement obligations. Following the offering transactions, we will no longer have the right to impose special assessments on members, including in connection with member settlement failures. See Risk Factors Risks Related to Our Business Business Risks Upon completion of this offering, we will no longer have the right to impose special assessments upon the members of MasterCard International.

Payment System Integrity

The integrity of our payment system is affected by fraudulent activity and other illegal uses of our system. Fraud is most often committed in connection with lost, stolen or counterfeit cards or stolen account information resulting from security breaches of systems that store cardholder account data. See Risk Factors Risks Related to Our Business Business Risks Account data breaches involving card data stored by us or third parties could adversely affect our reputation and revenue. Fraud is also more likely to occur in transactions where the card is not present, such as electronic commerce, mail order and telephone order transactions. Security and cardholder authentication for these remote channels are particularly critical issues facing our customers and merchants who engage in these forms of commerce, where a signed cardholder sales receipt is generally unavailable.

We monitor areas of risk exposure and enforce our rules and standards to combat fraudulent activity. We also operate several compliance programs to ensure that the integrity of our payment

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system is maintained. Key compliance programs include excessive chargeback, merchant audit and account data compromise programs. Our members are also required under our rules to report instances of fraud to us in a timely manner.

Our customers are responsible for fraud losses associated with the cards they issue or the merchants from whom they acquire transactions. However, we have implemented a series of programs and systems to aid them in detecting and preventing the fraudulent use of cards carrying our brands. We provide education programs and various risk management tools to help detect fraud including MasterCard SecureCode, a global Internet authentication solution that permits cardholders to authenticate themselves to their issuer using a unique, personal code, and Site Data Protection, a program that assists customers and on-line merchants in protecting electronic commerce sites from hacker intrusions and subsequent account data compromises. Generally, we charge our customers fees for these anti-fraud programs and services.

Enterprise Risk Management

MasterCard faces a number of risks in operating its business. For a description of material risks, see Risk Factors. The degree to which MasterCard manages risk is vital to its financial condition and profitability. Managing risk is the responsibility of our business units and is an integral component of our business activities. A dedicated Enterprise Risk Management (ERM) group has been formed to provide risk management analysis, support, coordination and oversight across MasterCard. Through ERM, we are identifying, assessing, mitigating and monitoring key business risks in a consistent manner.

Some of our key ERM activities have included: developing an ERM framework, policy and risk governance structure; identifying and categorizing key internal and external risks; creating preliminary risk reporting; determining mitigating activities and action plans; and providing a risk-weighted decision-making methodology for the 2006 strategic planning process.

Intellectual Property

We own a number of valuable trademarks that are essential to our business, including MasterCard®, Maestro® and Cirrus®, through one or more affiliates. We also own numerous other trademarks covering various brands, programs and services offered by MasterCard to support our payment programs. Through license agreements with our customers, we authorize the use of our trademarks in connection with our customers' card issuing and merchant acquiring businesses. In addition, we own a number of patents and patent applications relating to payments solutions, transaction processing, smart cards, security systems and other matters, some of which may be important to our business operations.

Competition

MasterCard programs compete against all forms of payment, including paper-based transactions (principally cash and checks), electronic transactions such as wire transfers and Automated Clearing House payments and other electronic forms of payment, including card-based payment systems. As a result of a global trend in which electronic forms of payment such as payment cards are increasingly displacing paper forms of payment, we have gained market share versus cash and checks in recent years. However, cash and checks still capture the largest overall percentage of worldwide transaction volume.

Within the general purpose payment card industry, we face substantial and increasingly intense competition worldwide from systems such as Visa (including Plus, Electron and Interlink), American

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Express and JCB, among others. In specific countries, we face significant competition from other competitors such as Discover/Novus in the United States. Within the global general purpose card industry, Visa has significantly greater volume than we do. In certain countries, other competitors also have leading positions, such as JCB in Japan. Our deposit access programs also encounter substantial and increasingly intense competition from ATM and point-of-sale debit networks in various countries, such as Star, NYCE and Pulse in the United States, Interac in Canada and EPTPOS in Australia. We also compete against businesses that issue their own payment cards such as retail stores and petroleum (gasoline) companies. New competitors may also enter our marketplace from time to time. For example, China Union Pay has been established as the predominant domestic card acceptance brand in the People's Republic of China, and may seek to expand its acceptance and cash access network internationally.

Our competitors include operators of proprietary end-to-end payment networks that have direct acquiring relationships with merchants and direct issuing relationships with cardholders, such as American Express and Discover. These competitors have certain advantages that we do not enjoy. Among other things, these competitors do not require formal interchange fees to balance payment system costs among issuers and acquirers, because they have direct relationships with both merchants and cardholders. Interchange fees, which are a characteristic of four-party payments systems such as ours, are subject to increased regulatory scrutiny worldwide. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks Interchange fees are subject to increasingly intense legal and regulatory scrutiny worldwide, which may have a material adverse impact on our revenue, our prospects for future growth and our overall business. Because they do not utilize formal interchange fees, operators of end-to-end payment networks to date have generally avoided the same regulatory scrutiny we face and, accordingly, may enjoy a competitive advantage over four-party payment systems.

In addition, ongoing litigation has and may continue to affect our ability to compete in the global payments industry. See Legal Proceedings. For example, under the settlement agreement in the U.S. merchant lawsuit, U.S. merchants now have the right to reject MasterCard-branded debit cards issued in the United States while still accepting other MasterCard-branded cards, which may adversely affect our ability to maintain and grow our debit business in the United States. In addition, as a result of the court's decision in our litigation with the U.S. Department of Justice concerning our Competitive Programs Policy, some of our customers may now do business with American Express or Discover in the United States, which could adversely affect our business. A number of our large customers, including MBNA Corporation, Citibank and GE Finance have announced that they will issue American Express or Discover-branded cards. See Risk Factors Risks Related to Our Business Business Risks We have repealed our Competitive Programs Policy as a result of a final judgment in our litigation with the U.S. Department of Justice, and our business may suffer as a result. Finally, we are being sued in several state and federal courts because of our currency conversion practices. The outcome of these lawsuits potentially could require us to change our currency conversion practices, which may have a material adverse effect on our business. We cannot predict what the final outcome will be of our various litigations and other regulatory proceedings. For a description of these and other matters, see Legal Proceedings.

We compete intensely with other bankcard associations, principally Visa, for the loyalty of our customers. In most countries throughout the world, including the United States, financial institutions typically issue both MasterCard- and Visa-branded payment cards. As a result of this structure, known as duality, we compete with Visa for business on the basis of individual card portfolios or programs. In some countries, particularly Canada, card issuers are non-dual, meaning that they issue either MasterCard or Visa payment cards, but not both. Issuance of MasterCard and Visa debit cards is generally non-dual in the United States as well, due to Visa's historical debit exclusivity rule. As a result of the litigation with the U.S. Department of Justice, Visa's debit exclusivity rule is no longer

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enforceable. However, Visa enacted a bylaw that imposes a fee on its 100 largest issuers of debit cards in the United States if they reduce their Visa debit volume by more than 10% which, if enforced, may prevent us from acquiring business from current Visa customers. In non-dual countries, we compete with Visa for the entire book of a customer's business.

We face increasingly intense competitive pressure on the prices we charge our customers. In order to stay competitive, we may have to increase the amount of incentives we provide to our customers, including possible pricing discounts. Over the past several years, we have experienced continued pricing reductions. We seek to enter into business agreements with customers through which we offer incentives and other support to issue and promote our cards. However, our customers can terminate their business agreements with us in a variety of circumstances. See Risk Factors Risks Related to Our Business Business Risks We face increasingly intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability.

Over the last several years, the banking industry has undergone rapid consolidation, and we expect this trend to continue in the future. Consolidation represents a competitive threat for MasterCard because our business strategy contemplates entering into business agreements with our largest customers in exchange for significant business commitments to MasterCard. Significant ongoing consolidation in the banking industry may result in a financial institution with a substantial MasterCard portfolio being acquired by an institution that has a strong relationship with a competitor, resulting in a loss of business for MasterCard. See Risk Factors Risks Related to Our Business Business Risks Consolidation or other changes affecting the banking industry could result in a loss of business for MasterCard and may create pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability.

In addition, we face competition with respect to particular segments of the payment card industry. In the United States, for example, MasterCard-branded transactions account for a smaller share of all offline, signature-based debit transactions than they do credit or charge transactions. In addition, many of our competitors process a greater number of online, PIN-based debit transactions at the point of sale than we do, since our Maestro brand has relatively low market penetration in the United States. See Risk Factors Risks Related to Our Business Business Risks If we are unable to grow our debit business, particularly in the United States, we may fail to maintain and increase our revenue growth. In addition, our business and revenues could be impacted adversely by any tendency among U.S. consumers or financial institutions to migrate from offline, signature-based debit transactions to online, PIN-based transactions, because the latter types of transactions are more likely to be processed by ATM/debit point-of-sale networks as opposed to us.

We also face competition from transaction processors such as First Data Corporation, some of which are seeking to build networks that link issuers directly with point-of-sale devices for payment card transaction authorization and processing services. Certain of these transaction processors (including First Data) have significantly greater scale than we do, which may provide them with a cost advantage. If these processors grow their transaction volumes more quickly than we do, their scale advantages over us may accelerate and they could capture some of our core processing business. Similarly, some of our competitors provide currency conversion services at the point-of-sale through dynamic currency conversion, which is an alternative to our currency conversion system. These networks could reduce our transaction processing volumes, which could adversely affect our revenues.

We also compete against new entrants that have developed alternative payment systems such as PayPal and payments across mobile devices. Among other things, these competitors provide Internet currencies that can be used to buy and sell goods on-line, virtual checking programs that permit the direct debit of consumer checking accounts for on-line payments, and services that support payments

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to and from proprietary accounts for Internet, mobile commerce and other applications. A number of these new entrants rely principally on the Internet to support their services, and may enjoy lower costs than we do. In mobile commerce, we also face competition from established network operators. Whereas the MasterCard approach to mobile commerce centers on the use of the consumer's payment account as established by their card issuer, network operators may apply mobile consumer payments directly to the consumer's monthly bill.

We believe that the principal factors affecting our competitive position in the global payments industry are:

pricing;

customer relationships;

the impact of existing litigations, legislation and government regulation;

the impact of globalization and consolidation of financial institutions and merchants;

the acceptance base, reputation and brand recognition of payment cards;

the quality and integrity of transaction processing;

the relative value of services and products offered;

the success and scope of marketing and promotional campaigns; and

the ability to develop and implement new card programs, systems and technologies in both physical and virtual environments.

Government Regulation

Government regulation impacts key aspects of our business. We are subject to regulations that affect the payment industry in the many countries in which our cards are used. In recent years the regulatory environment in which we operate has become increasingly stringent. In particular, interchange fees associated with four-party payment systems like ours are being reviewed or challenged in various jurisdictions. See Legal Proceedings.

Furthermore, MasterCard customers are subject to numerous regulations applicable to banks and other financial institutions in the United States and elsewhere, and as a consequence MasterCard is impacted by such regulations. Certain of our operations are periodically reviewed by the federal Financial Institutions Examination Council to ensure our compliance with applicable data

security requirements, for example. In recent years, the federal banking regulators have adopted a series of regulatory measures intended to require more conservative accounting, greater risk management and higher capital requirements for bank credit card activities, particularly in the case of banks that focus on subprime cardholders. In addition, MasterCard Europe operates a retail payment system in Europe and is subject to oversight by the National Bank of Belgium pursuant to standards published by the European Central Bank that are principally targeted at managing financial, legal and operations risk.

In addition, aspects of our operations or business are subject to privacy regulation in the United States, the European Union and elsewhere, as well as regulations imposed by the U.S. Treasury's Office of Foreign Assets Control. For example, in the United States, we and our customers are subject to the information safeguards rule under the Gramm-Leach-Bliley Act and applicable regulations thereunder. The implementing regulations require all financial institutions (including us under the Federal Trade Commission safeguards rule) to develop, implement and maintain a written, comprehensive information security program that contains administrative, technical, and physical safeguards that are appropriate to the financial institution's size and complexity, the nature and scope of the financial institution's activities, and the sensitivity of any customer information at issue. In

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addition, a number of U.S. states have enacted security breach legislation, requiring varying levels of consumer notification in the event of a security breach, and several other states are considering similar legislation. In Europe, the European Parliament and Council passed the European Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data. The directive has been implemented through local laws regulating data protection in European Union member states to which we and our customers are subject. The directive establishes general principles with regard to the processing of personal data, including the legal grounds for processing, the rights of individuals with regard to their personal data, restrictions on transfers of the personal data outside the European Economic Area, and the obligation of the controller of that information to take the necessary technical and organizational measures to protect personal data.

MasterCard and other participants in the payment industry are also subject to the regulatory requirements of Section 352(a) of the USA PATRIOT Act, which has required MasterCard to create and implement a comprehensive anti-money laundering program and has imposed similar requirements on some of our customers. Our anti-money laundering program must, at a minimum, include the designation of a compliance officer, provide for the training of employees regarding anti-money laundering responsibilities, provide internal policies, procedures, and controls to mitigate money laundering risks, and be independently audited.

In addition, in 2004, regulations implementing the Fair and Accurate Credit Transactions Act, were issued that, among other things, make permanent the preemptive effect of several provisions of the Fair Credit Reporting Act that could have a material impact on our customers' businesses. Additional implementing regulations are anticipated later this year. One such regulation pertaining to risk-based pricing could have a significant impact on the application process for credit cards, resulting in increased costs of issuance and/or a decrease in the flexibility of card issuers to set the price of credit. There is also increasing scrutiny among regulators and Congress with respect to our customers' pricing of credit and their underwriting standards. Any legislative or regulatory restrictions on our customers' ability to price credit freely could result in reduced amounts of credit available to consumers, and therefore potentially reduce our transaction volume and revenues.

The U.S. Congress is also presently considering regulatory initiatives in the areas of Internet gambling, Internet prescription drug purchases, copyright and trademark infringement, and privacy, among others, that could impose additional compliance burdens on us or our customers. Most U.S. states are considering a variety of similar legislation. If implemented, these initiatives could require us or our customers to monitor, filter, restrict, or otherwise oversee various categories of payment card transactions, thereby increasing our costs or decreasing our transaction volumes. Various regulatory agencies are also considering regulations covering identity theft, account management guidelines, privacy, disclosure rules, security, and marketing that would impact our customers directly. Many of these topics are a result of increased scrutiny of the underwriting standards of our customers. These new requirements may restrict the ability of our customers to extend credit through the use of payment cards, which could decrease the number of transactions using our cards. In some circumstances, new regulations could have the effect of limiting our customers' ability to offer new types of payment programs or restricting their ability to offer our existing programs such as stored value cards, which could materially and adversely reduce our revenues and revenue growth.

In addition to the review of interchange fees, regulators in the United States and elsewhere are considering a variety of proposals to address such matters as privacy, data use, disclosure rules that, if implemented, could adversely impact our business and our prospects, or the businesses of our customers. For a discussion of certain risks associated with these and other regulatory initiatives, see [Risk Factors](#) [Risks Related to Our Business](#) [Legal and Regulatory Risks](#). The payments industry is generally the subject of increasing global regulatory focus, which may impose costly new compliance

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burdens and costs on us and our costumers and lead to decreased transaction volumes through our systems and Risk Factors Risks Related to Our Business Legal and Regulatory Risks Existing and proposed regulation in the areas of consumer privacy and data use and security could decrease the number of payment cards and could increase our costs.

Outside of the United States, a number of jurisdictions have implemented legal frameworks to regulate their domestic payments systems. For example, regulators in Mexico, Colombia, Singapore and Malaysia have been given statutory authority to regulate certain aspects of the payments systems in those countries. In the case of Singapore and Malaysia, one of the main policies behind the regulations is to protect the stability of the financial systems of those countries. In Malaysia, there is presently no further requirement other than registration and the supply of information. In Singapore, MasterCard does not fall into the ambit of active regulation at present but we may be required to supply information to the regulators in the future.

Employees

As of June 30, 2005, we employed approximately 4,200 persons, of which approximately 1,300 were employed outside the United States. We consider our relationship with our employees to be good.

Properties

As of June 30, 2005, MasterCard and its subsidiaries owned or leased 56 properties. We own our corporate headquarters, a three-story, 472,600 square foot building located in Purchase, New York. There is no outstanding debt on this building. Our principal technology and operations center is a 528,000 square foot leased facility located in O Fallon, Missouri, known as Winghaven. The term of the lease on this facility is 10 years, which commenced on August 31, 1999. See Note 12 to our consolidated financial statements for a description of the lease arrangement. Our leased properties in the United States are located in 11 states and in the District of Columbia. We also lease properties in 36 other countries. These facilities primarily consist of corporate and regional offices, as well as our operations centers.

We believe that our facilities are suitable and adequate for the business that we currently conduct. However, we periodically review our space requirements and may acquire new space to meet the needs of our business, or consolidate and dispose of facilities that are no longer required.

Legal Proceedings

We are a party to legal proceedings with respect to a variety of matters in the ordinary course of business. Except as described below, we do not believe that any legal proceedings to which we are a party would have a material impact on our results of operations, financial position, or cash flows. We have not established reserves for any of these proceedings, other than for the currency conversion litigations, but we may in the future determine that such a charge is required, or we may record an additional charge if we incur liabilities in excess of previously recorded reserves. Such charges, particularly in the event we may be found liable in a large class-action lawsuit or on the basis of a claim entitling the plaintiff to treble damages, could be significant and could materially and adversely affect our results of operations, cash flow and financial condition and result in a significant reduction in the value, or the loss, of your investment. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks.

Department of Justice Antitrust Litigation and Related Private Litigation

In October 1998, the U.S. Department of Justice (DOJ) filed suit against MasterCard International, Visa U.S.A., Inc. and Visa International Corp. in the U.S. District Court for the Southern

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District of New York alleging that both MasterCard's and Visa's governance structure and policies violated U.S. federal antitrust laws. First, the DOJ claimed that dual governance—the situation where a financial institution has a representative on the board of directors of MasterCard or Visa while a portion of its card portfolio is issued under the brand of the other association—was anti-competitive and acted to limit innovation within the payment card industry. Second, the DOJ challenged MasterCard's Competitive Programs Policy (CPP) and a Visa bylaw provision that prohibit financial institutions participating in the respective associations from issuing competing proprietary payment cards (such as American Express or Discover). The DOJ alleged that MasterCard's CPP and Visa's bylaw provision acted to restrain competition.

On October 9, 2001, the District Court judge issued an opinion upholding the legality and pro-competitive nature of dual governance. However, the judge also held that MasterCard's CPP and the Visa bylaw constitute unlawful restraints of trade under the federal antitrust laws.

On November 26, 2001, the judge issued a final judgment that ordered MasterCard to repeal the CPP insofar as it applies to issuers and enjoined MasterCard from enacting or enforcing any bylaw, rule, policy or practice that prohibits its issuers from issuing general purpose credit or debit cards in the United States on any other general purpose card network. The final judgment also provides that from the effective date of the final judgment (October 15, 2004) until October 15, 2006, MasterCard is required to permit any issuer with which it entered into such an agreement prior to the effective date of the final judgment to terminate that agreement without penalty, provided that the reason for the termination is to permit the issuer to enter into an agreement with American Express or Discover. The final judgment imposes parallel requirements on Visa.

MasterCard appealed the judge's ruling with respect to the CPP. On September 17, 2003, a three-judge panel of the Second Circuit issued its decision upholding the District Court's decision. On October 4, 2004, the Supreme Court denied MasterCard's petition for certiorari, thereby exhausting all avenues for further appeal in this case. Thereafter, the parties agreed that October 15, 2004 would serve as the effective date of the final judgment.

In addition, on September 18, 2003, MasterCard filed a motion before the District Court judge in this case seeking to enjoin Visa, pending completion of the appellate process, from enforcing a newly-enacted bylaw requiring Visa's 100 largest issuers of debit cards in the United States to pay a so-called settlement service fee if they reduce their Visa debit volume by more than 10%. This bylaw was later modified to clarify that the settlement service fee would only be imposed if an issuer shifted its portfolio of debit cards to MasterCard. Visa implemented this bylaw provision following the settlement of the U.S. merchant lawsuit described under the heading U.S. Merchant Opt Out and Consumer Litigations below. MasterCard believes that this bylaw is punitive and inconsistent with the final judgment in the DOJ litigation. On January 10, 2005, MasterCard moved before the District Court to enforce the terms of the final judgment and sought an order enjoining Visa from enforcing or maintaining its settlement service fee bylaw. In addition, MasterCard requested that the Court permit Visa's largest 100 debit issuers to rescind any debit issuance agreements they entered into with Visa while the settlement service fee was in effect. The motion was fully briefed on June 3, 2005. On August 18, 2005, the Court issued an order appointing a special master to conduct an evidentiary hearing and then issue a report and recommendation as to whether the settlement service fee violates the Court's final judgment. The special master has not scheduled a hearing date at this time. At this time it is not possible to determine the ultimate resolution of this matter.

On October 4, 2004, Discover Financial Services, Inc. filed a complaint against MasterCard, Visa U.S.A., Inc. and Visa International Incorporated. The complaint was filed in the U.S. District Court for the Southern District of New York and was designated as a related case to the DOJ litigation, and preliminarily assigned to the same judge. The complaint alleges that the implementation and enforcement of MasterCard's CPP and Visa's bylaw provision as well as MasterCard's Honor All

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Cards rule (and a similar Visa rule), which require merchants who accept MasterCard cards to accept for payment every validly presented MasterCard card, violated Sections 1 and 2 of the Sherman Act as well as California's Unfair Competition Act. The complaint also challenged MasterCard's no surcharge rule (and a similar Visa rule) under the same statutes. On December 10, 2004, MasterCard moved to dismiss the complaint in its entirety for failure to state a claim. In lieu of filing its opposition papers to MasterCard's motion, Discover filed an amended complaint on January 7, 2005. In the amended complaint, Discover dropped some of its claims, including its challenge against the no surcharge rule and its claims under California's Unfair Competition Act, but continued to allege that the implementation and enforcement of the Company's CPP, Visa's bylaw provision and the Honor All Cards rules are in violation of Sections 1 and 2 of the Sherman Act. Discover requested that the District Court apply collateral estoppel with respect to its final judgment in the DOJ litigation and enter an order that the CPP and Visa's bylaw provision have injured competition and caused injury to Discover. Discover seeks treble damages in an amount to be proved at trial along with attorneys' fees and costs. On February 7, 2005, MasterCard moved to dismiss Discover's amended complaint in its entirety for failure to state a claim. On April 14, 2005, the Court denied, at this stage in the litigation, Discover's request to give collateral estoppel effect to the findings in the DOJ litigation. In addition, the Court denied MasterCard's motion to dismiss a number of Discover's claims. However, the Court reserved ruling with respect to MasterCard's motion to dismiss those portions of Discover's claims that are based on MasterCard's Honor All Cards rule as well those claims under Section 2 of the Sherman Act. On June 30, 2005, the Court found that MasterCard's motion to dismiss Discover's Honor All Cards claims was moot since Discover's counsel acknowledged that Discover was not bringing a tying claim based on the Honor All Cards rule. On August 29, 2005, the Court denied MasterCard's motion to dismiss Discover's Section 2 conspiracy to monopolize claims. The parties are still awaiting the Court's ruling on the motion to dismiss Discover's other claims brought under Section 2 of the Sherman Act. Discovery will commence after the Court issues this ruling. At this time it is not possible to determine the ultimate resolution of this matter. No provision for losses has been provided in connection with the Discover litigation.

On November 15, 2004, American Express filed a complaint against MasterCard, Visa and eight member banks, including J.P. Morgan Chase & Co., Bank of America Corp., Capital One Financial Corp., U.S. Bancorp, Household International Inc., Wells Fargo & Co., Provident Financial Corp. and USAA Federal Savings Bank. The complaint, which was filed in the U.S. District Court for the Southern District of New York, was designated as a related case to the DOJ litigation and was assigned to the same judge. The complaint alleges that the implementation and enforcement of MasterCard's CPP and Visa's bylaw provision violated Sections 1 and 2 of the Sherman Act. American Express seeks treble damages in an amount to be proved at trial, along with attorneys' fees and costs. On January 14, 2005, MasterCard filed a motion to dismiss the complaint for failure to state a claim. On April 14, 2005, the District Court denied, at this stage in the litigation, American Express' request to give collateral estoppel effect to the findings in the DOJ litigation. In addition, the Court denied MasterCard's motion to dismiss a number of American Express claims. However, the Court reserved ruling with respect to MasterCard's motion to dismiss those portions of American Express claims that were brought under Section 2 of the Sherman Act. On August 29, 2005, the Court denied MasterCard's motion to dismiss American Express' Section 2 conspiracy to monopolize claims. The parties are still awaiting the Court's ruling on the motion to dismiss American Express' other claims brought under Section 2 of the Sherman Act. Discovery will commence after the Court issues this ruling. At this time it is not possible to determine the ultimate resolution of this matter. No provision for losses has been provided in connection with the American Express litigation.

Currency Conversion Litigations

MasterCard International, together with Visa U.S.A., Inc. and Visa International Corp., are defendants in a state court lawsuit in California. The lawsuit alleges that MasterCard and Visa

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wrongfully imposed an asserted one percent currency conversion fee on every credit card transaction by U.S. MasterCard and Visa cardholders involving the purchase of goods or services in a foreign country, and that such alleged fee is unlawful. This action, titled *Schwartz v. Visa Int'l Corp., et al.*, was brought in the Superior Court of California in February 2000, purportedly on behalf of the general public. Trial of the Schwartz matter commenced on May 20, 2002 and concluded on November 27, 2002. The Schwartz action claims that the alleged fee grossly exceeds any costs the defendants might incur in connection with currency conversions relating to credit card purchase transactions made in foreign countries and is not properly disclosed to cardholders. MasterCard denies these allegations.

On April 8, 2003, the trial court judge issued a final decision in the Schwartz matter. In his decision, the trial judge found that MasterCard's currency conversion process does not violate the Truth in Lending Act or regulations, nor is it unconscionably priced under California law. However, the judge found that the practice is deceptive under California law, and ordered that MasterCard mandate that members disclose the currency conversion process to cardholders in cardholder agreements, applications, solicitations and monthly billing statements. As to MasterCard, the judge also ordered restitution to California cardholders. The judge issued a decision on restitution on September 19, 2003, which requires a traditional notice and claims process in which consumers have approximately six months to submit their claims. The court issued its final judgment on October 31, 2003. On December 29, 2003, MasterCard appealed the judgment. The final judgment and restitution process have been stayed pending MasterCard's appeal. On August 6, 2004 the court awarded plaintiff's attorneys' fees in the amount of \$28.2 million to be paid equally by MasterCard and Visa. Accordingly, during the three months ended September 30, 2004, MasterCard accrued amounts totaling \$14.1 million which are included in U.S. Merchant Lawsuit and Other Legal Settlements in the Consolidated Statements of Operations (see Note 8 to our interim consolidated financial statements). MasterCard subsequently filed a notice of appeal on the attorneys' fee award on October 1, 2004. With respect to restitution, MasterCard believes that it is likely to prevail on appeal. In February 2005, MasterCard filed an appeal regarding the applicability of Proposition 64, which amended sections 17203 and 17204 of the California Business and Professions Code, to this action. Oral argument on the appeal took place on July 18, 2005 on this issue.

In addition, MasterCard has been served with complaints in state courts in New York, Arizona, Texas, Florida, Arkansas, Illinois, Tennessee, Michigan, Pennsylvania, Ohio, Minnesota and Missouri seeking to, in effect, extend the judge's decision in the Schwartz matter to MasterCard cardholders outside of California. Some of these cases have been transferred to the U.S. District Court for the Southern District of New York and combined with the federal complaints in MDL No. 1409 discussed below. In other state court cases, MasterCard has moved to dismiss the claims. On February 1, 2005 a Michigan action was dismissed with prejudice and on April 12, 2005, the plaintiff agreed to withdraw his appeal of that decision. On June 24, 2005, a Minnesota action was dismissed with prejudice. On August 17, 2005, the Minnesota court denied plaintiff's request for reconsideration of its decision but granted plaintiff leave to amend his complaint. On August 31, 2005, an Illinois action was dismissed with prejudice. The time has not yet run for plaintiffs to file an appeal. MasterCard has also been served with complaints in state courts in California, Texas and New York alleging it wrongfully imposed an asserted one percent currency conversion fee in every debit card transaction by U.S. MasterCard cardholders involving the purchase of goods or services in a foreign country and that such alleged fee is unlawful. Visa USA, Inc. and Visa International Corp. have been named as co-defendants in the California cases. One such Texas case was dismissed voluntarily by plaintiffs.

MasterCard International, Visa U.S.A., Inc., Visa International Corp., several member banks including Citibank (South Dakota), N.A., Citibank (Nevada), N.A., Chase Manhattan Bank USA, N.A.,

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Bank of America, N.A. (USA), MBNA, and Diners Club are also defendants in a number of federal putative class actions that allege, among other things, violations of federal antitrust laws based on the asserted one percent currency conversion fee. Pursuant to an order of the Judicial Panel on Multidistrict Litigation, the federal complaints have been consolidated in MDL No. 1409 before Judge William H. Pauley III in the U.S. District Court for the Southern District of New York. In January 2002, the federal plaintiffs filed a Consolidated Amended Complaint (MDL Complaint) adding MBNA Corporation and MBNA America Bank, N.A. as defendants. This pleading asserts two theories of antitrust conspiracy under Section 1 of the Sherman Act: (i) an alleged inter-association conspiracy among MasterCard (together with its members), Visa (together with its members) and Diners Club to fix currency conversion fees allegedly charged to cardholders of no less than 1% of the transaction amount and frequently more; and (ii) two alleged intra-association conspiracies, whereby each of Visa and MasterCard is claimed separately to have conspired with its members to fix currency conversion fees allegedly charged to cardholders of no less than 1% of the transaction amount and to facilitate and encourage institution and collection of second tier currency conversion surcharges. The MDL Complaint also asserts that the alleged currency conversion fees have not been disclosed as required by the Truth in Lending Act and Regulation Z.

Defendants have moved to dismiss the MDL Complaint. On July 3, 2003, Judge Pauley issued a decision granting MasterCard's motion to dismiss in part. Judge Pauley dismissed the Truth in Lending claims in their entirety as against MasterCard, Visa and several of the member bank defendants. Judge Pauley did not dismiss the antitrust claims. Fact and expert discovery in this matter have closed. On November 12, 2003 plaintiffs filed a motion for class certification, which was granted on October 15, 2004. On March 9, 2005, Judge Pauley issued a decision on defendants' motion to reconsider the class certification decision. The Judge ruled that the arbitration provisions in the cardholder agreements of member bank defendants, Bank One, MBNA, Provident, Household and Bank of America are valid as to those respective banks and MasterCard and, consequently, cardholders of those banks can no longer participate in the class action certified in his earlier decision and must pursue any claims through arbitration. Plaintiffs moved for further reconsideration, which was denied by Judge Pauley on June 16, 2005. In addition, Judge Pauley declined to give effect to the arbitration clauses in the Citibank and Chase cardholder agreements; both banks have noticed an appeal of that decision. The trial date has been set for May 15, 2006.

Based upon current developments in these currency conversion cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, MasterCard recorded an additional \$48 million of legal reserves in September 2005. Based on future developments, this estimate may be revised. At this time, it is not possible to determine the ultimate resolutions of these matters.

Merchant Chargeback-Related Litigations

On May 12, 2003, a complaint alleging violations of federal and state antitrust laws, breach of contract, fraud and other theories was filed in the U.S. District Court for the Central District of California (Los Angeles) against MasterCard by a merchant aggregator whose customers include businesses selling adult entertainment content over the Internet. The complaint's allegations focus on MasterCard's past and potential future assessments on the plaintiff's merchant bank (acquirer) for exceeding excessive chargeback standards in connection with the plaintiff's transaction activity as well as the effect of MasterCard's chargeback rules and other practices on card-not-present merchants. Chargebacks refer to a situation where a transaction is returned, or charged back, to an acquirer by an issuer at the request of cardholders or for other reasons. Prior to MasterCard filing any motion or responsive pleading, the plaintiff filed a voluntary notice of dismissal without prejudice on December 5, 2003. On the same date, the plaintiff filed a complaint in the U.S. District Court for the Eastern District of New York making similar allegations to those made in its initial California complaint. MasterCard moved to dismiss all of the claims in the complaint for failure to state a cause of action. On March 30, 2005 the judge granted MasterCard's motion and dismissed all of the claims in the complaint. On April

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11, 2005, the plaintiff filed a notice of appeal of the district court's order. On June 30, 2005, the plaintiff filed its brief in support of its appeal. MasterCard filed its opposition brief on August 31, 2005. The Second Circuit has not scheduled an argument date on the appeal.

In addition, on June 6, 2003, an action titled *California Law Institute v. Visa U.S.A., et al.* was initiated against MasterCard and Visa U.S.A., Inc. in the Superior Court of California, purportedly on behalf of the general public. Plaintiffs seek disgorgement, restitution and injunctive relief for unlawful and unfair business practices in violation of California Unfair Trade Practices Act Section 17200, et. seq. Plaintiffs purportedly allege that MasterCard's (and Visa's) chargeback fees are unfair and punitive in nature. Plaintiffs seek injunctive relief preventing MasterCard from continuing to engage in its chargeback practices and requiring MasterCard to provide restitution and/or disgorgement for monies improperly obtained by virtue of them. On June 10, 2005, MasterCard filed a motion requesting that the Court bifurcate certain dispositive issues to be tried separately. The parties are waiting for a ruling on that motion. Initial, but limited, discovery is now proceeding in this matter.

On September 20, 2004, MasterCard was served with a complaint titled *PSW Inc. v. Visa U.S.A, Inc*, MasterCard International Incorporated, et. al., No. 04-347, in the District Court of Rhode Island. The plaintiff, as alleged in the complaint, provided credit card billing services primarily for adult content web sites. The plaintiff alleges defendants' excessive chargeback standards, exclusionary rules, merchant registration programs, cross-border acquiring rules and interchange pricing to internet merchants violate federal and state antitrust laws as well as state contract and tort law. The plaintiff seeks \$60 million in compensatory damages as well as \$180 million in punitive damages. On November 24, 2004, MasterCard moved to dismiss the complaint. Prior to the court ruling on MasterCard's motion to dismiss, plaintiffs filed an amended complaint on April 6, 2005. This complaint generally mirrors the original complaint but includes additional causes of action based on the purported deprivation of plaintiff's rights under the First Amendment of the U.S. Constitution. On May 20, 2005, MasterCard moved to dismiss all of PSW's claims in the complaint for failure to state a claim. The plaintiff filed its opposition to MasterCard's motion on July 7, 2005. The court has not yet scheduled oral argument on the motion.

At this time it is not possible to determine the outcome of the merchant chargeback-related litigations. No provision for losses has been provided in connection with these litigations.

U.S. Merchant Opt Out and Consumer Litigations

Commencing in October 1996, several class action suits were brought by a number of U.S. merchants against MasterCard International and Visa U.S.A., Inc. challenging certain aspects of the payment card industry under U.S. federal antitrust law. Those suits were later consolidated in the U.S. District Court for the Eastern District of New York. The plaintiffs challenged MasterCard's Honor All Cards rule and a similar Visa rule. Plaintiffs claimed that MasterCard and Visa unlawfully tied acceptance of debit cards to acceptance of credit cards. The plaintiffs also claimed that MasterCard and Visa conspired to monopolize what they characterized as the point-of-sale debit card market, thereby suppressing the growth of regional networks such as ATM payment systems. On June 4, 2003, MasterCard International signed a settlement agreement to settle the claims brought by the plaintiffs in this matter, which the Court approved on December 19, 2003. A number of class members have appealed the District Court's approval of the settlement. These appeals are largely focused on the court's attorneys' fees award as well on the court's ruling on the scope of the release set forth in the Settlement Agreement. On January 4, 2005, the Second Circuit Court of Appeals issued an order affirming the District Court's approval of the U.S. merchant settlement agreement. The settlement is now final as no class members filed a petition for certiorari with the Supreme Court regarding the Second Circuit's affirmation of the district court's approval of the settlement. For a further description of the U.S. merchant lawsuit settlement and its impact on MasterCard's financial results see Note 8 to our interim consolidated financial statements.

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Several lawsuits were commenced by merchants who have opted not to participate in the plaintiff class in the U.S. merchant lawsuit, including Best Buy Stores, CVS, Giant Eagle, Home Depot, Toys R Us and Darden Restaurants (collectively, the Opt Out Plaintiffs). The majority of these cases were filed in the U.S. District Court for the Eastern District of New York. MasterCard has entered into separate settlement agreements with each of the Opt Out Plaintiffs resolving their claims against MasterCard. The District Court has entered orders dismissing with prejudice each of the Opt Out Plaintiff's complaints against MasterCard.

In addition, individual or multiple complaints have been brought in 19 different states and the District of Columbia under state unfair competition statutes against MasterCard International (and Visa) on behalf of putative classes of consumers. The claims in these actions largely mirror the allegations made in the U.S. merchant lawsuit and assert that merchants, faced with excessive merchant discount fees, have passed these overcharges to consumers in the form of higher prices on goods and services sold. While these actions are in their early stages, MasterCard has filed motions to dismiss the complaints in a number of state courts for failure to state a cause of action. Courts in Arizona, Iowa, New York, Michigan, Minnesota, Nebraska, Maine, North Dakota, Kansas, North Carolina, South Dakota, Vermont, Wisconsin and the District of Columbia have granted MasterCard's motions and dismissed the complaints with prejudice. Plaintiffs have appealed several of these decisions. The plaintiffs in Minnesota have filed an amended complaint on behalf of a purported class of Minnesota consumers who made purchases with debit cards rather than on behalf of all consumers. On July 12, 2005, the court granted MasterCard's motion to dismiss the Minnesota complaint for failure to state a claim and dismissed the complaint with prejudice. The time in which the plaintiffs may appeal this decision is currently running. In addition, the courts in Tennessee and California have granted MasterCard's motion to dismiss the respective state unfair competition claims but have denied MasterCard's motions with respect to unjust enrichment claims in Tennessee and Section 17200 claims for unlawful, unfair, and/or fraudulent business practices in California. Both parties have appealed the Tennessee decisions. MasterCard is awaiting decisions on its motions to dismiss in the other state courts.

On March 14, 2005, MasterCard was served with a complaint that was filed in Ohio state court on behalf of a putative class of consumers under Ohio state unfair competition law. The claims in this action mirror those in the consumer actions described above but also name as co-defendants a purported class of merchants who were class members in the U.S. merchant lawsuit. Plaintiffs allege that Visa, MasterCard and the class members of the U.S. merchant lawsuit conspired to attempt to monopolize the debit card market by tying debit card acceptance to credit card acceptance. MasterCard's time in which to respond to the complaint is currently running.

On April 29, 2005, a complaint was filed in California state court on behalf of a putative class of consumers under California unfair competition law and the Cartwright Act. The claims in this action seek to piggyback on the portion of the DOJ antitrust litigation in which the United States District Court for the Southern District of New York found that MasterCard's CPP and Visa's bylaw constitute unlawful restraints of trade under the federal antitrust laws. See Department of Justice Antitrust Litigation and Related Private Litigation. On July 15, 2005, MasterCard and Visa jointly moved to dismiss plaintiffs' claims for failure to state a claim. On September 9, 2005, plaintiffs filed an opposition brief.

At this time, it is not possible to determine the outcome of these consumer cases and no provision for losses has been provided in connection with them. The consumer class actions are not covered by the terms of the settlement agreement in the U.S. merchant lawsuit.

Global Interchange Proceedings

Interchange fees represent a sharing of payment system costs among the financial institutions participating in a four-party payment card system such as MasterCard's. Typically, interchange fees

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are paid by the merchant bank (the acquirer) to the cardholder bank (the issuer) in connection with transactions initiated with the payment system's cards. These fees reimburse the issuer for a portion of the costs incurred by it in providing services which are of benefit to all participants in the system, including acquirers and merchants. MasterCard or its members establish a multilateral interchange fee (MIF) in certain circumstances as a default fee that applies when there is no other interchange fee arrangement between the issuer and the acquirer. MasterCard establishes a variety of MIF rates depending on such considerations as the location and the type of transaction, and collects the MIF on behalf of the institutions entitled to receive it and remits the MIF to eligible institutions. As described more fully below, MasterCard or its members' MIFs are subject to regulatory or legal review and/or challenges in a number of jurisdictions. At this time, it is not possible to determine the ultimate resolution of any of the interchange proceedings described below. No provision for losses has been provided in connection with them. See Risk Factors Risks Related to Our Business Legal and Regulatory Risks Interchange fees are subject to increasingly intense legal and regulatory scrutiny worldwide, which may have a material adverse impact on our revenue, our prospects for future growth and our overall business.

European Union. In September 2000, the European Commission issued a Statement of Objections challenging Visa International's cross-border MIF under European Community competition rules. On July 24, 2002, the European Commission announced its decision to exempt the Visa MIF from these rules based on certain changes proposed by Visa to its MIF. Among other things, in connection with the exemption order, Visa agreed to adopt a cost-based methodology for calculating its MIF similar to the methodology employed by MasterCard, which considers the costs of certain specified services provided by issuers, and to reduce its MIF rates for debit and credit transactions to amounts at or below certain specified levels.

On September 25, 2003, the European Commission issued a Statement of Objections challenging MasterCard Europe's cross-border MIF. MasterCard Europe filed its response to this Statement of Objections on January 5, 2004. On June 13, 2005 the European Commission announced a sector inquiry into the financial services industry, which MasterCard understands includes an investigation of interchange fees. The sector inquiry is ongoing.

MasterCard Europe is engaged in discussions with the European Commission in order to determine under what conditions, if any, the European Commission would issue a favorable ruling regarding MasterCard Europe's MIF. If MasterCard is unsuccessful in obtaining a favorable ruling, the European Commission could issue a prohibition decision ordering MasterCard to change the manner in which it calculates its cross-border MIF. MasterCard could appeal such a decision to the European Court of Justice. Because the cross-border MIF constitutes an essential element of MasterCard Europe's operations, changes to it could significantly impact MasterCard International's European members and the MasterCard business in Europe. In addition, a negative decision by the European Commission could lead to the filing of private actions against MasterCard by merchants seeking substantial damages.

United Kingdom Office of Fair Trading. On September 25, 2001, the Office of Fair Trading of the United Kingdom (OFT) issued a Rule 14 Notice under the U.K. Competition Act 1998 challenging the MasterCard MIF, the fee paid by acquirers to issuers in connection with point of sale transactions, and multilateral service fee (MSF), the fee paid by issuers to acquirers when a customer uses a MasterCard-branded card in the United Kingdom either at an ATM or over the counter to obtain a cash advance. Until November 2004, the MIF and MSF were established by MasterCard U.K. Members Forum Limited (MMF) (formerly MasterCard Europay U.K. Ltd. (MEPUK)) for domestic credit card transactions in the United Kingdom. The notice contained preliminary conclusions to the effect that the MasterCard U.K. MIF and MSF may infringe U.K. competition law and do not qualify for an exemption in their present forms. On February 11, 2003, the OFT issued a supplemental Rule 14 Notice, which

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also contained preliminary conclusions challenging MasterCard's U.K. MIF under the Competition Act. On November 10, 2004, the OFT issued a third notice (now called a Statement of Objections) claiming that the MIF infringes U.K. and European Union competition law.

On November 18, 2004, MasterCard's board of directors adopted a resolution withdrawing the authority of the U.K. members to set domestic MasterCard MIFs and MSFs and conferring such authority exclusively on MasterCard's President and Chief Executive Officer.

On September 6, 2005, the OFT issued its decision, concluding that MasterCard's U.K. MIFs contravene U.K. and European Union competition law. The OFT decided not to impose penalties on MasterCard or MMF. MasterCard and MMF intend to appeal the OFT's decision to the U.K. Competition Appeals Tribunal. In addition, referencing the November 18, 2004 change described above, the OFT has stated that it will commence a new investigation of MasterCard's current U.K. MIFs and, if it determines that they contravene U.K. and European Union competition law, it will issue a new decision and possibly levy fines accruing from the date of its first decision. MasterCard would likely appeal a negative decision by the OFT in any future proceeding to the Competition Appeals Tribunal.

Because the MIF constitutes an essential element of MasterCard's U.K. operations, the OFT's decision, if it is upheld on appeal, could have a significant adverse impact on MasterCard's U.K. members and on MasterCard's competitive position and overall business in the U.K. In addition, the OFT's decision could lead to the filing of private actions against MasterCard by merchants which, if our anticipated appeal of the OFT's decision fails, could result in an award of substantial damages.

United States. In July 2002, a purported class action lawsuit was filed by a group of merchants in the U.S. District Court for the Northern District of California against MasterCard International, Visa U.S.A., Inc., Visa International Corp. and several member banks in California alleging, among other things, that MasterCard's and Visa's interchange fees contravene the Sherman Act. The suit seeks treble damages in an unspecified amount, attorneys' fees and injunctive relief, including the divestiture of bank ownership of MasterCard and Visa, and the elimination of MasterCard and Visa marketing activities. On March 4, 2004, the court dismissed the lawsuit with prejudice in reliance upon the approval of the settlement agreement in the U.S. merchant lawsuit by the U.S. District Court for the Eastern District of New York, which held that the settlement and release in that case extinguished the claims brought by the merchant group in the present case. The plaintiffs have appealed the U.S. District Court for the Eastern District of New York's approval of the U.S. merchant lawsuit settlement and release to the Second Circuit Court of Appeals and have also appealed the U.S. District Court for the Northern District of California's dismissal of the present lawsuit to the Ninth Circuit Court of Appeals. On January 4, 2005, the Second Circuit Court of Appeals issued an order affirming the District Court's approval of the U.S. merchant lawsuit settlement agreement, including the District Court's finding that the settlement and release extinguished such claims. Plaintiffs did not seek certiorari of the Second Circuit's decision with the U.S. Supreme Court. The appeal to the Ninth Circuit is currently pending.

On October 8, 2004, a purported class action lawsuit was filed by a group of merchants in the U.S. District Court for the Northern District of California against MasterCard International, Visa U.S.A., Inc., Visa International Corp. and several member banks in California alleging, among other things, that MasterCard's and Visa's interchange fees contravene the Sherman Act and the Clayton Act. The complaint contains similar allegations to those brought in the interchange case described in the preceding paragraph, and plaintiffs have designated it as a related case. The plaintiffs seek damages and an injunction against MasterCard (and Visa) setting interchange and engaging in joint marketing activities, which plaintiffs allege include the purported negotiation of merchant discount rates with certain merchants. On November 19, 2004, MasterCard filed an answer to the complaint.

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Plaintiffs filed an amended complaint on April 25, 2005. MasterCard moved to dismiss the claims in the complaint for failure to state a claim and, in the alternative, also moved for summary judgment with respect to certain of the claims. The court heard oral argument on MasterCard's motion to dismiss on July 8, 2005. On July 25, 2005, the court issued an order granting MasterCard's motion to dismiss and dismissed the complaint with prejudice. On August 10, 2005, the plaintiffs filed a notice of appeal. Plaintiffs' opening appeal brief is currently scheduled to be filed on November 28, 2005.

On June 22, 2005, a purported class action lawsuit was filed by a group of merchants in the U.S. District Court of Connecticut against MasterCard International Incorporated, Visa U.S.A., Inc. Visa International Service Association and a number of member banks alleging, among other things, that MasterCard's and Visa's purported setting of interchange fees violates Section 1 of the Sherman Act. In addition, the complaint alleges MasterCard's and Visa's purported tying and bundling of transaction fees also constitutes a violation of Section 1 of the Sherman Act. The suit seeks treble damages in an unspecified amount, attorneys' fees and injunctive relief. MasterCard's time in which to respond to the complaint is currently running. In addition, on June 28, 2005, a second class action lawsuit was filed on behalf of a purported class of merchants in the Southern District of New York against MasterCard, Visa U.S.A., Inc. and Visa International. This suit alleges that MasterCard and Visa's interchange fees violate Section 1 of the Sherman Act. The suit also alleges that MasterCard and Visa have enacted various rules, including the no surcharge rule, which purportedly constitute unlawful restraints of trade. The suit seeks treble damages, attorneys' fees and injunctive relief. Furthermore, on August 3, 2005, a lawsuit was filed in Southern District of New York against MasterCard on behalf of individual merchants, including Kroger and Walgreen Pharmacy, containing claims brought under Section 1 and 2 of the Sherman Act. The claims generally mirror the allegations in other complaints but also allege Section 1 tying claims based on the bundling of the acceptance of premium credit cards to standard credit cards. Finally, there have been a number of complaints containing some or all of the allegations described above, as well as certain state law consumer protection and common law claims, filed in federal courts in the Northern and Central Districts of California, Eastern District of Wisconsin, Eastern District of Pennsylvania, District of New Jersey, Eastern District of New York, Northern District of Ohio, Western District of Kentucky, and the District of Connecticut. MasterCard's time in which to respond to the complaints in these actions has been stayed pending resolution of petitions by plaintiffs and defendants to the Multidistrict Litigation Panel with regard to the consolidation of all or some of these cases for pre-trial proceedings. The MDL Panel has scheduled oral argument on these petitions for September 29, 2005.

At this time it is not possible to determine the outcome of these interchange-related litigations. No provisions for losses have been provided in connection with these litigations.

Other Jurisdictions. In Spain, the Competition Tribunal issued a decision in April 2005 denying the interchange fee exemption applications of two of the three domestic credit and debit card processing systems and beginning the process to revoke the exemption it had previously granted to the third such system. The interchange fees set by these three processors apply to MasterCard transactions in Spain and consequently, MasterCard has appealed this decision. In addition, the Tribunal expressed views as to the appropriate manner for setting domestic interchange fees which, if implemented, would result in substantial reductions in credit and debit card interchange fees in Spain. This could have a material impact on MasterCard's business in Spain. MasterCard is aware that regulatory authorities and/or central banks in certain other jurisdictions, including Poland, New Zealand, Portugal, Mexico, Colombia, South Africa, Hungary and Switzerland are reviewing MasterCard's and/or its members' interchange fees and/or related practices and may seek to regulate the establishment of such fees and/or such practices.

Table of Contents**MANAGEMENT****Directors and Executive Officers**

The following table sets forth the names, ages and positions of our current directors and executive officers. Our current directors are officers of, or otherwise affiliated with, our member financial institutions. Prior to the consummation of this offering, our certificate of incorporation and bylaws will be amended to, among other things, provide that, with the exception of the directors to be elected by the holders of our Class M common stock, any person who is or has been during the prior three years a director, officer, employee, agent or representative of, or otherwise has any business relationship that is material to such person with, a member or former member of MasterCard International, or an operator, member, or licensee of any competing general purpose payment card system, or any affiliate of such person, may not serve as a director of MasterCard. Accordingly, we expect that a number of our current directors will resign. We intend to reduce the size of our board of directors and otherwise replace these directors with a geographically diverse group of persons who are independent under the rules of the New York Stock Exchange and the U.S. Securities and Exchange Commission and who have no affiliation with any of our members or any affiliate of a member. See Our Board of Directors After the Offering below.

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|-----------------------------|-------------------|--|
| William F. Aldinger | 58 | Director (U.S. Representative) |
| Silvio Barzi | 57 | Director (Europe Representative) |
| Donald L. Boudreau | 64 | Director (U.S. Representative) |
| Augusto M. Escalante | 56 | Director (Latin America and the Caribbean Representative) |
| Baldomero Falcones Jaquotot | 59 | Chairman of the Board and Director (Europe Representative) |
| Richard D. Fairbank | 55 | Director (U.S. Representative) |
| Bernd M. Fieseler | 45 | Director (Europe Representative) |
| Iwao Iijima | 61 | Director (Asia/Pacific Representative) |
| Michel Lucas | 66 | Director (Europe Representative) |
| Norman C. McLuskie | 61 | Director (Europe Representative) |
| Siddharth N. Mehta | 47 | Director (U.S. Representative) |
| Robert W. Pearce | 50 | Director (Canada Representative) |
| Michael T. Pratt | 52 | Director (Asia/Pacific Representative) |
| Robert W. Selander | 54 | President and Chief Executive Officer and Director |
| Tan Teong Hean | 61 | Director (Asia/Pacific Representative) |
| Jac Verhaegen | 65 | Director (Europe Representative) |
| Lance L. Weaver | 50 | Director (U.S. Representative) |
| Robert B. Willumstad | 60 | Vice Chairman and Director (U.S. Representative) |
| W. Roy Dunbar | 44 | President, Global Technology & Operations |
| Noah J. Hanft | 52 | General Counsel and Secretary |
| Alan J. Heuer | 64 | Chief Operating Officer |
| Chris A. McWilton | 46 | Chief Financial Officer |
| Michael W. Michl | 59 | Chief Administrative Officer |
| Christopher D. Thom | 56 | Chief Risk Officer |

All of our officers are appointed by and serve at the discretion of our board of directors. There are no family relationships among any of our directors or executive officers.

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Set forth below is a brief description of the business experience of our directors and executive officers. We sometimes refer to the board of directors of MasterCard as the "Global Board of Directors" to distinguish it from our regional boards.

William F. Aldinger, age 58, is the former Chairman and Chief Executive Officer of HSBC North America Holdings Inc. Mr. Aldinger has served on the Global Board of Directors since June 2002 and

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was elected to the MasterCard International board of directors in 1998. He is a former member of MasterCard's U.S. region board. Mr. Aldinger joined Household International in 1994, and prior to that time served in various positions at Wells Fargo Bank, including Vice Chairman. HSBC Holdings plc acquired Household International Inc. in 2003. Mr. Aldinger is a member of the boards of directors of Illinois Tool Works, Inc., AT&T, Charles Schwab Corporation and KKR Financial. He is a member of the combined boards of directors of Children's Memorial Medical Center/Children's Memorial Hospital and the Children's Memorial Foundation located in Chicago. Mr. Aldinger is also a member of the board of trustees of the J.L. Kellogg Graduate School of Management and the Baruch College Fund.

Silvio Barzi, age 57, is Deputy General Manager of Unicredito Italiano and founder and Chief Executive Officer of Clarima Banca, a bank specializing in credit cards and consumer credit. Mr. Barzi was first elected to the Global Board of Directors in 2003 and serves on MasterCard's Europe region board. Prior to joining Unicredito Italiano in 2000, Mr. Barzi was a Vice President at Booz Allen & Hamilton. From 1995 until 1998, he worked for the Credit Suisse-Winterthur Group, where he was responsible for the merger and integration of six Italian-based insurance companies. From 1981 to 1995, Mr. Barzi was a partner in the Italian office and a leader within the European Financial Institutions and Information Technology practices of McKinsey & Company. Mr. Barzi currently serves as a director at CartaSi and SinSys.

Donald L. Boudreau, age 64, is a director of the Company. Mr. Boudreau served as Chairman Emeritus and a non-voting advisory director of MasterCard from June 2002 until November 2004. He served on the MasterCard International board of directors since 1997 and was the Chairman of the MasterCard International board of directors from April 1998 to March 2001. Mr. Boudreau is a retired Vice Chairman of The Chase Manhattan Corporation and The Chase Manhattan Bank, where he was a member of the Executive Committee. Mr. Boudreau served in a variety of positions during his 40 year career at Chase, and most recently was responsible for all of Chase's consumer and middle market businesses. Previously, Mr. Boudreau was at various times responsible for Chase's international businesses, was Chief Administrative Officer of Chase's corporate business, and was responsible for establishing and managing various risk management and compliance functions at Chase. Earlier in his career, Mr. Boudreau served as chief financial officer of Chase's consumer business. Mr. Boudreau is a member of the board of trustees of the New York Presbyterian Hospital and of New York Presbyterian Hospital System, Inc and serves as chairman of both of their audit committees.

Augusto M. Escalante, age 56, is Deputy President, Consumer Products and Marketing Areas, Banco Nacional de Mexico, S.A. Mr. Escalante has been a member of the Global Board of Directors since June 2002 and was elected to the MasterCard International board of directors in 2001 after having previously served on the board from April 1998 to March 1999. He is also member of MasterCard's Latin America and Caribbean region board, for which he formerly served as Chairman. Mr. Escalante joined Banco Nacional de Mexico in 1991. At Banco Nacional de Mexico, Mr. Escalante is responsible for all consumer products, both deposit and credit, and all marketing and advertising for the Financial Group of Banco Nacional de Mexico. He was previously Deputy President, Bank Card and Electronic Services Area, and Deputy President, Consumer Loans Area of Banco Nacional de Mexico.

Baldomero Falcones Jaquotot, age 59, is Chairman of Europay España, S.A. and Chairman of the Global Board of Directors of MasterCard. He has been a member of the Global Board of Directors since June 2002 and the MasterCard International board of directors since 1997, and is a member of MasterCard's Europe region board. Mr. Falcones joined Banco Urquijo, a predecessor of Banco Santander Central Hispano, in 1979 and has served as Senior Executive Vice President and a member of the Executive Committee of Banco Santander Central Hispano for fifteen years. Mr. Falcones also serves as Chairman of Sociedad Española de Tarjetas Inteligentes and Santander Central Hispano, Seguros y Reaseguros, S.A. He is a director of Sistema 4B.

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Richard D. Fairbank, age 55, is Chairman, Chief Executive Officer and President of Capital One Financial Corporation. Capital One, headquartered in McLean, Virginia, provides credit cards and a variety of other consumer lending and banking products through its subsidiaries in the United States and internationally. Mr. Fairbank founded Capital One in 1988 as part of Virginia-based Signet Bank. He has served as Chairman and Chief Executive Officer of Capital One since it was spun off from Signet as an independent, public company in 1994. In addition, Mr. Fairbank serves as Chairman and Chief Executive Officer of Capital One Bank and Chairman of Capital One F.S.B., two of Capital One's primary lending subsidiaries. Mr. Fairbank was first elected to the Global Board of Directors in 2003 and has served on MasterCard's U.S. region board since 1995. He served as Chairman of MasterCard's U.S. region board from 2002 to 2004.

Bernd M. Fieseler, age 45, is Managing Director and Member of the Executive Board of Deutscher Sparkassen- und Giroverband and is responsible for operating strategy. Mr. Fieseler has been a member of the Global Board of Directors since March 2004 and serves as a member of MasterCard's Europe Region board and its executive committee. Before joining Deutscher Sparkassen- und Giroverband, he served as Director for Information and Operations for CC-Bank and was a member of the Executive Board of CC-Holding from 1997 until 2001. From 1995 to 1997, Mr. Fieseler was Director and Head of Organisation of BHF Bank. Mr. Fieseler also serves as Chairman of the Board of EURO Kartensysteme GmbH.

Iwao Iijima, age 61, is Chairman of Orient Corporation. Mr. Iijima has been a member of the Global Board of Directors since March 2004 and serves on MasterCard's Asia/Pacific region board. From 1998 until 2003, Mr. Iijima served as Executive Vice President of the Orient Corporation. Prior to joining the Orient Corporation, Mr. Iijima served as Board Managing Director of Dai-ichi Kangyo Bank (currently Mizuho Corporate Bank & Mizuho Bank) from June 1997.

Michel Lucas, age 66, is Général Manager of Banque Federative du Crédit Mutuel, Chairman and Chief Executive Officer of Credit Industriel et Commercial and Vice Chairman of Europay France S.A. Mr. Lucas has been a member of the Global Board of Directors since March 2004 and serves as Vice Chairman of MasterCard's Europe region board. Mr. Lucas joined Confédération Nationale du Crédit Mutuel in 1971 and has held various positions since that time in political, technical and development areas. He is also a General Manager of Caisse Centrale du Crédit Mutuel and Groupe de Crédit Mutuel Centre Est Europe, and Chairman and General Manager of the Assurances du Crédit Mutuel. Mr. Lucas is a board member of Banque de Tunisie, BMCE, Caisses Dejardins and Banque Transatlantique.

Norman C. McLuskie, age 61, is Chairman, Retail Direct of the Royal Bank of Scotland Group. Mr. McLuskie has been a member of the Global Board of Directors since June 2002 and was first elected to the MasterCard International board of directors in 2000. He also serves on MasterCard's Europe region board. Mr. McLuskie joined Royal Bank of Scotland in 1982. Following the acquisition of Natwest by the Royal Bank of Scotland in March 2000, he was appointed Chief Executive of Retail Direct, a division of the Royal Bank of Scotland Group encompassing its card and consumer finance businesses, among others. Mr. McLuskie's other directorships include: Deputy Chairman of Tesco Personal Finance, Director of RBS Insurance and a member of the Institute of Chartered Accountants of Scotland. Mr. McLuskie is also a fellow of the Chartered Institute of Bankers in Scotland.

Siddharth N. Mehta, age 47, is Chief Executive Officer of HSBC North America Holdings Inc. and Chairman and Chief Executive Officer of HSBC Finance Corporation. Mr. Mehta was elected to the Global Board of Directors on March 17, 2005. Mr. Mehta oversees HSBC's North American businesses (Canada and U.S.) and, as Group Managing Director of HSBC Holdings plc, has responsibility for the strategic management of credit cards and the consumer finance customer group throughout the HSBC Group. He joined Household International in 1998, which was acquired by HSBC Holdings plc in 2003.

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Prior to joining Household, Mr. Mehta served as a Senior Vice President at The Boston Consulting Group. He has served on MasterCard's U.S. region board since March 2000. Mr. Mehta serves on the board of international advisors for the Monterey, California, Institute of International Studies and is a member of the Financial Services Roundtable. He also serves on the board of advisors for the Myelin Repair Foundation.

Robert W. Pearce, age 50, is President and Chief Executive Officer of the Personal and Commercial Client Group for Bank of Montreal, where he has worked for over twenty years. He has served on the Global Board of Directors since June 2002 and the MasterCard International board of directors since 1999. He previously served as Executive Vice President of North American Electronic Banking Services for Bank of Montreal and was responsible for Bank of Montreal's MasterCard Cardholder and Merchant Services lines of business, Debit Card business, and Electronic Banking.

Michael T. Pratt, age 52, is Group Executive, Business and Consumer Banking, Westpac Banking Corporation. Mr. Pratt was first elected to the Global Board of Directors in 2003 and also serves on MasterCard's Asia/Pacific region board. He is responsible for all of Westpac's consumer and business banking business in Australia and for all operations of the Bank of Melbourne. Prior to joining Westpac in 2002, Mr. Pratt served as Chief Executive Officer, Australian Financial Services for National Australia Bank, where he was responsible for all retail operations in Australia. From 1998 to 2000, he served as Managing Director and Chief Executive Officer of Bank of New Zealand. He is a Fellow of the Australian Institute of Banking and Finance, a member of the Australian Institute of Company Directors, and a Fellow of the Australian Institute of Management.

Robert W. Selander, age 54, is President and Chief Executive Officer of the Company. Mr. Selander has served on the Global Board of Directors since June 2002 and the MasterCard International board of directors since 1997. Mr. Selander also serves on the Company's Policy and Operating Committees. Prior to his election as President and Chief Executive Officer of MasterCard, Mr. Selander was an Executive Vice President and President of the MasterCard International Europe, Middle East/Africa and Canada regions. Before joining MasterCard in 1994, Mr. Selander spent two decades with Citicorp/Citibank, N.A. He currently serves as a director of Hartford Financial Services Group.

Tan Teong Hean, age 61, is Chief Executive of Southern Bank Berhad. Mr. Tan has been a member of the Global Board of Directors since March 2004. He is Chairman of MasterCard's Asia/Pacific region board and has been a member of the Asia/Pacific region board since July 1997. Mr. Tan serves as a board member of Cagamas Berhad (the National Mortgage Corporation, Malaysia). He is a Fellow and Council member of the Institute of Bankers Malaysia, a Fellow of the Malaysian Institute of Directors and a Trustee of the Malaysian Institute of Economic Research.

Jac Verhaegen, age 65, formerly a senior executive of Rabobank and a member of its Executive Board, has been a member of the Global Board of Directors since June 2002 and serves on MasterCard's Europe region board. He joined Rabobank in 1979. He served as Deputy General Manager of Retail Banking until 1984 when he was appointed General Manager of the System Development Department. From 1989 to 1993, he was General Manager of Operations for Rabobank International. From 1993 to 1998, Mr. Verhaegen served as General Manager of Payment Services. From 1998 to 2001, Mr. Verhaegen was a member of the Managing Board, Local Banks Division of Rabobank.

Lance L. Weaver, age 50, is Vice Chairman of MBNA America Bank, N.A. Mr. Weaver has served on the Global Board of Directors since June 2002 and was elected to the MasterCard International board of directors in 1997, where he served as Chairman from 2001 to 2003. Before joining MBNA America Bank in 1991, Mr. Weaver held various management positions with Wells Fargo and Citicorp/Citibank. He is a director of MBNA America Bank and MBNA Information Services. He is a member of the Georgetown University Board of Directors and the Tower Hill School Board of Trustees.

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Robert B. Willumstad, age 60, is the former President and Chief Operating Officer of Citigroup. Mr. Willumstad served as Chairman and Chief Executive Officer of Citigroup's Global Consumer Group from December 2000 to August 2003 and, as such, led all of Citigroup's global consumer businesses including Credit Cards, Consumer Finance, and Retail Banking. Mr. Willumstad is Vice Chairman of the Global Board of Directors and has served on the Global Board of Directors and the MasterCard International board of directors since June 2002 and 1999, respectively. Mr. Willumstad was Chairman and CEO of Travelers Group Consumer Finance Services prior to the merger between Citicorp and Travelers Group in 1998. Mr. Willumstad joined Commercial Credit, now CitiFinancial, in 1987. Prior to joining Citigroup's predecessor companies, Mr. Willumstad served in various positions with Chemical Bank for twenty years, last holding the position of President of Chemical Technologies Corporation.

W. Roy Dunbar, age 44, is President, Global Technology & Operations of the Company and a member of the Policy and Operating Committees. Before joining the Company, Mr. Dunbar served as president of Eli Lilly's Intercontinental Region, with responsibility for operations in Africa, the Middle East, the Commonwealth of Independent States, Asia, Latin America and the Caribbean. Prior to that time, he was Vice President Information Technology and Chief Information Officer of Eli Lilly, where he worked since 1990. Mr. Dunbar currently serves as a director of EDS Corporation. Mr. Dunbar also serves as a director of Humana Inc..

Noah J. Hanft, age 52, is General Counsel and Secretary of the Company and a member of the Policy Committee. Mr. Hanft has served in various increasingly senior legal positions at the Company since 1984, except for 1990 to 1993, when Mr. Hanft was Senior Vice President and Assistant General Counsel at AT&T Universal Card Services. Prior to joining MasterCard, Mr. Hanft was associated with the intellectual property law firm of Ladas & Parry in New York. Mr. Hanft serves as a member of the board of directors of the Legal Aid Society.

Alan J. Heuer, age 64, is Chief Operating Officer of the Company, the Chairman of the Operating Committee and a member of the Policy Committee. Mr. Heuer is responsible for the Company's Customer Group, which encompasses member relations, global marketing and consulting/cardholder services functions, as well as the Company's regional activities. Mr. Heuer joined MasterCard International in 1995. Prior to that time, Mr. Heuer served as Executive Vice President, Retail Banking, for the Bank of New York.

Chris A. McWilton, age 46, is Chief Financial Officer of the Company and a member of the Policy Committee. Prior to Mr. McWilton's appointment as Chief Financial Officer in October 2003, he served as Senior Vice President and Controller of the Company. Prior to joining the Company in January 2003, Mr. McWilton was a partner at KPMG LLP, an international accounting and tax firm where he specialized in financial and SEC reporting matters. Mr. McWilton joined KPMG LLP in 1980 and was elected to the partnership in 1992. He is a certified public accountant.

Michael W. Michl, age 59, is Chief Administrative Officer of the Company and a member of the Policy Committee. Mr. Michl is responsible for the Company's Central Resources unit, encompassing the Company's global human resources and corporate services functions. Mr. Michl joined MasterCard International in 1998 from Avon Products, where he was Vice President of Human Resources.

Christopher D. Thom, age 56, is the Chief Risk Officer of the Company and a member of the Policy Committee. Mr. Thom is responsible for the Risk Management Group and is accountable for introducing enterprise risk management into the Company. Mr. Thom manages franchise management, security and risk management and fraud management functions at the Company. Prior to joining MasterCard International in 1995, Mr. Thom served in a variety of positions at HSBC Group in the United Kingdom, including as general manager, Strategic Development and general manager, Retail.

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Our Board of Directors After the Offering

Prior to the consummation of this offering the organization and composition of our board of directors will be substantially restructured.

In particular, our certificate of incorporation and bylaws will be amended to provide that, with the exception of the directors to be elected by the holders of our Class M common stock, any person who is or has been during the prior three years a director, officer, employee or representative of, or otherwise has any business relationship that is material to such person with, a member or former member of MasterCard International, or any person that is an operator, member or licensee of any competing general purpose payment card system, or any affiliate of any such person may not serve as a director of MasterCard. Accordingly, we expect that a substantial majority of our current directors will resign. We intend to transition to a board of directors consisting of twelve members, of which nine directors will be elected by the holders of our Class A common stock and three directors will be elected by the holders of our Class M common stock, voting separately as a class. We expect that our chief executive officer will continue to serve as one of the nine directors to be elected by the holders of the Class A common stock, with the remaining eight directorships to be filled with a geographically diverse group of directors who meet the criteria for independence set forth in our certificate of incorporation as well as those established by the New York Stock Exchange and the Securities and Exchange Commission.

Our certificate of incorporation and bylaws will establish the following qualifications for service as a member of our board of directors:

except for the up to three directors (but no more than one-quarter of all directors) to be elected by the holders of our Class M common stock, no director shall be a person who is or has been during the prior three years a director, officer, employee, agent or representative of, or otherwise has any business relationship that is material to such person with, a member or former member of MasterCard International, or of an operator, member, or licensee of any competing general purpose payment card system, or any affiliate of any such person;

no director shall be a trustee, officer, employee or agent of, or represent, The MasterCard Foundation, or have been a director, officer, employee or agent of, or represented, The MasterCard Foundation during the prior three years or otherwise have a business relationship with The MasterCard Foundation that is material to such director; and

no director shall be a director, regional board director, officer, employee or agent of, or represent (1) an entity that owns and/or operates a payment card program that is competitive with any of the Company's card programs, as determined by the Board (a competitor) or (2) an institution that is represented on any board of a competitor.

In addition, each of our directors must also serve as a director of MasterCard International.

Further, our certificate of incorporation will be amended to divide our board of directors into three classes. The members of each class will serve for a staggered, three-year term. Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of stockholders in the year in which their term expires. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of our directors. No more than one Class M director shall be allocated to any single class of directors.

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A majority of the total number of directors (but not less than one-third of the number of directors constituting the entire board) will constitute a quorum for the transaction of business, as long as a majority of the directors that are present are neither Class M directors nor officers of MasterCard.

The holders of the Class M common stock will have the right to elect up to three of our directors, provided that the total number of Class M directors shall not exceed one-fourth of the total number of directors. To the extent practicable and subject to the board of directors' fiduciary duties, we expect that the directors nominated by the board of directors for election by the holders of our Class A common stock (other than the chief executive officer) will reflect the geographic diversity and global profile of MasterCard and that the citizenships and residencies of these directors will reflect the geographic regions in which we operate in a manner approximately proportionate to our business activity. Similarly, we expect that, to the extent practicable and subject to the board of directors' fiduciary duties, the directors nominated by the board of directors for election by the holders of our Class M common stock will include one citizen and resident of a country in, or director, officer, employee, agent or representative of, a member of MasterCard International designated as belonging to our Americas region, one citizen and resident of a country in, or director, officer, employee, agent or representative of a member of MasterCard International designated as belonging to our European region and one citizen and resident of a country in, or director, officer, employee, agent or representative of, a member of MasterCard International designated as belonging to our Asia/Pacific-Middle East/Africa region. No more than one Class M director may be a director, officer, employee, agent or representative of any single Class A member of MasterCard International or any affiliate thereof. No Class M director may serve as Chairman of our board of directors, and no officer may serve as Chairman of our board of directors unless the election or appointment of such officer to so serve is approved by the affirmative vote of at least 75% of the entire board of directors. In addition, no more than one Class M director may serve on our Audit Committee, our Compensation Committee or our Nominating and Corporate Governance Committee (or any Executive Committee), and no Class M director shall participate in the process of nominating any person to serve as a director of the Company (unless such person is being nominated to serve as a Class M director or is the Chief Executive Officer of the Company) or as a director of The MasterCard Foundation.

In addition, under our certificate of incorporation, the board of directors may appoint one person, who has previously served on our board of directors and who is not a director, officer, employee or other representative of a member, to be a non-voting advisor to our board of directors. Our board of directors will also appoint a director elected by the holders of our Class A common stock to serve as a liaison between our board of directors and the board of directors of The MasterCard Foundation to coordinate and facilitate communications with The MasterCard Foundation.

Committees of the Board of Directors

We have an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee.

Audit. The Audit Committee assists our board of directors in fulfilling its oversight responsibilities. Among other things, it reviews the activities, results and effectiveness of internal and external auditors, and appoints and confirms the independence of the external auditors. The Audit Committee also reviews the Company's key risks and controls and its quarterly and annual financial statements. The current members of the Audit Committee are Messrs. McLuskie (Chairman), Falcones, Boudreau, Fieseler, and Pearce. Following this offering the Audit Committee will be comprised of newly-appointed directors selected from among the independent directors to be elected by the holders of our Class A common stock.

Compensation. The Compensation Committee establishes the compensation policies and criteria of our President and Chief Executive Officer and other executive officers. The current members

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of the Compensation Committee are Messrs. Boudreau (Chairman), Falcones, Aldinger, Pearce and Weaver. Following this offering the Compensation Committee will be comprised of newly-appointed directors selected from among the independent directors to be elected by the holders of our Class A common stock.

Nominating and Corporate Governance. The Nominating and Corporate Governance Committee considers and nominates individuals for election as directors of the Company and performs the other functions set forth in its charter. The members of the Nominating and Corporate Governance Committee are Messrs. Falcones (Chairman), Boudreau, Tan, Verhaegen, Weaver and Willumstad. Following this offering we expect that the Nominating and Corporate Governance Committee will be comprised of newly-appointed directors selected from among the independent directors to be elected by the holders of our Class A common stock.

European Board

As a global business, we have structured our organization to be sensitive to the requirements of the regions and countries in which we operate. Historically, our board of directors has delegated authority over a variety of matters, including certain rulemaking, enforcement and fee-setting decisions, to regional boards of directors covering each of Asia/Pacific, Canada, Europe, Latin America and the Caribbean, South Asia/Middle East/Africa, and the United States. Following this offering, however, our regional boards (with the exception of a regional board in Europe) will no longer exercise any authority over our business, although we do expect that representatives of our members will continue to serve on regional and global panels that will act in an advisory capacity to us. In Europe, our certificate of incorporation will allocate primary authority over these types of matters to a European Board comprised of representatives of our European members elected by the holders of our Class M common stock with their principal operations in Europe. The initial members of the European Board will be the members of our existing Europe regional board that satisfy the new director eligibility requirements set forth in our bylaws.

Our certificate of incorporation will provide that the following specified aspects of our operations in Europe will be managed by or under the direction of the European Board:

(1) review of applications for membership (subject to guidelines established by our board of directors from time to time);

(2) fines (subject to guidelines established by our board of directors from time to time);

(3) intraregional operating rules (subject to guidelines established by our board of directors from time to time);

(4) assessments and fees to the extent that such assessments and fees do not have an exclusionary effect (subject to guidelines established by the board of directors from time to time);

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(5) intraregional product and enhancement development to the extent that the development initiatives do not relate to competitively sensitive matters;

(6) annual expense budget;

(7) surplus funds; and

(8) affinity and co-branding rules.

Our certificate incorporation will also provide, however, that our board of directors, acting with at least a 75% majority, may withdraw the authority granted to the European Board in its entirety and may terminate the existence of the European Board if the holders of our Class M common stock with their principal operations in our European region approve such withdrawal and termination by a majority of votes cast. In addition, our board of directors, acting with at least a 75% majority, may permanently

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withdraw from the European Board any specific authority granted to the European Board. In addition, the board of directors, acting with at least a two-thirds majority, may override any decision or otherwise temporarily assume any authority granted to the European Board. Finally, our board of directors, acting with a simple majority, may override any decision or otherwise temporarily assume any authority granted to the European Board if, in our board of directors' sole judgment and discretion, any action or failure to take action by the European Board (1) could subject us to risk of legal or regulatory liability, (2) would be contrary to the our global strategy, (3) would be reasonably likely to have an effect outside Europe or on U.S. commerce or (4) relates to any matter outside of the authority granted to the European Board.

Any director on our board of directors elected by the holders of our Class M common stock who is designated as a director from our European region will be a member of the European Board. The remaining members of the European Board will be elected by the holders of our Class M common stock with their principal operations in our European region at every second annual meeting of stockholders, to hold office for two year terms. No member of the European Board may be a director, regional board director, officer, employee or agent of, or represent a competitor or an institution that is represented on any board of a competitor. The Nominating and Corporate Governance Committee of the Global Board of Directors will nominate individuals for election as members of the European Board.

Compensation of Directors

In the year ended December 31, 2004, directors who were not employees of the Company were paid an annual retainer of \$45,000. The Chairman of the Global Board of Directors received an annual retainer of \$50,000. Non-employee directors also received an annual retainer of \$5,000 for serving as a chairperson of a standing committee; a \$1,500 meeting fee for attendance at board meetings; a \$1,000 meeting fee for attendance at committee meetings and a \$500 meeting fee for telephonic meetings. In addition, customary expenses for attending board and committee meetings were reimbursed.

Under the MasterCard Deferral Plan, up to 100% of non-employee director's meeting fees and annual retainer may be deferred and invested among several investment return options. In general, deferred amounts are not paid until after the director retires from the board. The amounts are then paid, at the director's option, either in a lump sum or in five or ten annual installments.

Following this offering, we expect to establish directors' compensation practices customary for a publicly traded company.

Compensation Committee Interlocks and Insider Participation

None of the current members of the Compensation Committee has ever served as an officer or employee of the Company. Mr. Boudreau is a former executive officer of Chase Manhattan Bank USA, N.A, an affiliate of one of the Company's stockholders with which it has a business relationship more fully described below under "Certain Relationships and Related Transactions." For a description of JPMorgan Chase & Co.'s stockholdings in the Company, see "Principal Stockholders." All current members of the Compensation Committee are officers or former officers of stockholders of the Company, which are principal members of MasterCard International and significant customers of the Company.

Employment Agreements and Change-in-Control Agreements

Employment Agreements

The Company is party to an employment agreement with each of the President and Chief Executive Officer and the four next highest paid executive officers (the Named Executive Officers).

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Mr. Selander

Under the terms of Mr. Selander's employment agreement, Mr. Selander's employment will automatically terminate if he: (i) retires; (ii) dies; or (iii) becomes disabled. In addition, both he and the Company can terminate the agreement for any reason upon 90 days' prior written notice. During the employment term, Mr. Selander is eligible to participate in the Company's total rewards plans and arrangements on a level commensurate with his position. The agreement provides that if Mr. Selander's employment is terminated either by the Company other than for cause or by him for certain specified reasons, in addition to any earned, but unpaid base salary and vested entitlements under any Company plans, he would be entitled to:

A pro rata portion of his target bonus;

Severance pay in the form of base salary continuation and his average annual incentive bonus, received over the prior three years, for a period of 36 months, subject to recalculation to be payable over the period until he is eligible to retire (without any increase in the amount payable);

Continued participation in the Company's health, life insurance and disability plans and Company payment of COBRA premiums;

Immediate SERP vesting and an additional SERP benefit equal to the amount of benefits he would have accrued under any Company tax-qualified pension and savings plans until he is eligible to retire;

Continued vesting of any long-term incentive awards; and

Outplacement assistance.

For terminations by reason of death or disability, Mr. Selander would be entitled to his target annual bonus (pro rated in the case of disability).

Mr. Selander would be subject to non-competition and non-solicitation covenants for a minimum period of 12 months, up to the full length of the severance period.

On February 28, 2005, the Company entered into an addendum agreement with Mr. Selander, which modified his employment agreement. The addendum agreement provides for a retention payment of \$10,000,000 to Mr. Selander provided that he remains employed by the Company in good standing until a date to be established by our board of directors no earlier than April 9, 2010, but no later than April 9, 2011 (the "Retention Date"), meets certain performance standards and provides requested assistance in identifying his successor and transitioning his responsibilities to such person. Under certain circumstances Mr. Selander may be entitled to a pro rata portion of the retention payment if his employment is terminated prior to the Retention Date. Mr. Selander's receipt of the retention payment is further conditioned upon his agreement to generally applicable 36-month non-compete and non-solicitation covenants, subject to shorter periods if he is terminated for cause or if he resigns as a result of a change in the strategic direction of the Company to which he objects, and his execution of a release of liability in favor of the Company.

Messrs. Heuer, McElhatton, Thom and Hanft

Mr. McElhatton was formerly the President, Global Technological Operations of the Company. He retired in March 2005 and was succeeded by W. Roy Dunbar. Mr. McElhatton's employment agreement and compensation are discussed herein because he was among the Company's five most highly compensated executive officers in 2004.

Under the terms of Messrs. Heuer's, McElhatton's, Thom's and Hanft's agreements, the applicable executive's employment will automatically terminate if he: (i) dies; or (ii) becomes disabled.

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In addition, both the executive and the Company can terminate the agreement for any reason upon 90 days' prior written notice. During the employment term, the executive is eligible to participate in the Company's total rewards plans and arrangements on a level commensurate with his position. The agreement provides that if the executive's employment is terminated prior to retirement (March 31, 2005 for Mr. McElhatton and age 65 for Messrs. Heuer, Thom and Hanft) either by the Company other than for cause or by the applicable executive for certain specified reasons, in addition to any earned, but unpaid base salary and vested entitlements under any Company plans, the applicable executives would be entitled to:

A pro rata portion of his target bonus;

Severance pay in the form of base salary continuation and his average annual incentive bonus, received over the prior two years, for a period (through March 31, 2005 for Mr. McElhatton and 24 months for Messrs. Heuer, Thom and Hanft), subject, in Messrs. Heuer's, Thom's and Hanft's cases, to recalculation to be payable over the period until the applicable executive is eligible to retire (without any increase in the amount payable);

Continued participation in the Company's health, life insurance and disability plans and Company payment of COBRA premiums;

Immediate SERP vesting;

Immediate vesting of any special awards grants and continued vesting of any other long-term incentive awards; and

Relocation assistance for Mr. McElhatton and Mr. Thom.

For terminations by reason of death, disability or retirement, and voluntary terminations, the executive would be entitled to unpaid base salary, vested entitlements under any Company plans, a pro rata portion of his target bonus, and relocation assistance.

The executive would be subject to non-competition and non-solicitation covenants for a minimum period of 12 months, up to the full length of the severance period.

Change-in-Control Agreements

The Company has approved a Change-in-Control Agreement for certain of its executive officers, including all of the Named Executive Officers. Under the Change-in-Control Agreement, if an executive officer's employment is terminated without cause or for good reason (as defined in the Change-in-Control Agreement) during the six-month period preceding or the two-year period following a change in control of the Company, the executive will be entitled to the following:

A severance payment equal to two times the average base salary and bonus (three times in the case of the President and Chief Executive Officer), payable through March 31, 2005 for Mr. McElhatton and over a 24-month period for Messrs. Heuer, Thom and Hanft (36 months in the case of the President and Chief Executive Officer), subject to recalculation to

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be payable over the period until the executive is eligible to retire (without any increase in the amount payable);

Continued coverage under the executive's individual long-term disability plan for the applicable period referenced above;

Continued coverage in the medical, dental, hospitalization and vision care plans for up to 18 months;

Accelerated vesting of performance units including special grants awarded prior to the change-in-control under the Executive Incentive Plan, with payout at 125% of target;

Accelerated vesting of special grants awarded pursuant to the Executive Incentive Plan, nonqualified retirement and deferred compensation benefits;

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Lump sum payment equal to the value of unvested qualified plan benefits;

Outplacement assistance; and

An excise tax gross-up for any taxes incurred as a result of Section 4999 of the Internal Revenue Code.

The executive would be subject to a covenant not to compete and not to solicit employees for the period through March 31, 2005 for Mr. McElhatton and for up to 24 months for Messrs. Heuer, Thom and Hanft (36 months in the case of the President and Chief Executive Officer).

The Company expects to enter into revised Change-in-Control Agreements with the Named Executive Officers in connection with the completion of the offering transactions.

Summary Compensation Table

The following table shows the before-tax compensation for the Named Executive Officers of the Company in respect of the years ended December 31, 2004, 2003 and 2002.

| Name and Principal Position | Year | Annual Compensation | | | Long-term Compensation | |
|---|------|---------------------|--------------|------------------------------|------------------------|-----------------|
| | | Salary | Bonus | Other Annual Compensation(1) | LTIP | All Other |
| | | | | | Payouts(2) | Compensation(3) |
| Robert W. Selander President & CEO | 2004 | \$ 800,000 | \$ 2,500,000 | \$ 246,804 | \$ 4,827,025 | \$ 892,431 |
| | 2003 | 800,000 | 1,900,000 | 280,231 | 4,899,490 | 1,343,973 |
| | 2002 | 800,000 | 3,100,000 | 271,342 | 3,986,500 | 1,723,330 |
| Alan J. Heuer Chief Operating Officer | 2004 | 650,000 | 1,200,000 | 172,307 | 3,088,050 | 168,321 |
| | 2003 | 650,000 | 600,000 | 189,187 | 4,556,100 | 1,654,461 |
| | 2002 | 643,750 | 1,150,000 | 193,431 | 2,989,000 | 176,018 |
| Jerry McElhatton(4) President Global | 2004 | 625,000 | 525,000 | 144,572 | 2,541,525 | 156,855 |
| | 2003 | 625,000 | 525,000 | 164,190 | 3,521,310 | 1,487,020 |
| | 2002 | 620,833 | 900,000 | 175,646 | 2,292,500 | 721,720 |
| Christopher D. Thom Chief Risk Officer | 2004 | 575,000 | 725,000 | 154,506 | 2,616,425 | 921,808 |
| | 2003 | 575,000 | 500,000 | 145,940 | 2,534,300 | 519,186 |
| | 2002 | 568,750 | 700,000 | 149,034 | 2,166,500 | 563,432 |
| Noah J. Hanft General Counsel and Corporate Secretary | 2004 | 375,000 | 500,000 | 123,390 | 719,775 | 210,022 |
| | 2003 | 350,000 | 250,000 | 118,086 | 480,155 | 252,031 |
| | 2002 | 350,000 | 450,000 | 90,780 | 325,500 | 320,892 |

(1) Amounts represent payments in lieu of perquisites (for fiscal years 2004, 2003, and 2002 respectively: Mr. Selander \$56,000, \$56,000, \$56,000; Mr. Heuer \$45,000, \$45,000, \$45,000; Mr. McElhatton \$45,000, \$45,000, \$45,000; Mr. Thom \$45,000, \$45,000, \$45,000; Mr. Hanft \$45,000, \$45,000, \$35,000) and reimbursement for tax obligations (for fiscal years 2004, 2003,

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and 2002, respectively: Mr. Selander \$190,804, \$224,231, \$215,342; Mr. Heuer \$127,307, \$144,187, \$148,431; Mr. McElhatton \$99,572, \$119,190, \$130,646; Mr. Thom \$109,506, \$100,940, \$104,034; Mr. Hanft \$78,390, \$73,086, \$55,781).

- (2) Includes payments under the Executive Incentive Plan as follows: 20% of the award earned for the 2000-2002 performance period and 80% of the award earned for the 2002-2004 performance period.
- (3) Includes for fiscal 2004, a special bonus for services related to the Europay conversion and integration (Mr. Selander \$333,333; Mr. Thom \$100,000; Mr. Hanft \$125,000); payouts under the Company's discontinued Value Appreciation Plan related to the exercise of vested rights tied to (i) value appreciation of a portfolio of member bank stocks through September 30,

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2004 and, (ii) beginning October 1, 2004, earnings on investments in third-party investment vehicles (Mr. Selander \$279,615; Mr. Thom \$398,755); matching contributions under the Company's Shared Profit and Savings Plan (Mr. Selander \$12,300; Mr. Heuer \$12,300; Mr. McElhatton \$12,300; Mr. Thom \$12,300; Mr. Hanft \$12,300); profit sharing contributions under the Company's Shared Profit and Savings Plan (Mr. Selander \$20,500; Mr. Heuer \$20,500; Mr. McElhatton \$20,500; Mr. Thom \$20,500; Mr. Hanft \$20,500); Company contributions to both a non-qualified defined benefit and defined contribution plan the Annuity Bonus Plan (Mr. Selander \$209,884; Mr. Heuer \$132,401; Mr. McElhatton \$120,531; Mr. Thom \$107,596; Mr. Hanft \$51,198); the dollar value of the benefit of premiums paid for a split-dollar life insurance policy projected on an actuarial basis (Mr. Thom \$281,425); the full amount of all premiums paid by the Company for Executive Life Insurance coverage (Mr. Selander \$36,800; Mr. Heuer \$3,120; Mr. McElhatton \$3,524; Mr. Thom \$1,232; Mr. Hanft \$1,024).

- (4) Mr. McElhatton retired in March 2005.

Long-Term Incentive Plan-Awards In Fiscal Year 2004(1)

The following table lists grants of performance units in 2004 to the Named Executive Officers:

| Name | Number of Units Awarded | Performance or Other Period Until Maturation | | Estimated Future Payouts Under Non-Stock Price-Based Units | | |
|---|-------------------------|--|------------|--|--------------|--------------|
| | | | | Threshold(\$) | Target(\$) | Maximum(\$) |
| Robert W. Selander President and CEO | 41,000 | 1/1/2004 | 12/31/2006 | \$ 2,050,000 | \$ 4,100,000 | \$ 8,200,000 |
| Alan J. Heuer Chief Operating Officer | 24,500 | 1/1/2004 | 12/31/2006 | 1,225,000 | 2,450,000 | 4,900,000 |
| Jerry McElhatton(2) President Global Technology and Operations | 18,500 | 1/1/2004 | 12/31/2006 | 925,000 | 1,850,000 | 3,700,000 |
| Christopher D. Thom Chief Risk Officer | 17,250 | 1/1/2004 | 12/31/2006 | 862,500 | 1,725,000 | 3,450,000 |
| Noah J. Hanft General Counsel and Corporate Secretary | 7,000 | 1/1/2004 | 12/31/2006 | 350,000 | 700,000 | 1,400,000 |

- (1) The performance units were granted under the Company's Executive Incentive Plan. Each performance unit has a target value equal to \$100. The actual value of each unit will be calculated based on the Company's performance over a three-year period based on a combination of qualitative and quantitative measures that include: improving profitable share with key members in key markets; improving customer focused strategy; achieving corporate financial targets (including attaining a predetermined level of earnings before interest, taxes, depreciation and amortization, operating expense and return on equity) and enhancing organizational capabilities. Each unit will be valued at target (\$100) if, on a weighted-average basis, target performance is achieved for all of the performance measures. Each unit will be valued at threshold (\$50) if, on a weighted-average basis, threshold performance is achieved. Each unit will be valued at maximum (\$200) if, on a weighted-average basis, superior performance is achieved. The units will have no value if performance is below threshold. Determinations as to the achievement of performance levels will be made by the Compensation Committee in its sole discretion. The Compensation Committee will determine the unit value based on interpolation in the event that performance between threshold and target or target and superior is achieved. The values above are meant to be a framework and not an absolute, and the Compensation Committee may make negative adjustments to the unit value of the performance units awarded to

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reflect additional or amended performance measures or criteria or the impact of a significant event, occurrence or charge to earnings.

- (2) Mr. McElhatton retired in March 2005.

The performance units described in the preceding table vest in annual increments according to the following schedule if the participant completes 1,000 hours of service and is employed by the Company on the last day of the respective twelve-month cycle:

| Twelve-Month Cycle Ending on the Following Anniversary of the Date of Grant | % of Performance Units Vested |
|---|----------------------------------|
| 1st Anniversary | 26 ² / ₃ % |
| 2nd Anniversary | 26 ² / ₃ |
| 3rd Anniversary | 26 ² / ₃ |
| 4th Anniversary | 0 |
| 5th Anniversary | 20 |

Upon completion of the three-year performance period, participants will receive a payout equal to 80% of the award earned. The remaining 20% of the award will be paid upon completion of two additional years of service, (i.e., five years of service in total). Special provisions apply upon certain terminations of employment.

Retirement Benefits

MasterCard Accumulation Plan (MAP)

Employees who participate in the MAP earn benefits under the MAP as soon as they become an employee of the Company. Benefits generally vest after four years of service. For each plan year after January 1, 2000, participants are credited with a percentage of their compensation for the plan year in accordance with the table below:

| Completed Years of Service at December 31 of Prior Plan Year | Pay Credit for Current Plan Year |
|--|----------------------------------|
| 0 - 4 | 4.50% |
| 5 - 9 | 5.75 |
| 10 - 14 | 8.00 |
| 15 - 19 | 10.00 |
| 20 - 29 | 12.00 |

Eligible employees age 50 or older on or prior to December 31, 2000 are eligible for the greater of the pay credit schedule referenced above or the following pay credit schedule:

| <u>Age on Birthday in Current Plan Year</u> | <u>Minimum Pay Credit for Current Plan Year</u> |
|---|---|
| 50 - 54 | 9.00% |
| 55 - 59 | 12.00 |
| 60+ | 14.00 |

Compensation is defined as base pay plus annual incentive compensation. These accounts also receive investment credits based on the yield on 30-Year Treasury securities. When a participant terminates employment, the vested amount credited to the participant's account is paid in a lump sum or converted into an annuity.

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Supplemental retirement benefits are provided to all Named Executive Officers and certain other participants under various funded and unfunded nonqualified plans. These benefits are provided to certain employees whose benefits are limited by compensation or amount under applicable federal tax laws and regulations.

Supplemental Executive Retirement Plan

Designated employees, including all Named Executive Officers, may also receive an annual benefit at retirement equal to a designated percentage (100% for Mr. Selander and 80% for each of the other Named Executive Officers) of the participant's final 48-month average base salary, reduced by the hypothetical prior employer plan benefit and the amount of all benefits received under the MAP, nonqualified arrangements and social security. The Supplemental Executive Retirement Plan benefits for each Named Executive Officer are in the table below under the caption Estimated Annual Retirement Benefits Payable to Certain Executive Officers.

Annuity Bonus Plan

The Annuity Bonus Plan is a non-qualified, after-tax savings plan designed to provide employees with benefits and contributions to the extent amounts under the Company's qualified plans are capped by IRS limitations. Each year, the Company pays participants a bonus distributed in the form of a payment to a tax-deferred annuity contract. Annual contributions and reimbursement for tax obligations in connection with the plan are reported and separately reflected in the table in Summary Compensation for each of the Named Executive Officers.

Estimated Annual Retirement Benefits Payable to Certain Executive Officers

The following table shows the estimated annual retirement benefits, including supplemental retirement benefits, if any, under the plans applicable to the individuals, which would be payable to each Named Executive Officer assuming retirement at age 65 at his February 1, 2005 base salary with payments made for life:

| <u>Name</u> | <u>Year of 65th Birthday</u> | <u>Estimated Annual Benefit(1)</u> |
|---------------------|----------------------------------|--|
| Robert W. Selander | 2015 | \$ 61,000 |
| Alan J. Heuer | 2006 | 253,000(2) |
| Jerry McElhatton | 2004 | 213,000(2) |
| Christopher D. Thom | 2013 | 52,000 |
| Noah J. Hanft | 2018 | 93,000 |

(1) Assumes MAP account balances increase with interest credits of 4.75% per year.

- (2) Amount will be reduced by Social Security benefits.

MasterCard Shared Profit and Savings Plan

Most Company employees are eligible to participate in the savings (401(k)) component of the MasterCard Shared Profit and Savings Plan. Employees who participate in the plan may contribute from 2% to 6% of base pay on a tax-deferred basis or after-tax basis. Employees may also contribute supplemental tax-deferred and after-tax amounts from 1% to 5%. Internal Revenue Service limits apply to all tax-deferred contributions. Employees who earn \$90,000 or less in base pay can contribute from 2% to 25% of their base pay to the plan, subject to the Internal Revenue Service limits, on a tax-deferred and/or after-tax basis.

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The Company matches 100% of employee contributions up to 6% of base pay. Employees must contribute to the savings (401(k)) component of the plan to receive this matching contribution. Matching contributions are 100% vested after four years of service under a graded vesting schedule. Loans and certain types of withdrawals are permitted.

In addition, the Company may make a profit-sharing contribution in the range of 0-10% of base pay. The target contribution is 7%, and the 2004 contribution was 10%.

MasterCard Long Term Incentive Plan

Prior to this offering, we intend to seek the approval of our existing stockholders for the adoption of the MasterCard Incorporated 2006 Long Term Incentive Plan (the Incentive Plan).

The Incentive Plan is an omnibus plan that provides for a variety of types of Awards (as defined below) to maintain flexibility. The Incentive Plan will permit the granting of (i) non-qualified stock options (NQSOs), (ii) incentive stock options (ISOs) as defined in Section 422 of the Internal Revenue Code (the Code), (iii) stock appreciation rights (SARs), (iv) restricted stock, (v) restricted stock units, (vi) performance units, and (vii) other stock-based awards. (The NQSOs, ISOs, SARs, restricted stock, restricted stock units, performance units, and other stock-based awards are referred to collectively as Awards). The Incentive Plan is designed to meet the requirements for deductibility under Section 162(m) of the Code for Awards that are intended to qualify as qualified performance-based compensation under that provision.

The total number of shares of Class A common stock and Class B common stock (Common Stock) available for Awards under the Incentive Plan is 5,400,000 shares of Class A common stock. Although the Incentive Plan permits the issuance of shares of Class B common stock, no shares of Class B common stock have been reserved for issuance under the Incentive Plan and awards of shares of Class B common stock are not currently anticipated.

Purpose. The Purpose of the Incentive Plan is to promote the long-term financial success of the Company and increase Stockholder value by allowing Participants to share in the growth and success of the Company through ownership in the Company and other long-term incentives.

Awards. The Incentive Plan authorizes grants of awards payable in cash or shares of Common Stock of the Company. The Awards need not be uniform, may be combined with other Awards, and may be granted at one time and on more than one occasion to the same Participant.

Limits on Incentive Plan Awards. The Board of Directors has reserved 5,400,000 shares of Common Stock for issuance under the Incentive Plan. Of this number, no more than 500,000 shares may be issued pursuant to grants of ISOs during the term of the Incentive Plan.

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The Committee shall have authority to include as available for distribution Common Stock subject to an Award that has been forfeited or has otherwise terminated without issuance of Common Stock, Common Stock subject to an Award that has settled in cash, and Common Stock received or retained by the Company in connection with the exercise of an Option or SAR, including for satisfaction of any tax liability.

Administration. The Incentive Plan is administered by the Compensation Committee (the Committee) following the offering transactions, or such other committee or subcommittee designated by the Board of Directors to administer the Incentive Plan. The members of the Committee shall each be a non-employee director within the meaning of Rule 16b-3 under the Exchange Act, an independent director for purposes of the NYSE listing requirements, and an outside director for purposes of Section 162(m) (in the case of grants intended to qualify under Section 162(m)).

Eligible Participants. Any employee of the Company or an affiliate of the Company is eligible to be designated by the Committee as a Participant in the Incentive Plan. The Company generally

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expects that Awards under the Incentive Plan will be made to senior executives and key managers and contributors of the Company, a group of approximately 250 employees. However, a one-time grant of restricted stock (or RSUs) is expected to be made to all active non-executive employees at the time of the initial public offering. The Company anticipates that this would result in additional compensation expense to be recognized over the vesting period.

Types of Incentive Plan Awards

The Incentive Plan provides a variety of equity and equity-based Awards to preserve flexibility. The types of Awards that may be issued under the Incentive Plan are described below.

Stock Options

Stock options granted under the Incentive Plan may be either NQSOs or ISOs. The price of any stock option granted may not be less than the fair market value (or in the case of certain ISOs, 110 percent of the fair market value) of the Company's shares of Common Stock on the date the stock option is granted. The stock option price is payable in cash or certified check, Common Stock of the Company, through a broker-assisted cashless exercise, by any other method approved by the Committee, or any combination of the foregoing. The Participant shall have the rights of a stockholder after giving written notice of exercise and paying the option price, once the shares are recorded as having been issued and transferred.

The Committee determines the terms of each stock option grant (including the vesting schedule) at the time of the grant. The aggregate fair market value (determined as of the date of the grant) of the shares of Common Stock subject to ISOs that are exercisable by any participant for the first time in any calendar year may not be larger than \$100,000. All stock options will terminate no later than 10 years (or, in the case of certain ISOs, 5 years) after the date of the grant. Pursuant to the terms of the Incentive Plan, the Committee may accelerate the vesting of stock options. In general, unless the Committee otherwise specifies at grant, a stock option expires upon the earlier of (i) its stated expiration date or (ii) 120 days after termination of service (unless termination is due to death, disability, retirement, or cause). Options shall not include any feature allowing deferral of income beyond the date of exercise (other than through the receipt of restricted stock at exercise). Options shall not contain reload rights or be subject to repricing.

Stock Appreciation Rights

A SAR entitles the Participant, upon settlement, to receive a payment based on the excess of the fair market value of a share of common stock of the Company on the date of settlement over the base price of the SAR, multiplied by the number of SARs being settled. SARs may be granted alone or in addition to other Awards. The base price of a SAR may not be less than the fair market value of a share of common stock of the Company on the date of grant. The Committee will determine the vesting requirements and the payment and other terms of a SAR. Vesting may be based on the continued service of the Participant for specified time periods or on the attainment of specified business performance goals established by the Committee or both. Pursuant to the terms of the Incentive Plan, the Committee may accelerate the vesting of SARs. SARs may be payable in cash or in common shares of the Company. A SAR will terminate no later than ten years after the date of the grant. In general, unless the Committee specifies a longer or shorter period when the Award is granted, a SAR expires upon the earlier of (i) its stated expiration date or (ii) 120 days after termination of service (unless termination is due to death, disability, retirement, or cause). SARs shall not include any feature allowing deferral of income beyond the date of exercise.

Restricted Stock

A restricted stock Award represents shares of Common Stock of the Company that are issued subject to restrictions on transfer and vesting requirements as determined by the Committee. Vesting requirements

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may be based on the continued service of the Participant for specified time periods or on the attainment of specified business performance goals established by the Committee. The Committee may accelerate the vesting of restricted stock. Subject to the transfer restrictions and vesting requirements of the Award, the Participant will have the same rights as one of the Company's stockholders, including all voting and dividend rights, during the restriction period, although the Committee may provide that restricted stock certificates will be held in escrow during the restriction period (and forfeited or distributed depending on whether applicable performance goals or service restrictions have been met). Unless the Committee specifies otherwise, if a Participant terminates service other than by reason of death, disability, or retirement before the restricted stock vests, the restricted stock Award will be forfeited.

Restricted Stock Units

An Award of restricted stock units, or RSUs, provides the Participant the right to receive a payment based on the value of a common share of the Company. Restricted stock units may be subject to such vesting requirements, restrictions and conditions to payment as the Committee determines are appropriate. Vesting requirements may be based on the continued service of the Participant for a specified time period or on the attainment of specified business performance goals established by the Committee. The Committee may accelerate the vesting of restricted stock units. Restricted stock unit Awards are payable in cash or in shares of Common Stock of the Company. Participants receiving restricted stock units shall not have, with respect to such restricted stock units, any of the rights of a stockholder of the Company, although Participants may receive dividend equivalents. Unless the Committee specifies otherwise, if a Participant terminates service other than by reason of death, disability, or retirement before the restricted stock unit vests, the restricted stock unit Award will be forfeited.

Other Stock-Based Awards

The Committee is authorized to make other stock awards or awards based on or settled in Common Shares, which may be subject to other terms and conditions, which may vary from time to time and among Participants, as the Committee in its discretion may determine.

Performance Units

An Award of performance units provides the Participant the right to receive cash or shares of common stock of the Company if specified terms and conditions are met. Unless the Committee specifies otherwise when the Award is granted, if a Participant terminates service other than by reason of death, disability, or retirement, the performance unit will be forfeited.

Performance-Based Awards

Performance Units and other Awards granted under the Incentive Plan may be granted in a form that qualifies for the qualified performance-based compensation exception under Section 162(m). It is intended that Awards under the Incentive Plan to covered employees will constitute qualified performance-based compensation for purposes of Section 162(m). In the event such a performance-based Award is made, the Incentive Plan requires that the Awards be granted or vested contingent on the attainment of performance goals for a performance period, that performance goals must be established in writing before completion of 25

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percent of the performance period (or such earlier period as required by Section 162(m)), that the goals provide an objective standard for computing the compensation payable on attainment of the goal, that the terms of formula do not permit discretion to increase the amount payable on attainment of a goal, and that the Committee certify in writing prior to payout that the goals have been satisfied.

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The Incentive Plan requires the performance goals to be based upon one or more of the following objective business criteria:

revenue;

earnings (including earnings before interest, taxes, depreciation and amortization, earnings before interest and taxes, and earnings before or after taxes);

operating income;

net income;

profit margins;

earnings per share;

return on assets;

return on equity;

return on invested capital;

economic value-added;

stock price;

gross dollar volume;

total shareholder return;

market share;

book value;

expense management;

cash flow; and

customer satisfaction.

These targets may relate to the Company, its affiliated employers, subsidiaries, or one or more of its divisions or units, or a combination of the foregoing and may be applied on an absolute or relative basis.

The maximum target award payable to any participant for any three-year performance period cannot exceed \$10,000,000. In the case of performance above target, the maximum award payable for any three-year performance period cannot exceed \$20,000,000. Maximums shall be adjusted for longer or shorter performance periods. The maximum number of shares of restricted stock awarded to a participant for a fiscal year cannot exceed 500,000 shares and the maximum shares for which Options, SARs, RSUs, and other stock-based compensation may be granted for a fiscal year shall not exceed 650,000.

Effect of Change in Control

Awards under the Incentive Plan generally are subject to special provisions upon the occurrence of a change in control (as defined in the Incentive Plan) transaction with respect to the Company. Under the Incentive Plan, if specified types of terminations of employment occur in connection with a change in control (i) any outstanding stock options and SARs under the Incentive Plan shall become fully exercisable, (ii) any remaining restrictions applicable to restricted stock and restricted stock units shall lapse and such restricted stock and restricted stock units shall become free of restrictions, fully vested and transferable, and (iii) any performance goals or other condition applicable to performance

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units shall be deemed to be satisfied in full at a target level of performance with the common shares or cash subject to such Award being fully distributable.

Limited Transferability

Unless otherwise determined by the Committee, all Awards or common shares subject to an Award under the Incentive Plan are nontransferable except (i) upon death, either by the Participant's will or the laws of descent and distribution or through a beneficiary designation, (ii) pursuant to a qualified domestic relations order, or (iii) pursuant to a transfer to a family member that is expressly permitted by the Committee. Awards shall be exercisable during the Participant's lifetime only by the Participant, the Participant's representative, or a permitted transferee.

Adjustments for Corporate Changes

In the event of recapitalizations, reclassifications or other specified events affecting the Company or its shares of common stock, appropriate and equitable adjustments may be made by the Committee to the number of shares of common stock of the Company available for grant, as well as to other maximum limitations under the Incentive Plan (e.g., exercise prices and number of Awards), and the number of shares of Common Stock of the Company or other rights and prices under outstanding Awards.

Term, Amendment and Termination

The Incentive Plan will have a term expiring on December 31, 2015. The Board may amend, alter, or discontinue the Incentive Plan, but it may not do so in a manner that would impair the rights of a Participant in an outstanding Award without the Participant's consent. Additionally, material amendments to the Incentive Plan shall require stockholder approval.

Incentive Plan Benefits

Future benefits under the Incentive Plan are not currently determinable. The Committee has discretionary authority to grant Awards pursuant to the Incentive Plan and there is no provision for automatic grants.

As discussed above under Long-Term Incentive Plan Awards in Fiscal Year 2004, the Company currently has long-term incentive plans, the Executive Incentive Plan (EIP) and the Senior Executive Incentive Plan (the SEIP), that pay bonus awards in the form of cash. Awards currently outstanding under these plans vest over a three-year period, with 80% of the award payable as soon as practicable after the end of the three-year performance period and the final 20% payable two years later. The Company intends to offer employees who have outstanding awards under the EIP the choice of converting certain of these awards to RSUs under the Incentive Plan. Additionally, certain other awards under the EIP and SEIP will be mandatorily converted to RSUs under the Incentive Plan. It is expected that this conversion will occur in early 2006.

Thus, the Company intends, prior to the offering, to offer employees the choice of converting the following portions of the following grants into RSUs: (i) as to the grant for the 2002-2004 performance period, the 20% payable in 2007, (ii) as to the grant for the 2003-2005 performance period, the 20% payable in 2008, and (iii) as to the grant for the 2004-2006 performance period, the 20% payable in 2009. Employees would be required to make a single choice as to the conversion of to the combined grants for the three performance periods. Since the actual cash awards earned under the EIP for the 2002-2004 and 2003-2005 periods will be known at the time of conversion, the conversion into RSUs will be made by converting the actual cash awards earned into a like amount of RSUs, based on the

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value of a share of the Company's Class A common stock at the time of conversion. Since the actual cash awards earned under the EIP for the 2004-2006 period will not be known at the time of conversion, the value of the expected award will be estimated based on the current performance level and that estimated amount will be converted. Any additional amount later determined to have been earned will be paid in cash. Additionally, 100% of the grant made for the 2005-2007 performance period will be mandatorily converted into RSUs. Since the actual cash awards earned for the 2005-2007 period will not be known at the time of conversion, the value of a target award for the period will be converted. In each case, a 20 percent premium will be applied in conversion. The RSUs resulting from the conversion will retain the same vesting schedule as the original awards and are expected to be settled in shares of Class A common stock and to be paid dividend equivalents on a current basis.

The following table reflects, with respect to the Named Executive Officers, the executive officers as a group and the non-executive officer employee group, the dollar value of RSUs expected to be received on conversion of the EIP and SEIP awards. While it cannot be known with certainty at this time which employees will choose to convert their EIP awards, the values in the table are shown assuming 100% of the awards are converted.

**DOLLAR VALUE OF RSUs TO BE RECEIVED UPON CONVERSION OF AWARDS
UNDER EIP/SEIP PLAN**

| <u>Name and Position</u> | <u>Total Grant Dollar Value (1)</u> | <u>2002-2004 Grant Dollar Value (1)</u> | <u>2003-2005 Grant Dollar Value (1)(2)</u> | <u>2004-2006 Grant Dollar Value (1)(3)</u> | <u>2005-2007 Grant Dollar Value (1)(4)</u> |
|---|---|---|--|--|--|
| Robert W. Selander President & CEO | \$ 8,548,800 | \$ 1,149,120 | \$ 1,220,160 | \$ 1,259,520 | \$ 4,920,000 |
| Alan J. Heuer Chief Operating Officer | 5,424,000 | 702,240 | 729,120 | 752,640 | 3,240,000 |
| Jerry McElhatton (5) President Global Technology and Operations | 0 | 0 | 0 | 0 | 0 |
| Christopher D. Thom Chief Risk Officer | 3,735,720 | 622,440 | 513,360 | 529,920 | 2,070,000 |
| Noah J. Hanft General Counsel and Corporate Secretary | 1,634,880 | 191,520 | 208,320 | 215,040 | 1,020,000 |
| Executive Group (7 persons) | 24,529,512 | 2,936,640 | 2,993,112 | 3,509,760 | 15,090,000 |
| Non-Executive Group (279 persons) | 41,957,315 | 4,579,403 | 4,906,680 | 6,239,232 | 26,232,000 |
| Total Grant Dollar Value | 66,486,827 | 7,516,043 | 7,899,792 | 9,748,992 | 41,322,000 |

- (1) Includes a 20% premium upon conversion of EIP/SEIP interests to RSUs.
- (2) Amounts are estimated based on current performance levels and are subject to change based on actual performance.
- (3) Amounts are estimated based on current performance; additional amounts earned based on actual performance will be paid in cash.
- (4) Award is being converted based on target performance.
- (5) Mr. McElhatton retired in March 2005. Consequently, none of his awards will be converted.

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Tax Treatment of Awards

The following discussion of the United States federal income tax implications of Awards under the Incentive Plan is based on the provisions of the Code (and any relevant rulings and regulations issued under the Code) as of the date of this Proxy Statement.

Non-Qualified Stock Options

A NQSO results in no taxable income to the optionee or deduction to the Company at the time it is granted. An optionee exercising such a stock option will, at that time, realize taxable compensation in the amount of the difference between the stock option price and the then fair market value of the shares of Common Stock. Subject to the applicable provisions of the Code, a deduction for federal income tax purposes will be allowable to the Company in the year of exercise in an amount equal to the taxable compensation recognized by the optionee.

The optionee's basis in such shares of Common Stock is equal to the sum of the stock option price plus the amount includible in his or her income as compensation upon exercise. Any gain (or loss) upon subsequent disposition of the shares of common stock will be a long-term or short-term gain (or loss), depending upon the holding period of the shares of Common Stock.

Incentive Stock Options

An ISO results in no taxable ordinary income to the optionee or deduction to the Company at the time the ISO is granted or exercised. However, the excess of the fair market value of the shares of common stock acquired over the stock option price is an item of adjustment in computing the alternative minimum taxable income of the optionee. If the optionee holds the shares of Common Stock received as a result of an exercise of an ISO for at least two years from the date of the grant and one year from the date of exercise, then the gain realized on disposition of the shares of Common Stock is treated as a long-term capital gain. If the shares of Common Stock are disposed of during this period, however, (i.e., a disqualifying disposition), then the optionee will include in income, as compensation for the year of the disposition, an amount equal to the excess, if any, of the fair market value of the shares of common stock received upon exercise of the stock option over the stock option price (or, if less, the excess of the amount realized upon disposition over the stock option price). The excess, if any, of the sale price over the fair market value on the date of exercise will be a short-term capital gain. In such case, the Company will be entitled to a deduction, generally in the year of such a disposition, for the amount includible in the optionee's income as compensation. The optionee's basis in the shares of common stock acquired upon exercise of an ISO is equal to the stock option price paid, plus any amount includible in his or her income as a result of a disqualifying disposition.

Stock Appreciation Rights

Generally, the recipient of a SAR will not recognize taxable income at the time the SAR is granted. If an employee receives the appreciation inherent in the SAR in cash, the cash will be taxed as ordinary income to the employee at the time it is received. If an employee receives the appreciation inherent in the SAR in shares of Common Stock, the spread between the then current fair market value of the shares of Common Stock and the base price will be taxed as ordinary income to the employee at the time it is received. In general, there will be no federal income tax deduction allowed to the Company upon the grant or termination of a SAR.

However, upon the settlement of the SAR, the Company will be entitled to a deduction equal to the amount of ordinary income the recipient is required to recognize as a result of the settlement.

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Other Awards

The current United States federal income tax consequences of other Awards authorized under the Incentive Plan are generally in accordance with the following: (i) the fair market value of restricted stock is generally subject to ordinary income tax at the time the restrictions lapse (unless the Participant elects taxation at grant, pursuant to Section 83(b)), (ii) the amount of cash paid (or the fair market value of the shares of Common Stock issued) to settle restricted stock units and performance units is generally subject to ordinary income tax. In each of the foregoing cases, the Company will generally be entitled to a corresponding federal income tax deduction at the same time the Participant recognizes ordinary income.

Section 162(m)

As described above, Awards granted under the Incentive Plan may qualify as qualified performance-based compensation under Section 162(m) in order to preserve federal income tax deductions by the Company with respect to annual compensation required to be taken into account under Section 162(m) that is in excess of \$1,000,000 and paid to the CEO and the other Named Executive Officers employed at the end of the fiscal year. To qualify for this exception, stock options and other Awards must be granted under the Incentive Plan by a Committee consisting solely of three or more outside directors within the meaning of Section 162(m) and satisfy the Incentive Plan's limit on the total number of shares of Common Stock that may be awarded to any one Participant during any calendar year. In addition, for Awards other than stock options to qualify as qualified performance-based compensation, the issuance or vesting of the Award, as the case may be, must be contingent upon satisfying one or more of the performance criteria listed in the Incentive Plan, and in the above description of Performance-Based Awards, as established and certified by a Committee consisting solely of three or more outside directors.

Section 409A

The Incentive Plan has been designed so that Awards thereunder either are not subject to the deferred compensation rules of Section 409A or, if subject to Section 409A, are compliant with Section 409A. Awards subject to Section 409A, but not compliant with Section 409A, could result in accelerated taxation of the Awards and an additional 20 percent tax and interest charge to the Participant. These potential penalties on the Participant could reduce the value of grants subject to Section 409A and adversely affect the Company's ability to achieve the Incentive Plan's purposes.

Deferral of Income

The Incentive Plan also allows the Committee to provide in an award agreement that Participants may elect to defer income associated with RSUs and Performance Units. However, such deferrals will only be permitted to be made in compliance with Section 409A. If such a deferral election is permitted and is made, the Participant will not be taxed on income associated with an Award until it is distributed and the Company will be entitled to any tax deduction at the same time.

Table of Contents**RELATED PARTY TRANSACTIONS**

Pursuant to a series of agreements, effective as of January 1, 2005, between MasterCard International and JPMorgan Chase Bank, National Association (JPMorgan Chase), an affiliate of JPMorgan Chase & Co., JPMorgan Chase and the Company have agreed to certain pricing arrangements for JPMorgan Chase's use of the Company's core authorization, clearing and settlement services and certain supplemental user-pay services in the United States. JPMorgan Chase is a principal member of MasterCard International and owns a portion of the United States franchisee of Mondex International, our wholly-owned subsidiary that operates a prepaid electronic purse program. MasterCard International provides authorization, clearing and settlement services in connection with transactions for which JPMorgan Chase or its affiliates act as issuer or acquirer. In addition, JPMorgan Chase uses several of the Company's fee-for-service products, including consulting services. A portion of the Company's \$2.25 billion dollar credit facility is syndicated to JPMorgan Chase, for which JPMorgan Chase receives a fee; JPMorgan Chase is the co-administrative agent of that facility and JPMorgan Securities, Inc., another affiliate of JPMorgan Chase, is the co-arranger of that facility. Additional amounts are paid by the Company for these services. In addition, JPMorgan Chase and its affiliates receive amounts from the Company for cash management services. JPMorgan Chase acts as issuer of the Company's corporate cards and provides a variety of banking services for the Company and for its employees pursuant to arrangements entered into with the Company. In addition to the agreements described above, the Company enters into other agreements to provide financial and other incentives to JPMorgan Chase and certain of its affiliates or business partners in connection with payment programs issued by JPMorgan Chase, including co-branded and affinity card programs, from time to time. For the full year ended 2004 and the six months ended June 30, 2005, net fees earned from JPMorgan Chase and its affiliates were approximately \$312 million and \$149 million, respectively. Donald L. Boudreau, a director of the Company, is a former executive officer of a predecessor of JPMorgan Chase.

Pursuant to an agreement, dated as of January 1, 2004, among MasterCard International, Citibank, N.A. (Citibank), an affiliate of Citigroup Inc., and certain of its affiliates, Citibank and the Company have agreed to certain pricing arrangements with respect to transaction processing services for Citibank affiliates in North America. Citibank and the Company have also agreed to pricing arrangements for transaction processing services for Citibank's affiliates outside of North America pursuant to an agreement between MasterCard International and Citibank dated January 3, 2005. Citibank and certain of its affiliates are principal members of MasterCard International and owns a portion of the United States franchise of Mondex International, our wholly-owned subsidiary that operates a prepared electronic purse program. MasterCard International provides authorization, clearing and settlement services in connection with transactions for which Citibank or its affiliates act as issuer or acquirer. In addition, Citibank uses several of the Company's fee-for-service products, including consulting services. A portion of the Company's \$2.25 billion dollar credit facility is syndicated to Citibank, N.A., for which Citibank and its affiliates receive a fee; Citibank is the co-administrative agent of that facility and Citigroup Global Markets Inc., another affiliate of Citibank, is the lead arranger of that facility. Additional amounts are paid by the Company for these services. Another insurance affiliate of Citibank is a creditor of MasterCard International in connection with a portion of the \$149 million lease financing for the Company's O'Fallon, Missouri operations facility. In addition, Citibank and its affiliates receive fees from the Company for cash management, asset management and investment banking services. Citibank also acts as issuer of the Company's corporate purchasing cards. In addition to the agreements described above, the Company enters into other agreements to provide financial and other incentives to Citibank, N.A. and certain of its affiliates or business partners in connection with payment programs issued by Citibank, including co-branded and affinity card programs, from time to time. For the full year ended 2004 and the six months ended June 30, 2005, net fees earned from Citibank and its affiliates were approximately \$208 million and \$122 million, respectively. Robert B. Willumstad, a member of the Company's Global Board of Directors, is

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the former President and Chief Operating Officer of Citigroup Inc. Another member of the Global Board of Directors, Augusto M. Escalante, is the Deputy President, Consumer Product and Marketing Areas, of Banco Nacional de Mexico, S.A., another Citibank, N.A. affiliate. Other representatives of Citibank, N.A. or its affiliates may sit on the Company's regional boards or business committees.

Bank of America, National Association (Bank of America), an affiliate of Bank of America Corporation, is a principal member of MasterCard International. MasterCard International provides authorization, clearing and settlement services in connection with transactions for which Bank of America and its affiliates act as issuers or acquirers. The Company enters into agreements to provide financial and other incentives to Bank of America and certain of its affiliates or business partners in connection with payment programs issued by Bank of America, including co-branded and affinity card programs, from time to time. For the full year ended 2004 net fees earned from Bank of America and its affiliates were approximately \$116 million. In June 2005, Bank of America announced plans to acquire MBNA Corp., one of our key customers, in the fourth quarter of 2005. The combined net fees earned from Bank of America and MBNA for the six months ended June 30, 2005 were \$96 million.

Under the terms of a licensing agreement with MasterCard Europe, EURO Kartensysteme GmbH (EKS), a principal member of MasterCard International, has a principal license for certain of our brands and payment products in Germany. MasterCard International provides authorization, clearing and settlement services in connection with transactions for which EKS's affiliate members act as issuers or acquirers. In connection with the Company's conversion and integration in 2002, EKS has entered into agreements with the Company and its subsidiaries pursuant to which, among other things, EKS has assigned to the Company certain trademarks and domain names, and the Company will provide support for marketing initiatives designed to migrate all uses by German members of the Eurocard-MasterCard brand on cards, acceptance decals, advertising and other materials to the MasterCard brand mark. For the full year ended 2004 and the six months ended June 30, 2005, fees earned by MasterCard Europe from EKS were approximately \$58 million and \$31 million, respectively. Bernd Fieseler, a member of the Global Board of Directors, is Chairman of the Board of EKS. Representatives of EKS may sit on the Company's regional boards or business committees.

Europay France S.A.S., a company formed by certain French financial institutions to promote our brands and payment products in France, is a principal member of MasterCard International. MasterCard International provides authorization, clearing and settlement services in connection with transactions for which Europay France's affiliate members act as issuers or acquirers. For the full year ended 2004 and the six months ended June 30, 2005, fees earned by MasterCard Europe from Europay France, were approximately \$33 million and \$19 million, respectively. Michel Lucas, a member of the Global Board of Directors, is Vice Chairman of Europay France. Other representatives of Europay France may sit on the Company's regional boards or business committees.

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DESCRIPTION OF CAPITAL STOCK

The following description of our capital stock as it will be in effect upon the consummation of this offering is a summary and is qualified in its entirety by reference to our Second Amended and Restated Certificate of Incorporation and Second Amended and Restated Bylaws, the forms of which have been filed with the SEC as exhibits to the registration statement of which this prospectus forms a part, and by applicable law.

Authorized Capitalization

Upon consummation of this offering, our authorized capital stock will consist of 3,000,000,000 shares of Class A common stock, par value \$.0001 per share, 1,200,000,000 shares of Class B common stock, par value \$.0001 per share, 1,000,000 shares of Class M common stock, par value \$.0001 per share, and 300,000,000 shares of preferred stock, par value \$.0001 per share.

Common Stock

Voting Rights. Each share of Class A common stock will entitle its holder to one vote per share.

Except as may be required by Delaware law, holders of Class B and Class M common stock will not be entitled to vote and will have no voting power. Notwithstanding the foregoing, in addition to any other vote required by law, the following items will require the affirmative vote of a majority of the votes cast thereon by the holders of the Class M common stock, voting separately as a class:

the sale, lease or exchange of all or substantially all of the assets of MasterCard or any of its subsidiaries which, in each case, requires stockholder approval under the General Corporation Law of the State of Delaware or any sale, lease or exchange of all or substantially all of the assets of MasterCard International;

the consummation of any merger or consolidation of MasterCard (a) with any other corporation or entity prior to the date which is twenty years and eleven months following the date of the consummation of this offering or (b) with (i) any competitor of MasterCard, (ii) any of our members or (iii) any financial institution that is eligible to become a member;

any amendment or modification of the amended and restated certificate of incorporation to authorize the issuance of capital stock other than Class A common stock, Class B common stock, Class M common stock or preferred stock prior to the date which is twenty years and eleven months following the date of the consummation of this offering;

for us to cease to engage in the business of providing core network authorization, clearing and settlement services for branded payment card transactions;

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any alteration, amendment or repeal of any provision of the amended and restated certificate of incorporation that would have the effect of permitting (1) any person to beneficially own (a) shares of Class A common stock representing more than 15% of the aggregate outstanding shares or voting power of Class A common stock, (b) shares of any other class or series of our stock entitled to vote generally in the election of directors (which, for the avoidance of doubt, shall not include Class M common stock) (other voting stock) representing more than 15% of the aggregate outstanding shares or voting power of such class or series, or (c) shares of Class A common stock and/or other voting stock representing more than 15% of the aggregate voting power of all our then outstanding shares of stock entitled to vote at an election of directors, voting as a single class, or (2) or any member, former member or person that is an operator, member or licensee of any competing general purpose payment card system, or any

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affiliate of any such person, to beneficially own any shares of Class A common stock or any other class or series of other voting stock in violation of the limitations on beneficial ownership described below under Beneficial Ownership Limitations;

any alteration, amendment, or repeal of the requirement in our amended and restated certificate of incorporation that our board be comprised of three to twelve directors, of which up to three directors (but not more than one-quarter of all directors) shall be elected by the holders of Class M common stock or of the director qualifications discussed above in Management Our Board of Directors After the Offering or the voting requirement for removal of Class M directors without cause or of any provision in the bylaws that is to the same effect;

any alteration, amendment, or repeal of the provisions of our certificate of incorporation governing the director qualifications and geographic diversity of our directors described in Management Our Board of Directors After the Offering or of any provision in the bylaws that is to the same effect; and

any alteration, amendment, or repeal of any of the above listed approval rights of the Class M common stock or of the global proxy calculation used to determine the number of votes to which each holder of Class M common stock is entitled, or of any provision in the bylaws that is to the same effect.

In addition, the holders of the Class M common stock will also have the right to elect up to three of our directors, provided that the total number of Class M directors shall not exceed one-quarter of the members of our board of directors. The holders of Class M common stock, collectively, will have the right to cast 1,000 votes in any vote of the holders of that class. Each holder of Class M common stock will be entitled to the number of votes that is equal to the product of 1,000 multiplied by the holder's global proxy calculation, which is a fraction that is determined annually by a formula based on the relative level of revenues and transaction volume we generate from such holder. The sum of the global proxy calculations for all the holders of Class M common stock is one.

Dividend Rights. Our Class A common stock and Class B common stock will share equally (on a per share basis) in any dividend declared by our board of directors, subject to any preferential rights of any outstanding preferred stock and to the distinction that any stock dividends will be paid in shares of Class A common stock to the holders of our Class A common stock and in shares of Class B common stock to the holders of our Class B common stock.

Holders of Class M common stock will not be entitled to receive dividends.

Liquidation Rights. Upon liquidation, dissolution or winding up, our Class A common stock and Class B common stock will be entitled to receive ratably the assets available for distribution to the stockholders after payment of liabilities and accrued but unpaid dividends and liquidation preferences on any outstanding preferred stock.

Holders of Class M common stock will not be entitled to receive any assets upon a liquidation, dissolution or winding up.

Conversion Right of Class B Common Stock. Subject to the provisions of our amended and restated certificate of incorporation that prohibit our members and former members, and any person that is an operator, member or licensee of any competing general purpose payment card system, and any affiliate of any such person, from beneficially owning any share of Class A common stock or of any other class of our stock with general voting power and to such holder's compliance with the right of first refusal procedures described below, any holder of Class B common stock may at any time and from time to time commencing on

the fourth anniversary of the consummation of this offering, at such holder's option, convert all or any portion of such holder's shares of Class B common stock into an equal number of shares of Class A common stock in connection with a transfer of these converted

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shares of Class A common stock to a person permitted to hold our Class A common stock. For so long as our outstanding shares of Class B common stock represent 15% or more of the aggregate outstanding shares of our Class A and Class B common stock, before converting shares to Class A common stock, a holder of shares of Class B common stock must first offer to sell any shares of Class B common stock that such holder wishes to convert to the member financial institutions of MasterCard International. The shares can only be converted if they are not being purchased by another member. Our board of directors will establish procedures for the exercise of these conversion rights and the right of first refusal by the members of MasterCard International.

Shares of Class M common stock and, except as described below in *Beneficial Ownership Limitations*, shares of Class A common stock are not convertible into any other class of our capital stock.

Redemption of Class B Common Stock. Following this offering of Class A common stock, we intend to redeem that number of shares of Class B common stock that is equal to the aggregate number of shares of Class A common stock issued in this offering (including any shares sold pursuant to the underwriters' option to purchase additional shares) and to The MasterCard Foundation. The number of shares to be redeemed from each of our existing stockholders will be ratable to their respective ownerships. The redemption price per share to be received by our existing stockholders outside the United States (the *Non-U.S. Holders*) will equal the quotient of (A) the product of (x) the aggregate cash proceeds that we received in this offering (including any shares sold pursuant to the underwriters' option to purchase additional shares), net of underwriting discounts and commissions and other offering-related expenses (the *Net Cash Proceeds*), multiplied by (y) the fraction obtained by dividing the aggregate number of shares of Class B common stock then held by the *Non-U.S. Holders* by the total number of shares of Class B common stock then outstanding, divided by (B) the aggregate number of shares of Class B common stock that is being redeemed from the *Non-U.S. Holders*. The redemption price per share to be received by our existing stockholders in the United States (the *U.S. Holders*) will be lower than the price to be received by the *Non-U.S. Holders* and will equal the quotient of (A) the remainder of (x) the *Net Cash Proceeds* minus (y) the aggregate redemption price to be received by the *Non-U.S. Holders* minus (z) \$650 million, divided by (B) the aggregate number of shares of Class B common stock that is being redeemed from the *U.S. Holders*; provided, however, that if such calculation results in a negative number, the redemption price per share to be received by the *U.S. Holders* will equal zero.

If the underwriters do not exercise in full their option to purchase additional shares in connection with this offering, our certificate of incorporation will require us, subject to applicable law and our Board of Directors' fiduciary duties, to conduct a subsequent public offering of shares of Class A common stock prior to the 2007 annual meeting and to redeem that number of shares of Class B common stock that is equal to the aggregate number of shares of Class A common stock that we have issued in the subsequent public offering. The number of shares of Class B common stock to be redeemed will be reduced to the extent that the redemption would otherwise result in a number of shares of Class B common stock outstanding immediately following the redemption being less than 41% of the aggregate number of shares of Class A common stock and Class B common stock outstanding at the date of the redemption. The redemption price will be payable in cash in an amount equal to the price per share of Class A common stock that we receive in the subsequent public offering, net of underwriting discounts and commissions and other offering related expenses.

Shares of Class M common stock and, except as described below in *Beneficial Ownership Limitations*, shares of Class A common stock are not redeemable. Shares of Class M common stock are subject to retirement under certain circumstances as described below in *Issuance and Retirement of Class M Common Stock*.

Table of Contents***Beneficial Ownership Limitations.***

Class A Common Stock and Other Voting Stock. Subject to limited exceptions, our amended and restated certificate of incorporation will prohibit any person from beneficially owning (a) shares of Class A common stock representing more than 15% of the aggregate outstanding shares or voting power of Class A common stock, (b) shares of any other class or series of our stock entitled to vote generally in the election of directors (which, for the avoidance of doubt, shall not include Class M common stock) (other voting stock) representing more than 15% of the aggregate outstanding shares or voting power of such class or series, or (c) shares of Class A common stock and/or other voting stock representing more than 15% of the aggregate voting power of all our then outstanding shares of stock entitled to vote at an election of directors, voting as a single class. In addition, no member or former member of MasterCard International or person that is an operator, member or licensee of any competing general purpose payment card system, or any affiliate of any such person, may beneficially own any share of Class A common stock or of other voting stock.

Any attempted transfer of Class A common stock or other voting stock which, if effective, would result in violation of the ownership limits discussed above, will cause the number of shares causing the violation (rounded to the next highest whole share) to be automatically transferred to a trust for the exclusive benefit of one or more charitable beneficiaries. The automatic transfer will be deemed to be effective as of the close of business on the business day prior to the date of the transfer. Shares of Class A common stock or other voting stock held in the trust will be issued and outstanding shares. The proposed transferee will not benefit economically from ownership of any shares of Class A common stock or other voting stock held in the trust, will have no rights to dividends or other distributions and no rights to vote or other rights attributable to the shares of Class A common stock or other voting stock held in the trust. The trustee of the trust will have all voting rights and rights to dividends or other distributions with respect to shares of Class A common stock or other voting stock held in the trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or other distribution paid prior to MasterCard's discovery that shares of Class A common stock or other voting stock have been transferred to the trust has to be paid by the recipient to the trustee upon demand. Any dividend or other distribution authorized but unpaid will be paid when due to the trustee. Any dividend or distribution paid to the trustee will be held in trust for the charitable beneficiary. Subject to applicable law, the trustee will have the authority (1) to rescind as void any vote cast by the proposed transferee prior to MasterCard's discovery that the shares have been transferred to the trust and (2) to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if MasterCard has already taken corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from MasterCard that shares of its stock have been transferred to the trust, the trustee must sell the shares to a person designated by the trustee, whose ownership of the shares will not violate the above ownership limitations. Upon the sale, the interest of the charitable beneficiary in the shares sold will terminate, and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows. The proposed transferee will receive the lesser of (1) the price paid by the proposed transferee for the shares or, if the proposed transferee did not give value for the shares in connection with the event causing the shares to be held in the trust (e.g., a gift, devise or other similar transaction), the Market Price (as defined in MasterCard's certificate of incorporation) of the shares on the day of the event causing the shares to be held in the trust and (2) the price received by the trustee from the sale or other disposition of the shares. Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. If, prior to MasterCard's discovery that shares of its stock have been transferred to the trust, the shares are sold by the proposed transferee, then (1) the shares shall be deemed to have been sold on behalf of the trust and (2) to the extent that the proposed transferee received an amount for the shares that exceeds the amount he was entitled to receive, the excess shall be paid to the trustee upon demand.

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In addition, shares of Class A common stock or other voting stock held in the trust transferred to the trustee may be redeemed by MasterCard, or its designee, at a price per share equal to the lesser of (1) the price per share in the transaction that resulted in such transfer to the trust (or, in the case of a devise, gift or other such transaction, the Market Price at the time of such devise or gift or other such transaction) and (2) the Market Price on the date MasterCard, or its designee, elects to redeem such shares. MasterCard may reduce the amount payable to the Prohibited Owner (as defined in the certificate of incorporation) by the amount of dividends and distributions which has been paid to the Prohibited Owner and are owed by the Prohibited Owner to the trustee. MasterCard may pay the amount of such reduction to the trustee for the benefit of the charitable beneficiary. MasterCard shall have the right to redeem such shares until the trustee has sold the shares held in the trust. Upon such a redemption, the interest of the charitable beneficiary in the shares shall terminate and the trustee shall distribute the net proceeds of the redemption to the Prohibited Owner.

Class B Common Stock. Shares of Class B common stock may be held only by a member of MasterCard, by MasterCard or by MasterCard's directors, officers or employees. Any transfer that would result in a violation of this ownership limitation will be void. MasterCard may redeem any shares of Class B common stock held by a person prohibited from holding such shares. In addition, subject to limited exceptions, our amended and restated certificate of incorporation will also prohibit any person from beneficially owning more than 15% of the aggregate outstanding shares of Class B common stock otherwise than as a direct result of a decrease in the number of shares of Class B common stock outstanding. If any attempted transfer of Class B common stock would, if effective, result in a violation of the ownership limitation discussed above, then the proposed transferee will not acquire any rights with respect to such shares, including any voting rights or dividend rights. We may redeem shares of Class B common stock owned in violation of this limitation.

Notwithstanding the foregoing, if at any time when shares of Class M common stock remain outstanding the number of shares of Class B common stock outstanding is less than 41% of the aggregate number of shares of Class A common stock and Class B common stock outstanding, our members will be permitted to acquire that number of additional shares of Class A common stock that would result in the holders of Class B common stock, collectively, holding 41% of the total outstanding shares of Class A common stock and Class B common stock. Any shares of Class A common stock that are acquired by a member pursuant to this exception will automatically convert into an equal number of shares of Class B common stock upon the acquisition thereof by the member. Our board of directors will establish procedures for the exercise of these purchase rights by members.

Issuance and Retirement of Class M Common Stock. Following the offering, we will issue a share of Class M common stock to each new member of MasterCard International. If any outstanding share of Class M common stock ceases to be held by a Class A member of MasterCard International, such share shall automatically be transferred to us and then retired. In addition, all outstanding shares of Class M common stock shall automatically be transferred to us and retired and unavailable for issue or reissue, and we shall not have the authority to issue additional shares of Class M common stock, upon the earliest to occur of:

the approval of the retirement by the affirmative vote of at least a majority of the votes cast by the holders of Class M common stock, voting as a class; and

the day on which the outstanding shares of Class B common stock represent less than 15% of the total outstanding shares of Class A common stock and Class B common stock.

Other Matters. Holders of our common stock do not have preemptive or subscription rights. All shares of our common stock that will be outstanding at the time of the completion of the offering will be fully paid and non-assessable, and the shares of our Class A common stock offered in this offering, upon payment and delivery in accordance with the underwriting agreement, will be fully paid and non-assessable. We will issue all shares of our capital stock in uncertificated form unless our board of directors determines that any particular series will be issued in certificated form.

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Preferred Stock

Our amended and restated certificate of incorporation authorizes our board of directors to establish one or more series of preferred stock (including convertible preferred stock). Unless required by law or by any stock exchange, the authorized shares of preferred stock will be available for issuance without further action by you. Our board of directors is able to determine, with respect to any series of preferred stock, the terms and rights of that series, including:

the designation of the series;

the number of shares of the series, which our board may, except where otherwise provided in the preferred stock designation, increase or decrease, but not below the number of shares then outstanding;

whether dividends, if any, will be cumulative or non-cumulative and the dividend rate of the series;

the dates at which dividends, if any, will be payable;

the redemption rights and price or prices, if any, for shares of the series;

the terms and amounts of any sinking fund provided for the purchase or redemption of shares of the series;

the amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of our company;

whether the shares of the series will be convertible into shares of any other class or series, or any other security, of our company or any other corporation, and, if so, the specification of the other class or series or other security, the conversion price or prices or rate or rates, any rate adjustments, the date or dates as of which the shares will be convertible and all other terms and conditions upon which the conversion may be made;

restrictions on the issuance of shares of the same series or of any other class or series; and

the voting rights, if any, of the holders of the series.

Accordingly, we could issue a series of preferred stock that could, depending on the terms of the series, impede or discourage an acquisition attempt or other transaction that some, or a majority, of you might believe to be in your best interests or in which you might receive a premium for your Class A common stock over the market price of the Class A common stock.

Authorized but Unissued Capital Stock

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Delaware law does not require stockholder approval for any issuance of authorized shares. However, the listing requirements of the New York Stock Exchange, which would apply so long as the Class A common stock remains listed on the New York Stock Exchange, require stockholder approval of certain issuances equal to or exceeding 20% of the then outstanding voting power or then outstanding number of shares of Class A common stock. These additional shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions.

One of the effects of the existence of unissued and unreserved Class A common stock or preferred stock may be to enable our board of directors to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of our company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management and possibly deprive the stockholders of opportunities to sell their shares of Class A common stock at prices higher than prevailing market prices.

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Anti-Takeover Effects of Certain Provisions of our Amended and Restated Certification of Incorporation and Bylaws

Beneficial Ownership Limitations

As described above, subject to limited exceptions, our amended and restated certificate of incorporation will prohibit any person from beneficially owning more than 15% of any of the Class A common stock, the Class B common stock or any other class or series of our stock entitled to vote, or more than 15% of our total voting power. In addition, no member or former member of MasterCard International, or any operator, member or licensee of any competing general purpose payment card system, or any affiliate of any such person, may beneficially own any share of Class A common stock or any other class or series of our stock entitled to vote generally in the election of directors (which, for the avoidance of doubt shall not include Class M common stock).

These ownership limitations could delay, defer or prevent a transaction or a change in control that might involve a premium price for the holders of Class A common stock and/or Class B common stock or otherwise be in their best interest.

Classified Board

Our amended and restated certificate of incorporation provides that, commencing with the first annual meeting of stockholders after our amended and restated certificate of incorporation becomes effective, our board of directors will be divided into three classes of directors, with the classes to be as nearly equal in number as possible. As a result, approximately one-third of our board of directors will be elected each year. The classification of directors will have the effect of making it more difficult for stockholders to change the composition of our board. In addition, the holders of our Class M common stock, voting separately as a class are entitled to elect a number of our directors that is equal to the lesser of (x) three and (y) $\frac{1}{4}$ of the total number of directors that will be in office immediately following such election (rounded down to the nearest whole number). No more than one of the directors elected by the holders of our Class M common stock will be allocated to any one of the three classes of our board of directors. Our amended and restated certificate of incorporation provides that the number of directors will be fixed from time to time exclusively pursuant to a resolution adopted by the board, but must consist of not less than three or more than twelve directors.

Removal of Directors; Vacancies

Under the General Corporation Law of the State of Delaware, unless otherwise provided in our amended and restated certificate of incorporation, directors serving on a classified board may be removed by the stockholders only for cause. Our amended and restated certificate of incorporation and bylaws provide that, except for the directors elected by the holders of Class M common stock, directors may be removed only for cause, and only upon the affirmative vote of holders of at least 80% in voting power of all the shares of stock then entitled to vote at an election of directors, voting together as a single class. The directors elected by the holders of Class M common stock may be removed, without cause, by the holders of Class M common stock. In addition, our certificate of incorporation and bylaws also provide that any vacancies on our board of directors will be filled only by the affirmative vote of a majority of the remaining directors who are not Class M directors, although less than a quorum. If our board of directors consists solely of Class M directors or a vacancy relates to a Class M directorship, the affirmative vote of the entire board of directors, including Class M directors, although less than a quorum, is required to fill any vacancy.

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No Cumulative Voting

The General Corporation Law of the State of Delaware provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless our amended and restated certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation does not provide for cumulative voting.

No Stockholder Action by Written Consent; Calling of Special Meetings of Stockholders

Our amended and restated certificate of incorporation prohibits stockholder action by written consent by the holders of Class A common stock. It also provides that special meetings of our stockholders may be called only by or at the direction of the board of directors, our chief executive officer or the chairman of our board.

Advance Notice Requirements for Stockholder Proposals and Director Nominations

Our bylaws provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual meeting of stockholders must provide timely notice of their proposal in writing to the corporate secretary.

Generally, to be timely, a stockholder's notice must be received at our principal executive offices not less than 90 nor more than 120 days prior to the first anniversary of the previous year's annual meeting. Our bylaws also specify requirements as to the form and content of a stockholder's notice. These provisions may impede stockholders' ability to bring matters before an annual meeting of stockholders or make nominations for directors at an annual meeting of stockholders.

Limitations on Liability and Indemnification of Officers and Directors

The General Corporation Law of the State of Delaware authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties. Our amended and restated certificate of incorporation includes a provision that eliminates the personal liability of directors and members of the European Board for monetary damages for any breach of fiduciary duty in such capacity, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law of the State of Delaware.

Our amended and restated certificate of incorporation provides that we must indemnify our directors, any non-voting advisor to our board of directors, our officers and the members of our European Board to the fullest extent authorized by the General Corporation Law of the State of Delaware. We are also expressly authorized to carry directors' and officers' insurance for the benefit of our directors, officers and certain employees. We believe that these indemnification provisions and insurance are useful to attract and retain qualified directors and executive officers.

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The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

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Supermajority Provisions

The General Corporation Law of the State of Delaware provides generally that the affirmative vote of a majority of the outstanding shares then entitled to vote, voting together as a single class, is required to amend our amended and restated certificate of incorporation, unless the amended and restated certificate of incorporation requires a greater percentage. Our amended and restated certificate of incorporation provides that, in addition to any vote required by law or the amended and restated certificate of incorporation, the provisions in the amended and restated certificate of incorporation addressing the following matters may be amended only by a vote of 80% or more of all of the outstanding shares of our capital stock then entitled to vote (not including shares of Class M common stock):

the amendment, alteration or repeal by our stockholders of any provisions of the bylaws;

the election and term of our directors;

the removal of directors;

the prohibition on Class A stockholder action by written consent; and

the ability to call a special meeting of stockholders being vested solely in our board of directors, the chairman of our board or our Chief Executive Officer.

In addition, our amended and restated certificate of incorporation grants our board of directors the authority to amend and repeal our bylaws without a stockholder vote in any manner not inconsistent with the laws of the State of Delaware or our amended and restated certificate of incorporation. Notwithstanding the foregoing, our amended and restated certificate of incorporation also provides that our bylaws may be amended by the stockholders only by a vote of 80% or more of all of the outstanding shares then entitled to vote at an election of directors. In addition, the affirmative vote of at least 75% of our board of directors is required to amend the provision in our bylaws that requires that the appointment or election of one of our officers as Chairman of our board of directors be approved by at least 75% of our board of directors.

Voting Rights of Holders of Class M Common Stock

As described above, certain provisions contained in our amended and restated certificate of incorporation will require us to obtain the approval of the holders of our Class M common stock, voting separately as a class, for a variety of corporate actions. For example, the approval of the holders of our Class M common stock is required for certain amendments to or modifications of the amended and restated certificate of incorporation, including amendments or modifications that would have the effect or permitting any person to own more than 15% or more of our voting stock, or to approve the sale, lease or exchange of all or substantially all of the assets of MasterCard or the consummation of mergers or consolidations of MasterCard. Because shares of our Class M common stock do not have any economic rights, the holders of the Class M common stock may not have the same incentive to approve a corporate action that may be favorable for the holders of Class A common stock. In addition, the holders of the Class M common shares have the right to elect up to three of our directors (but no more than one-quarter of all directors). See Common Stock Voting Rights.

Stock Ownership of The MasterCard Foundation

Following completion of this offering, The MasterCard Foundation is expected to own 13,500,047 shares of Class A common stock, representing approximately 10% of our equity and 18% of our general voting power (or 17% of our general voting power if the underwriters exercise their option to purchase additional shares in full). Under the terms of the donation, The MasterCard Foundation may not sell or otherwise transfer its shares of Class A common stock prior to the date which is twenty years and eleven months following the date of the consummation of this offering, except to the extent

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necessary to comply with charitable giving requirements starting on the fourth anniversary of the consummation of this offering. The ownership of Class A common stock by The MasterCard Foundation, together with the restrictions on transfer, could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock. In addition, The MasterCard Foundation may not have the same incentive to approve a corporate action that may be favorable for the other public stockholders, or their interests may otherwise conflict with yours.

Delaware Law Anti-Takeover Statute

We are a Delaware corporation subject to Section 203 of the General Corporation Law of the State of Delaware. Section 203 provides that, subject to certain exceptions specified in the law, a Delaware corporation shall not engage in certain business combinations with any interested stockholder for a three-year period following the time that the stockholder became an interested stockholder unless:

prior to such time, our board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding certain shares; or

at or subsequent to that time, the business combination is approved by our board of directors and by the affirmative vote of holders of at least 66²/₃% of the outstanding voting stock that is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an interested stockholder is a person who, together with that person's affiliates and associates, owns, or within the previous three years did own, 15% or more of our voting stock. Our board of directors has approved The MasterCard Foundation becoming a holder of more than 15% of our Class A common stock.

Under certain circumstances, Section 203 makes it more difficult for a person who would be an interested stockholder to effect various business combinations with a corporation for a three year period. The provisions of Section 203 may encourage companies interested in acquiring our company to negotiate in advance with our board of directors because the stockholder approval requirement would be avoided if our board of directors approves either the business combination or the transaction that results in the stockholder becoming an interested stockholder. These provisions also may make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

Transfer Agent and Registrar

The transfer agent and registrar for our Class A common stock is Mellon Investor Services LLC.

Listing

We propose to list our Class A common stock on the New York Stock Exchange, subject to official notice of issuance, under the symbol MA.

Table of Contents**PRINCIPAL STOCKHOLDERS**

The following table sets forth information regarding the beneficial ownership of our voting securities by each person known to us to beneficially own more than five percent of any class of our voting securities as of August 31, 2005. Under our existing bylaws, only Class A members of MasterCard International are allowed to own shares of our common stock, and none of our directors or executive officers beneficially owns any equity securities of MasterCard Incorporated or any of its subsidiaries.

| <u>Name and Address of Beneficial Owner</u> | <u>Shares of Class A Redeemable Common Stock Beneficially Owned(1)</u> | <u>Percent of Total Outstanding Common Stock Beneficially Owned</u> |
|---|---|--|
| JPMorgan Chase & Co.(2) 270 Park Avenue New York, NY 10017 | 11,716,006 | 11.7% |
| Citigroup, Inc(3) 399 Park Avenue New York, NY 10043 | 6,230,752 | 6.2% |
| Bank of America Corporation(4) 100 North Tryon Street Charlotte, NC 28255 | 6,041,817 | 6.0% |
| EURO Kartensysteme GmbH Solmsstrasse 6 60486 Frankfurt/Main Germany | 5,221,131 | 5.2% |
| Europay France S.A.S. 44, rue Cambonne 75740 Paris Cedex 15 France | 5,029,527 | 5.0% |

- (1) As of July 1, 2005, pursuant to MasterCard's certificate of incorporation in effect on that date, all outstanding shares of Class B convertible common stock of MasterCard were converted into shares of class A redeemable common stock.
- (2) Based on a Schedule 13G/A Information Statement filed on February 10, 2005, JPMorgan Chase & Co. shares voting power with respect to its class A redeemable common stock with its wholly owned subsidiaries, Chase Manhattan Bank USA, National Association, and JPMorgan Chase Bank, National Association.
- (3) Based on a Schedule 13G/A Information Statement filed on February 11, 2005, Citigroup, Inc. shares investment and voting power with respect to its class A redeemable common stock with Citicorp, Citigroup Holdings Company and Citibank, N.A., its subsidiaries. Citigroup, Inc., Citicorp and Citibank, N.A. share the same address listed above. Citigroup Holdings Company's address as indicated by the Schedule 13G/A is One Rodney Square, Wilmington, DE 19801.

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- (4) Bank of America Corporation's common stock reflects the class A redeemable common stock held by its subsidiaries on a consolidated basis.

MasterCard issued class A redeemable common stock and class B convertible common stock on June 28, 2002, pursuant to an Agreement and Plan of Merger dated as of February 13, 2002, in which MasterCard International merged with a subsidiary of MasterCard Incorporated (the Conversion), and the Integration Agreement dated as of February 13, 2002 pursuant to which MasterCard Incorporated acquired all of the outstanding shares of Europay International S.A. (now MasterCard Europe) (the Integration). In the Conversion and Integration, the Class A members of MasterCard International received shares of class A redeemable and class B convertible common stock of MasterCard

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representing each member's existing equity interests in MasterCard. Pursuant to MasterCard's current certificate of incorporation on July 1, 2005 all of the class B convertible common stock converted into class A redeemable common stock. The class A redeemable common stock will be reallocated among our existing stockholders prior to the consummation of this offering based on the global proxy calculation set forth in our current bylaws. The global proxy calculation for this reallocation will be based on the stockholders' contributions to MasterCard's business during the twelve months ended June 30, 2005.

Prior to this offering of shares of our Class A common stock, we will reclassify all of our 100,000,348 outstanding shares of class A redeemable common stock so that our existing stockholders will receive 1.35 shares of our Class B common stock for each share of Class A redeemable common stock that they held prior to the reclassification and a single share of our Class M common stock. In addition, at the time of this offering, we will issue 13,500,047 shares of our Class A common stock as a donation to The MasterCard Foundation. We intend to use a portion of our net proceeds from this offering (including any proceeds received pursuant to the underwriters' option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters' option to purchase additional shares) and to The MasterCard Foundation. In the event that the underwriters do not exercise in full their option to purchase up to an additional 4,615,132 shares of Class A common stock from us in connection with this offering, our certificate of incorporation will require us, prior to the time of our 2007 annual meeting of stockholders, to issue additional shares of Class A common stock in a public offering and to use the proceeds from such offering to redeem additional shares of Class B common stock so that, immediately following such subsequent offering and redemption, our existing stockholders will own approximately 41% of the aggregate number of shares of Class A common stock and Class B common stock at that time.

Immediately following the offering transactions, we expect that The MasterCard Foundation will beneficially own 18% of our outstanding shares of Class A common stock, representing 18% of our general voting power (or 17% of our outstanding shares of Class A common stock representing 17% of our general voting power if the underwriters exercise their option to purchase additional shares in full). While we do not expect that any of our existing stockholders will beneficially own any of our Class A common stock following the offering transactions, we expect that certain of our existing stockholders will hold five percent or more of the voting power of the Class M common stock.

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SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of the offering we will have a total of 75,035,145 shares of our Class A common stock outstanding (or 79,650,277 shares if the underwriters exercise their option to purchase additional shares in full), of which 61,535,098 shares of Class A common stock (or 66,150,230 shares if the underwriters exercise their option to purchase additional shares in full) will have been sold in this offering and may be resold immediately in the public market and 13,500,047 shares will have been issued as a donation to The MasterCard Foundation and, under the terms of the donation, may begin to be resold by The MasterCard Foundation on the fourth anniversary of the consummation of this offering to the extent necessary to comply with charitable giving requirements.

In addition, immediately following the offering transactions, our existing stockholders will hold 59,965,325 shares of our Class B common stock (or 55,350,193 shares if the underwriters exercise their option to purchase additional shares in full), each of which will, commencing on the fourth anniversary of the consummation of this offering, be convertible for shares of our Class A common stock on a one-for-one basis in connection with a transfer of those converted shares to a person permitted to hold Class A common stock. Any shares of Class A common stock issuable upon conversion of such shares will be freely tradable without restriction or registration under the Securities Act by persons other than our affiliates.

In general, under Rule 144, a person (or persons whose shares are aggregated), including any person who may be deemed our affiliate, is entitled to sell within any three month period, a number of restricted securities that does not exceed the greater of 1% of the then outstanding Class A common stock and the average weekly trading volume during the four calendar weeks preceding each such sale, provided that at least one year has elapsed since such shares were acquired from us or any affiliate of ours and certain manner of sale, notice requirements and requirements as to availability of current public information about us are satisfied. Any person who is deemed to be our affiliate must comply with the provisions of Rule 144 (other than the one year holding period requirement) in order to sell shares of Class A common stock which are not restricted securities (such as shares acquired by affiliates either in the offering or through purchases in the open market following the offering). In addition, under Rule 144(k), a person who is not our affiliate, and who has not been our affiliate at any time during the 90 days preceding any sale, is entitled to sell such shares without regard to the foregoing limitations, provided that at least two years have elapsed since the shares were acquired from us or any affiliate of ours.

In addition, our amended and restated certificate of incorporation permits the issuance of up to an aggregate of 3,000,000,000 shares of Class A common stock. See Description of Capital-Stock Authorized but Unissued Capital Stock.

Lock-Up Agreements

We have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of our Class A common stock or securities convertible into or exchangeable for shares of our Class A common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of Goldman, Sachs & Co.

The MasterCard Foundation may not sell any of the shares of Class A common stock that we have donated to it for a period of four years following this offering. Thereafter, until the date which is twenty years and eleven months following the date of this offering, The MasterCard Foundation may only sell the shares of Class A common stock that we have donated to it to the extent necessary to satisfy its charitable giving requirements.

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Long Term Incentive Plan

We intend to file one or more registration statements on Form S-8 under the Securities Act to register all 5,400,000 shares of Class A common stock reserved for issuance under our long term incentive plan. Shares covered by these registration statements will be available for sale in the public market, other than shares owned by our affiliates, which may be sold in the public market if they are registered or qualify for an exemption from registration under Rule 144.

The sale of substantial amounts of our Class A common stock in the public market, or the perception that such sales could occur, could harm the prevailing market price of our Class A common stock.

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**MATERIAL U.S. FEDERAL TAX CONSIDERATIONS FOR
NON-U.S. HOLDERS OF COMMON STOCK**

The following is a general summary of certain United States federal income and estate tax consequences of the purchase, ownership and disposition of our Class A common stock as of the date hereof. This summary deals only with Class A common stock that is held as a capital asset by a non-U.S. holder.

A non-U.S. holder means a person (other than an entity or arrangement treated as a partnership) that is not, for United States federal income tax purposes, any of the following:

an individual citizen or resident of the United States;

a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

If an entity or arrangement treated as a partnership holds our Class A common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our Class A common stock, you should consult your tax advisors.

This summary does not address all aspects of United States federal income and estate taxes and does not deal with foreign, state, local or other tax considerations that may be relevant to non-U.S. holders in light of their particular circumstances. In addition, it does not represent a detailed description of the United States federal income and estate tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws (including if you are a United States expatriate, a controlled foreign corporation, a passive foreign investment company or an investor in a pass-through entity). This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the Code), regulations thereunder, judicial decisions, published positions of the Internal Revenue Service and other applicable authorities, all as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income and estate tax consequences different from those summarized below. We cannot assure you that a change in law will not alter significantly the tax considerations that we describe in this summary.

If you are considering the purchase of our Class A common stock, you should consult your own tax advisors concerning the particular United States federal income and estate tax consequences to you of the ownership and disposition of the Class A common stock, as well as the consequences to you arising under the laws of any state, municipality, foreign country or other taxing jurisdiction.

Dividends

Dividends paid to a non-U.S. holder of our Class A common stock generally will be subject to withholding of United States federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct

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of a trade or business by the non-U.S. holder within the United States (and, if required by an applicable income tax treaty, are attributable to a United States permanent establishment of the non-U.S. holder) are not subject to the withholding tax, provided certain certification and disclosure requirements are satisfied. Instead, such dividends are subject to United States federal income tax on a net income basis in the same manner as if the non-U.S. holder were a United States person as defined under the Code. Any such effectively connected dividends received by a foreign corporation may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A non-U.S. holder of our Class A common stock that wishes to claim the benefit of an applicable treaty rate and avoid backup withholding, as discussed below, for dividends will be required to (a) complete Internal Revenue Service Form W-8BEN (or other applicable form) and certify under penalty of perjury that such holder is not a United States person as defined under the Code and is eligible for treaty benefits or (b) if our Class A common stock is held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable United States Treasury regulations. Special certification and other requirements apply to certain non-U.S. holders that are pass-through entities rather than corporations or individuals.

A non-U.S. holder of our Class A common stock eligible for a reduced rate of United States withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

Gain on Disposition of Class A Common Stock

Any gain realized on the disposition of our Class A common stock generally will not be subject to United States federal income tax unless:

the gain is effectively connected with a trade or business of the non-U.S. holder in the United States (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment of the non-U.S. holder);

the non-U.S. holder is an individual who holds our Class A common stock as a capital asset and who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or

we are or have been a United States real property holding corporation for United States federal income tax purposes and the non-U.S. holder owns, directly or indirectly, at any time during the five-year period ending on the date of disposition or such shorter period the shares were held, more than 5% of the outstanding shares of our Class A common stock.

An individual non-U.S. holder described in the first bullet point immediately above will be subject to tax on the net gain derived from the sale under regular graduated United States federal income tax rates. An individual non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by United States source capital losses, even though the individual is not considered a resident of the United States. If a non-U.S. holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to tax on its net gain in the same manner as if it were a United States person as defined under the Code and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

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We believe we are not and do not anticipate becoming a United States real property holding corporation for United States federal income tax purposes.

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Information Reporting and Backup Withholding

We must report annually to the Internal Revenue Service and to each non-U.S. holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable income tax treaty.

A non-U.S. holder will be subject to backup withholding for dividends paid to such holder unless such holder certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that such holder is a United States person as defined under the Code), or such holder otherwise establishes an exemption.

Information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of a sale of our Class A common stock within the United States or conducted through certain United States-related financial intermediaries, unless the beneficial owner certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a United States person as defined under the Code) or such owner otherwise establishes an exemption.

Generally, a non-U.S. holder will certify its non-U.S. status on Internal Revenue Service Form W-8BEN.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally may be allowed as a refund or a credit against a non-U.S. holder's United States federal income tax liability, if any, provided the required information is furnished to the Internal Revenue Service.

Estate Tax

An individual non-U.S. holder who owns shares of our Class A common stock at the time of his death or who made certain lifetime transfers of an interest in our Class A common stock will be required to include the value of such Class A common stock in his gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Table of Contents**UNDERWRITING**

We and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co. and _____ are the representatives of the underwriters.

| <u>Underwriters</u> | <u>Number of Shares</u> |
|----------------------|-------------------------|
| Goldman, Sachs & Co. | |
| Total | 61,535,098 |

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 4,615,132 shares from us to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 4,615,132 additional shares.

| <u>Paid by the Company</u> | <u>No Exercise</u> | <u>Full Exercise</u> |
|----------------------------|--------------------|----------------------|
| Per Share | \$ | \$ |
| Total | \$ | \$ |

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$ _____ per share from the initial public offering price. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to \$ _____ per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

We and certain other persons have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any shares of Class A common stock or securities convertible into or exchangeable for shares of Class A common stock, subject to specified exceptions, during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of Goldman, Sachs & Co. This agreement does not apply to any existing

employee benefit plans. See [Shares Eligible for Future Sale](#) for a discussion of certain transfer restrictions.

The 180-day restricted period described in the preceding paragraph will be automatically extended if: (1) during the last 17 days of the 180-day restricted period the Company issues an earnings release or announces material news or a material event; or (2) prior to the expiration of the 180-day restricted period, the Company announces that it will release earnings results during the 15-day period following the last day of the 180-day period, in which case the restrictions described in the

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preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release of the announcement of the material news or material event.

Prior to the offering, there has been no public market for the shares. The initial public offering price has been negotiated among us and the representatives. Among the factors to be considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, will be our historical performance, estimates of our business potential and earnings prospects, an assessment of our management and the consideration of the above factors in relation to market valuation of companies in related businesses.

An application has been made to list the Class A common stock on the New York Stock Exchange under the symbol MA. In order to meet one of the requirements for listing the Class A common stock on the NYSE, the underwriters have undertaken to sell lots of 100 or more shares to a minimum of 2,000 beneficial holders.

In connection with the offering, the underwriters may purchase and sell shares of Class A common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. Naked short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the Class A common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of Class A common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of our stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the Class A common stock. As a result, the price of the Class A common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the NYSE, in the over-the-counter market or otherwise.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent

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authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than £43,000,000 and (3) an annual net turnover of more than £50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of shares to the public in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each of the underwriters has represented and agreed that:

(a) it has not made or will not make an offer of shares to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended) (FSMA) except to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by us of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority (FSA);

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to us; and

(c) it has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

The shares may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the

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meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the shares may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the

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offer or sale, or invitation or subscription or purchase, of the securities may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the securities to the public in Singapore.

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

MasterCard currently anticipates that it will undertake a directed share program, pursuant to which it will direct the underwriters to reserve up to 1.35 million shares of Class A common stock for sale to its employees, at the initial public offering price. The number of shares of Class A common stock available for sale to the general public in the public offering will be reduced to the extent these persons purchase any reserved shares. Any shares not so purchased will be offered by the underwriters to the general public on the same basis as other shares offered hereby.

A prospectus in electronic format will be made available on the websites maintained by one or more of the representatives of this offering and may also be made available on websites maintained by other underwriters. The underwriters may agree to allocate a number of shares of Class A common stock to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters that may make Internet distributions on the same basis as other allocations.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

We estimate that our share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses.

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LEGAL MATTERS

The validity of the Class A common stock will be passed upon for us by Simpson Thacher & Bartlett LLP, New York, New York. Certain legal matters in connection with this offering will be passed upon for the underwriters by Cleary Gottlieb Steen & Hamilton LLP, New York, New York.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004 and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) as of December 31, 2004 included in this prospectus have been so included in reliance upon the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

With respect to the unaudited financial information of MasterCard Incorporated for the six month periods ended June 30, 2005 and 2004, included in this prospectus, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated August 4, 2005 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a Registration Statement on Form S-1 under the Securities Act with respect to the Class A common stock offered in this prospectus. This prospectus, filed as part of the registration statement, does not contain all of the information set forth in the registration statement and its exhibits and schedules, portions of which have been omitted as permitted by the rules and regulations of the Securities and Exchange Commission. For further information about us and our Class A common stock, we refer you to the registration statement and to its exhibits and schedules. Statements in this prospectus about the contents of any contract, agreement or other document are not necessarily complete and, in each instance, we refer you to the copy of such contract, agreement or document filed as an exhibit to the registration statement, with each such statement being qualified in all respects by reference to the document to which it refers. Anyone may inspect the registration statement and its exhibits and schedules without charge at the public reference facilities the Securities and Exchange Commission maintains at 100 F Street, N.E., Washington, DC 20549. You may obtain copies of all or any part of these materials from the Securities and Exchange Commission upon the payment of certain fees prescribed by the Securities and Exchange Commission. You may obtain further information about the operation of the Securities and Exchange Commission's Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. You may also inspect these reports and other information without charge at a Web site maintained by the Securities and Exchange Commission. The address of this site is <http://www.sec.gov>.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and are required to file reports, proxy statements and other information with the Securities and Exchange Commission. You may inspect and copy these reports, proxy statements and other information at the public reference facilities maintained by the Securities and Exchange Commission at the address noted above. You also will be able to obtain copies of this material from the Public Reference Room of the Securities and Exchange Commission as described above, or inspect them without charge at the Securities and Exchange Commission's Web site. We also furnish our stockholders with annual reports containing consolidated financial statements audited by an independent registered public accounting firm.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of MasterCard is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has assessed the effectiveness of MasterCard's internal control over financial reporting as of December 31, 2004. In making its assessment management has utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report entitled *Internal Control - Integrated Framework*. Management has concluded that, based on its assessment, MasterCard's internal control over financial reporting was effective as of December 31, 2004. Our management's assessment of the effectiveness of MasterCard's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on the next page.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

of MasterCard Incorporated:

We have completed an integrated audit of MasterCard Incorporated's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its December 31, 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index on page F-1 present fairly, in all material respects, the financial position of MasterCard Incorporated and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 9 to the consolidated financial statements, the Company changed its method for calculating the market-related value of pension plan assets used in determining the expected return on the assets component of annual pension cost in 2003. Additionally, as discussed in Note 12 to the Consolidated Financial Statements, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 46R, Consolidation of Variable Interest Entities, which resulted in the consolidation of a special purpose entity in 2003.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing on page F-2, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial

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reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial

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reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York

March 1, 2005

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MASTERCARD INCORPORATED

CONSOLIDATED BALANCE SHEETS

| | December 31, | December 31, |
|---|-----------------------------------|---------------------|
| | 2004 | 2003 |
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 328,996 | \$ 248,119 |
| Investment securities, at fair value: | | |
| Trading | 27,407 | 30,761 |
| Available-for-sale | 781,486 | 631,630 |
| Accounts receivable | 293,292 | 259,429 |
| Settlement due from members | 223,738 | 210,014 |
| Restricted security deposits held for members | 87,300 | 60,524 |
| Prepaid expenses | 124,595 | 92,189 |
| Other current assets | 35,982 | 77,184 |
| Total Current Assets | 1,902,796 | 1,609,850 |
| Property, plant and equipment, at cost (less accumulated depreciation of \$329,877 and \$288,259) | 242,358 | 258,520 |
| Deferred income taxes | 235,023 | 223,908 |
| Goodwill | 217,654 | 187,881 |
| Other intangible assets (less accumulated amortization of \$228,466 and \$158,938) | 328,984 | 327,630 |
| Municipal bonds held-to-maturity | 195,295 | 196,141 |
| Other assets | 142,560 | 96,975 |
| Total Assets | \$ 3,264,670 | \$ 2,900,905 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Accounts payable | \$ 187,035 | \$ 202,604 |
| Settlement due to members | 186,858 | 176,144 |
| Restricted security deposits held for members | 87,300 | 60,524 |
| Obligations under U.S. merchant lawsuit and other legal settlements current (Notes 14 and 16) | 129,047 | 155,780 |
| Accrued expenses (Note 8) | 648,019 | 555,165 |
| Other current liabilities | 63,103 | 38,641 |
| Total Current Liabilities | 1,301,362 | 1,188,858 |
| Deferred income taxes | 73,227 | 64,125 |
| Obligations under U.S. merchant lawsuit and other legal settlements (Notes 14 and 16) | 468,547 | 516,686 |
| Long-term debt | 229,569 | 229,574 |
| Other liabilities | 212,393 | 198,321 |
| Total Liabilities | 2,285,098 | 2,197,564 |
| Commitments and contingent liabilities (Notes 13 and 16) | | |
| Minority interest | 4,620 | 4,620 |
| Stockholders Equity | | |
| Class A redeemable common stock, \$.01 par value; authorized 275,000,000 shares, issued 84,000,000 shares | 840 | 840 |
| Class B convertible common stock, \$.01 par value; authorized 25,000,000 shares, issued 16,000,000 shares | 160 | 160 |
| Additional paid-in capital | 967,368 | 967,368 |
| Retained earnings (accumulated deficit) | (121,204) | (359,264) |
| Accumulated other comprehensive income (loss), net of tax: | | |
| Cumulative foreign currency translation adjustments | 127,481 | 83,210 |

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| | | |
|---|---------------------|---------------------|
| Net unrealized gain on investment securities available-for-sale | 3,804 | 9,476 |
| Net unrealized loss on derivatives accounted for as hedges | (3,497) | (3,069) |
| | <u> </u> | <u> </u> |
| Total accumulated other comprehensive income, net of tax | 127,788 | 89,617 |
| | <u> </u> | <u> </u> |
| Total Stockholders Equity | 974,952 | 698,721 |
| | <u> </u> | <u> </u> |
| Total Liabilities and Stockholders Equity | <u>\$ 3,264,670</u> | <u>\$ 2,900,905</u> |

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

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MASTERCARD INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Years Ended December 31, | | |
|---|---------------------------------------|---------------------|-------------------|
| | 2004 | 2003 | 2002 |
| | (In thousands, except per share data) | | |
| Revenue | \$ 2,593,330 | \$ 2,230,851 | \$ 1,891,811 |
| Operating Expenses | | | |
| General and administrative | 1,185,837 | 1,098,552 | 965,299 |
| Advertising and market development | 915,851 | 851,150 | 694,010 |
| U.S. merchant lawsuit and other legal settlements (Notes 14 and 16) | 21,653 | 763,460 | |
| Depreciation | 51,277 | 52,953 | 42,068 |
| Amortization | 72,040 | 66,598 | 48,437 |
| Total operating expenses | 2,246,658 | 2,832,713 | 1,749,814 |
| Operating income (loss) | 346,672 | (601,862) | 141,997 |
| Other Income (Expense) | | | |
| Investment income, net | 48,701 | 56,591 | 25,607 |
| Interest expense | (69,722) | (62,936) | (9,891) |
| Minority interest in losses (earnings) of subsidiaries | 175 | 160 | (79) |
| Other income (expense), net | (2,126) | (3,473) | 754 |
| Total other income (expense) | (22,972) | (9,658) | 16,391 |
| Income (loss) before income taxes | 323,700 | (611,520) | 158,388 |
| Income tax expense (benefit) | 85,640 | (220,778) | 41,959 |
| Income (loss) before cumulative effect of accounting change | 238,060 | (390,742) | 116,429 |
| Cumulative effect of accounting change, net of tax | | 4,949 | |
| Net Income (Loss) | \$ 238,060 | \$ (385,793) | \$ 116,429 |
| Net Income (Loss) per Share (Basic and Diluted): | | | |
| Income (loss) before cumulative effect of accounting change | \$ 2.38 | \$ (3.91) | \$ 1.35 |
| Cumulative effect of accounting change, net of tax | | .05 | |
| Net Income (Loss) per Share (Basic and Diluted) | \$ 2.38 | \$ (3.86) | \$ 1.35 |

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

Table of Contents**MASTERCARD INCORPORATED****CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the Years Ended December 31, | | |
|---|----------------------------------|------------------|------------------|
| | 2004 | 2003 | 2002 |
| | (In thousands) | | |
| Operating Activities | | | |
| Net income (loss) | \$ 238,060 | \$ (385,793) | \$ 116,429 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation | 51,277 | 52,953 | 42,068 |
| Amortization | 72,040 | 66,598 | 48,437 |
| Impairment of assets | 7,427 | 4,359 | 6,370 |
| Deferred income taxes | 40,845 | (240,666) | 4,429 |
| Other | 4,540 | 1,391 | 2,281 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | | |
| Trading securities | 3,354 | (250) | 12,642 |
| Accounts receivable | (22,446) | (48,799) | 16,414 |
| Settlement due from members | 2,768 | 55,006 | 63,491 |
| Prepaid expenses and other current assets | (30,737) | (21,604) | (4,086) |
| Accounts payable | (20,275) | 21,566 | 34,420 |
| Settlement due to members | (3,356) | (27,777) | (38,133) |
| Legal settlement accruals, including accretion of imputed interest | (74,872) | 672,466 | |
| Accrued expenses | 82,403 | 39,738 | 64,529 |
| Net change in other assets and liabilities | (7,233) | 1,257 | (59,419) |
| Net cash provided by operating activities | 343,795 | 190,445 | 309,872 |
| Investing Activities | | | |
| Purchases of property, plant and equipment | (30,525) | (76,253) | (54,237) |
| Capitalized software | (47,630) | (73,310) | (47,128) |
| Purchases of investment securities available-for-sale | (2,194,931) | (1,282,107) | (1,610,861) |
| Proceeds from sales of investment securities available-for-sale | 2,032,275 | 1,265,192 | 1,474,201 |
| Cash received from the acquisition of Europay International S.A., net of acquisition related expenses | | | 31,243 |
| Acquisition of businesses, net of cash acquired | (29,861) | | |
| Other investing activities | (3,842) | (3,356) | (5,972) |
| Net cash used in investing activities | (274,514) | (169,834) | (212,754) |
| Financing Activities | | | |
| Short-term borrowings, net of repayments | | | (34,893) |
| Net cash used in financing activities | | | (34,893) |
| Effect of exchange rate changes on cash and cash equivalents | 11,596 | 8,933 | 1,307 |
| Net increase in cash and cash equivalents | 80,877 | 29,544 | 63,532 |
| Cash and cash equivalents beginning of year | 248,119 | 218,575 | 155,043 |

| | | | |
|---------------------------------------|-------------------|-------------------|-------------------|
| Cash and cash equivalents end of year | <u>\$ 328,996</u> | <u>\$ 248,119</u> | <u>\$ 218,575</u> |
|---------------------------------------|-------------------|-------------------|-------------------|

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

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MASTERCARD INCORPORATED

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS /MEMBERS EQUITY

| | Total | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income, net of tax | Common Stock | | Additional Paid-In Capital | |
|--|------------|---|--|--------------|---------|-------------------------------|------------|
| | | | | Class A | Class B | Class A | Class B |
| (In thousands) | | | | | | | |
| Balance at December 31, 2001 | \$ 606,661 | \$ 602,724 | \$ 3,937 | \$ | \$ | \$ | \$ |
| Net income | 116,429 | 116,429 | | | | | |
| Issuance of common stock | 275,744 | (692,624) | | 840 | 160 | 812,589 | 154,779 |
| Other comprehensive income, net of tax | 24,572 | | 24,572 | | | | |
| Balance at December 31, 2002 | 1,023,406 | 26,529 | 28,509 | 840 | 160 | 812,589 | 154,779 |
| Net loss | (385,793) | (385,793) | | | | | |
| Other comprehensive income, net of tax | 61,108 | | 61,108 | | | | |
| Balance at December 31, 2003 | 698,721 | (359,264) | 89,617 | 840 | 160 | 812,589 | 154,779 |
| Net income | 238,060 | 238,060 | | | | | |
| Other comprehensive income, net of tax | 38,171 | | 38,171 | | | | |
| Balance at December 31, 2004 | \$ 974,952 | \$ (121,204) | \$ 127,788 | \$ 840 | \$ 160 | \$ 812,589 | \$ 154,779 |

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

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MASTERCARD INCORPORATED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | For the Years Ended December 31, | | |
|---|----------------------------------|--------------|------------|
| | 2004 | 2003 | 2002 |
| | (In thousands) | | |
| Net Income (Loss) | \$ 238,060 | \$ (385,793) | \$ 116,429 |
| Other comprehensive income, net of tax: | | | |
| Foreign currency translation adjustments | 44,271 | 66,668 | 17,220 |
| Unrealized (loss) gain on investment securities available-for-sale | (5,977) | (2,492) | 18,717 |
| Income tax effect | 2,068 | 925 | (6,337) |
| | (3,909) | (1,567) | 12,380 |
| Reclassification adjustment for net gain realized on investment securities available-for-sale | (2,695) | (5,442) | (3,825) |
| Income tax effect | 932 | 2,020 | 1,295 |
| | (1,763) | (3,422) | (2,530) |
| Unrealized loss on derivatives accounted for as hedges | (4,262) | (13,844) | (2,498) |
| Income tax effect | 957 | 4,672 | |
| | (3,305) | (9,172) | (2,498) |
| Reclassification adjustment for net loss realized on derivatives accounted for as hedges | 3,710 | 11,710 | |
| Income tax effect | (833) | (3,109) | |
| | 2,877 | 8,601 | |
| Other comprehensive income, net of tax | 38,171 | 61,108 | 24,572 |
| Comprehensive Income (Loss) | \$ 276,231 | \$ (324,685) | \$ 141,001 |

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

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

Note 1. Summary of Significant Accounting Policies

Organization MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International Incorporated (MasterCard International), MasterCard Europe sprl (MasterCard Europe) (together, MasterCard or the Company), provide transaction processing and related services to customers principally in support of their credit, deposit access (debit), electronic cash and Automated Teller Machine (ATM) payment card programs, and travelers cheque programs. MasterCard enters into transactions with its customers in the normal course of business and operates a system for payment processing among its customers.

Consolidation and basis of presentation The Company follows accounting principles generally accepted in the United States of America. Certain prior period amounts have been reclassified to conform to the 2004 presentation. The consolidated financial statements include the accounts of MasterCard and its majority-owned subsidiaries. Intercompany transactions are eliminated in consolidation.

The Company consolidates majority-owned and controlled entities, including specific consideration of variable interest entities which are required to be consolidated in accordance with the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). Minority interest is recorded for consolidated entities in which the Company owns less than 100% of the interest. Minority interest represents the equity interest not owned by the Company.

The Company accounts for investments in entities under the equity method of accounting when it holds between 20% and 50% ownership in the entity and when it exercises significant influence. The equity method of accounting is also utilized for limited partnerships and limited liability companies if the investment ownership percentage is greater than 3% of outstanding ownership interests or common stock, respectively, regardless of whether MasterCard has significant influence over the investees. MasterCard's share of net earnings or losses of entities accounted for under the equity method of accounting is included in other income (expense), net on the consolidated statements of operations.

The Company accounts for investments in affiliates under the historical cost method of accounting when it holds less than 20% ownership in the entity and when it does not exercise significant influence.

Investments in entities for which the equity method and historical cost method of accounting are appropriate are recorded in other assets on the consolidated balance sheets.

Use of estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Management has established detailed policies and control procedures to ensure the methods used to make estimates are well controlled and applied consistently from period to period. Actual results may differ from these estimates.

Cash and cash equivalents Cash and cash equivalents include certain highly liquid investments with a maturity of three months or less from the date of purchase. Cash equivalents are recorded at cost, which approximates fair value.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Investment securities The Company classifies debt securities as held-to-maturity or available-for-sale and classifies equity securities as trading.

Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the debt securities to maturity. Held-to-maturity debt securities are stated at amortized cost. Debt securities that are not held-to-maturity are classified as available-for-sale. Available-for-sale debt securities are carried at fair value, with the unrealized gains and losses, net of applicable taxes, recorded as a separate component of other comprehensive income on the consolidated statements of comprehensive income (loss). Quoted market values, when available, are used to determine the fair value of debt securities. The specific identification method is used to determine gains and losses. Net realized gains and losses on debt securities are recognized in investment income on the consolidated statements of operations.

Equity securities bought and held primarily for sale in the near term are classified as trading and are reported at fair value. Quoted market values are used to determine the fair value of trading securities. The Company's trading securities are publicly traded and are related to an executive compensation plan. Net realized and unrealized gains and losses on trading securities are recognized in investment income on the consolidated statements of operations. The specific identification method is used to determine realized gains and losses. To the extent these securities appreciate over their original cost, a corresponding offset would be recorded in general and administrative expense in connection with the executive compensation plan.

Held-to-maturity and available-for-sale investments are evaluated for other than temporary impairment on an ongoing basis in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Available-for-sale securities are available to meet the Company's current operational needs and accordingly are classified as short-term.

Settlement due from/due to members The Company operates systems for clearing and settling payment transactions among MasterCard International members. Net settlements are generally cleared daily among members through settlement cash accounts by wire transfer or other bank clearing means. However, some transactions may not settle until subsequent business days, resulting in amounts due from and due to MasterCard International members.

Restricted security deposits held for MasterCard International members MasterCard requires and holds cash deposits from certain members of MasterCard International in order to maintain collateral for settlement of their transactions. These assets are fully offset by corresponding liabilities included on the consolidated balance sheets.

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Property, plant and equipment Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of equipment and furniture and fixtures is computed using the straight-line method over the related estimated useful lives of the assets, generally ranging from two to five years. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the estimated useful lives of the improvements or the terms of the related leases. Capital leases are amortized using the straight-line method over the lives of the leases. Depreciation on buildings is calculated using the straight-line method over an estimated useful life of 30 years. Amortization of leasehold improvements and capital leases is included in depreciation expense.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The Company evaluates the recoverability of all long-lived assets whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the carrying value of the asset cannot be recovered from estimated future cash flows, undiscounted and without interest, the fair value of the asset is calculated using the present value of estimated net future cash flows. If the carrying amount of the asset exceeds its fair value, a loss is recorded.

Goodwill Goodwill represents the excess of cost over net assets acquired in connection with the acquisition of certain businesses. The Company tests its goodwill for impairment at least annually. Goodwill was tested for impairment during each of 2004, 2003 and 2002. In 2004, the company recorded an impairment charge; see Note 6 herein.

Intangible assets Intangible assets consist of capitalized software costs, franchise rights, trademarks, tradenames and other intangible assets, which have finite lives, and customer relationships, which have indefinite lives. Intangible assets with finite useful lives are amortized over their estimated useful lives under the straight-line method. MasterCard capitalizes average internal costs incurred for payroll and payroll related expenses by department for the employees who directly devote time to the design, development and testing phases of each capitalized software project.

The Company reviews intangible assets with finite lives for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. During 2004, 2003 and 2002, the Company recorded impairment charges for finite lived intangible assets; see Note 7 herein. Intangible assets with indefinite lives, customer relationships, are tested for impairment at least annually. No impairment charges were recorded in 2004, 2003 or 2002.

Litigation accrual The Company is party to certain legal and regulatory proceedings with respect to a variety of matters. Except as described in Notes 14 and 16, MasterCard does not believe that any legal or regulatory proceedings to which it is a party would have a material adverse impact on its business or prospects. The Company evaluates the likelihood of an unfavorable outcome of the legal or regulatory proceedings to which it is a party in accordance with SFAS No. 5, Accounting for Contingencies. These judgments are subjective based on the status of the legal or regulatory proceedings, the merits of its defenses and consultation with in-house and external legal counsel. The actual outcomes of these proceedings may differ from the Company's judgments.

Settlement and travelers cheque risk MasterCard has global risk management policies and procedures, which include risk standards to provide a framework for managing the Company's settlement exposure. Settlement risk is the legal exposure due to the difference in timing between the payment transaction date and subsequent settlement. MasterCard International's rules generally guarantee the payment of MasterCard transactions and certain Cirrus and Maestro transactions between principal members. In the event that MasterCard International effects a payment on behalf of a failed member, MasterCard International may seek an assignment of the underlying receivables. Subject to approval by the Board of Directors, members may be assessed for the amount of any settlement loss. MasterCard has also guaranteed the payment of MasterCard-branded travelers cheques in the event of issuer default. The term and amount of these guarantees are unlimited.

Derivative financial instruments The Company accounts for derivative financial instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

hedging activities. SFAS 133 requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value in other assets and other liabilities, regardless of the purpose or intent for holding them.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a foreign-currency cash flow hedge are recorded in other comprehensive income (loss) until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable-rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceeds the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings. Changes in the fair value of derivative instruments which are foreign currency fair value hedges or which do not qualify or are not designated for hedge accounting under SFAS 133 are reported in current-period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions for all derivatives that qualify for hedge accounting under SFAS 133. This process includes linking all derivatives that are designated as foreign-currency cash flow hedges to forecasted transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. If and when it is determined that a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

Income taxes The Company provides for income taxes under the provisions of SFAS No. 109 Accounting for Income Taxes (SFAS 109). SFAS 109 requires an asset and liability based approach in accounting for income taxes.

Deferred income tax assets and liabilities are recorded to reflect the tax consequences on future years of temporary differences between the financial statement carrying amounts and income tax bases of assets and liabilities. Valuation allowances are provided against assets which are not likely to be realized.

Revenue recognition The Company's revenue is comprised principally of operations fees and assessments. Revenues are generated from the fees charged to customers for providing transaction processing and other payment services, and from assessments calculated on the dollar volume of activity on cards carrying our brands. Revenues are generally based upon transactional information accumulated by our systems or reported by our customers. Certain revenues are estimated based upon aggregate transaction information and historical and projected customer performance. Revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured.

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Operations fees represent fees for authorization, clearing, settlement and other products and services that facilitate transaction and information management among the Company's customers on a global basis. These fees are recognized as revenue in the same period as the related transactions occur or services are rendered. Other revenues included within operations fees include currency conversion fees, net foreign exchange gains or losses on settlement activities, excessive chargeback violation fees, consulting, sales of holograms, warning bulletins, manuals and publications.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Assessments predominantly represent payments made by members of MasterCard International with respect to their card programs carrying the marks of one or more of the brands within the MasterCard family of brands, principally the MasterCard, Maestro and Cirrus brands. Assessments are based principally upon daily, monthly or quarterly gross dollar volumes (GDV), which represent gross usage (purchase and cash disbursements) on MasterCard-branded cards for goods and services, including balance transfers and convenience checks. Assessments are recorded as revenue in the period they are earned, which is when the related GDV is generated on the cards. Assessments are based on management's estimate of the customers' performance in a given period and actual results may differ from these estimates.

MasterCard has business agreements with certain customers that provide for fee rebates when the customers meet certain hurdles. Such rebates are calculated on a monthly basis based upon estimated performance and the contracted discount rates for the services provided. MasterCard also enters into agreements with certain customers to provide volume-based and performance support incentives. MasterCard may incur costs directly related to the acquisition of the contract, which are deferred and amortized over the life of the contract. Rebates and incentives are recorded as a reduction of revenue in the same period as the revenue is earned or performance has occurred, in accordance with Emerging Issues Task Force (EITF) Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products) (EITF 01-9). Rebates and incentives are based on management's estimate of the customers' performance in a given period, and actual results may differ from these estimates.

In addition, certain rebate and incentive agreements provide for free or discounted services, which are recorded in accordance with EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. The discount from the fair value of the services is recorded as a reduction of revenue related to other elements of the contract using the residual method.

Pension and other postretirement plans Compensation cost of an employee's pension benefit is recognized on the projected unit credit method over the employee's approximate service period. The unit credit cost method is utilized for funding purposes. Prior to 2003, the expected return on plan assets was based on a calculated asset value. Beginning in 2003, the expected return on plan assets is based on the current fair value of the plan assets; this change in accounting principle is discussed in Note 9.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106, and a revision of FASB Statement No. 132 (SFAS 132). This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by FASB Statements No. 87, Employers' Accounting for Pensions, No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, and No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. SFAS 132 requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. The Company has fully implemented SFAS 132 for the year ended December 31, 2004.

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In May 2004, the FASB issued FASB Staff Position No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) (FSP 106-2). FSP 106-2 requires companies to account for the effect of the subsidy on

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Table of Contents**MASTERCARD INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share data)**

benefits attributable to past service as an actuarial experience gain and as a reduction of the service cost component of net postretirement health care costs for amounts attributable to current service, if the benefit provided is at least actuarially equivalent to Medicare Part D. MasterCard International determined the effects of the Act were not a significant event requiring an interim remeasurement. Consequently, as permitted by FSP 106-2, net periodic postretirement benefit cost for 2004 does not reflect the effects of the Act. The accumulated postretirement benefit obligation (APBO) for the postretirement benefit plan was remeasured at December 31, 2004 to reflect the effects of the Act, which resulted in a reduction in the APBO of \$2,680.

Advertising expense Cost of media advertising is expensed when the advertising takes place. Production costs are expensed as costs are incurred. Promotional items are expensed at the time the promotional event occurs.

Foreign currency translation The U.S. dollar is the functional currency for the majority of the Company's businesses except for MasterCard Europe's operations, for which the functional currency is the euro and MasterCard's operations in Brazil for which the functional currency is the real. Where the U.S. dollar is considered the functional currency, monetary assets and liabilities are remeasured to U.S. dollars using current exchange rates in effect at the balance sheet date; non-monetary assets and liabilities are remeasured at historical exchange rates; and revenue and expense accounts are remeasured at a weighted average exchange rate for the period. Resulting exchange gains and losses are included in net income (loss). Where local currency is the functional currency, translation from the local currency to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate for the period. Resulting translation adjustments are reported as a component of other comprehensive income (loss).

Net income (loss) per share MasterCard computes basic and diluted net income (loss) per share by dividing net income (loss) applicable to common stock by the weighted average number of common shares outstanding for the period.

Note 2. Supplemental Cash Flows

The following table includes supplemental cash flow disclosures for the years ended December 31:

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|--|-------------|-------------|-------------|
| Cash paid for income taxes | \$ 43,594 | \$ 14,739 | \$ 68,238 |
| Cash paid for interest | 16,732 | 16,793 | 5,711 |
| Cash paid for settlement of U.S. merchant lawsuit and other legal settlements (Note 14 and 16) | 149,948 | 133,680 | |

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Non-cash investing and financing activities:

| | |
|--|---------|
| Common stock issued for acquisition of Europay International S.A (Note 18) | 275,744 |
| Consolidation of variable interest entity (Note 12): | |
| Municipal bonds held-to-maturity | 154,000 |
| Long-term debt | 149,380 |
| Minority interest | 4,620 |
| Sale-leaseback transaction: | |
| Capital lease obligation | 36,382 |
| Bonds held-to-maturity | 36,382 |

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

In January 2003, MasterCard purchased a building in Kansas City, Missouri for approximately \$23,572. The building is a co-processing data center which replaced the back-up data center in Lake Success, New York. During 2003, MasterCard entered into agreements with the City of Kansas City for (i) the sale-leaseback of the building and related equipment which totaled \$36,382 and (ii) the purchase of municipal bonds for the same amount which have been classified as municipal bonds held-to-maturity. The agreements enabled MasterCard to secure state and local financial benefits. No gain or loss was recorded in connection with the agreements. The leaseback has been accounted for as a capital lease as the agreement contains a bargain purchase option at the end of the ten-year lease term on April 1, 2013. The building and related equipment are being depreciated over their estimated economic life in accordance with the Company's policy. Rent of \$1,819 is due annually and is equal to the interest due on the municipal bonds. The future minimum lease payments are \$52,905 and are included in the future commitment schedule in Note 13. A portion of the building was subleased to the original building owner for a five-year term with a renewal option. As of December 31, 2004, the future minimum sublease rental income is \$2,868.

Note 3. Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net income (loss) per share:

| | Years Ended December 31, | | |
|---|--------------------------|--------------|------------|
| | 2004 | 2003 | 2002 |
| Numerator for net income (loss) per share (basic and diluted): | | | |
| Income (loss) before cumulative effect of accounting change | \$ 238,060 | \$ (390,742) | \$ 116,429 |
| Cumulative effect of accounting change, net of tax | | 4,949 | |
| Net income (loss) | \$ 238,060 | \$ (385,793) | \$ 116,429 |
| Denominator for net income (loss) per share (basic and diluted): | | | |
| Weighted average shares outstanding | 100,000 | 100,000 | 86,204 |
| Income (loss) per share before cumulative effect of accounting change | \$ 2.38 | \$ (3.91) | \$ 1.35 |
| Cumulative effect of accounting change per share, net of tax | | .05 | |
| Net income (loss) per share (basic and diluted) | \$ 2.38 | \$ (3.86) | \$ 1.35 |

Note 4. Investment Securities

Available-for-sale investment securities consist of municipal bonds. The amortized cost, gross unrealized gains and losses and fair value of available-for-sale securities are as follows:

| | Available-for-Sale | |
|-------------------------|---------------------------|---------------------|
| | December 31, | December 31, |
| | 2004 | 2003 |
| Amortized cost | \$ 775,509 | \$ 616,981 |
| Gross unrealized gains | 6,947 | 14,907 |
| Gross unrealized losses | (970) | (258) |
| Fair value | \$ 781,486 | \$ 631,630 |

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Held-to-maturity investment securities also consist of municipal bonds. The carrying value, gross unrecorded gains and losses and fair value of held-to-maturity securities are as follows:

| | Held-to-maturity | |
|-------------------------|------------------|--------------|
| | December 31, | December 31, |
| | 2004 | 2003 |
| Carrying value | \$ 195,295 | \$ 196,141 |
| Gross unrecorded gains | 21,353 | 25,157 |
| Gross unrecorded losses | | |
| Fair value | \$ 216,648 | \$ 221,298 |

At December 31, 2004, there were no significant investment securities in continuous gross unrealized loss positions for greater than twelve months. Due to the high credit quality of the Company's investment securities and the intent and ability to hold until maturity no investment securities are considered to be other-than-temporarily impaired as of December 31, 2004.

The maturity distribution based on contractual terms of investment securities at December 31, 2004, is as follows:

| | Available-for-Sale | | Held-to-Maturity | |
|------------------------------------|--------------------|------------|------------------|------------|
| | Amortized | | Carrying | |
| | Cost | Fair Value | Value | Fair Value |
| Due within 1 year | \$ 27,873 | \$ 28,249 | \$ | \$ |
| Due after 1 year through 5 years | 373,544 | 377,319 | 158,913 | 178,957 |
| Due after 5 years through 10 years | 119,242 | 121,068 | 36,382 | 37,691 |
| Due after 10 years | 254,850 | 254,850 | | |
| | \$ 775,509 | \$ 781,486 | \$ 195,295 | \$ 216,648 |

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Included in the available-for-sale amounts above are auction rate securities of \$273,299 and \$126,050 as of December 31, 2004 and 2003, respectively. These securities are reset to current interest rates typically every 35 days and no later than every 90 days, but are included in this table based on their stated maturities. All securities with maturities beyond ten years are auction rate securities.

Auction rate securities, which were previously recorded in cash and cash equivalents due to their liquidity and pricing reset feature, have been included as available-for-sale securities in the accompanying financial statements. Prior period information was reclassified to conform to the current year presentation. There was no impact on net income, cash flow from operations or debt covenants as a result of the reclassification.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Components of net investment income are as follows for each of the years ended December 31:

| | 2004 | 2003 | 2002 |
|---|-------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Interest income | \$ 37,051 | \$ 35,402 | \$ 23,090 |
| Dividend income | 6,240 | 5,326 | 4,816 |
| Investment securities available-for-sale: | | | |
| Gross realized gains | 3,169 | 5,777 | 4,035 |
| Gross realized losses | (474) | (335) | (210) |
| Trading securities: | | | |
| Unrealized gains (losses), net | (712) | 8,877 | (6,983) |
| Realized gains, net | 3,427 | 1,544 | 859 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total investment income, net | <u>\$ 48,701</u> | <u>\$ 56,591</u> | <u>\$ 25,607</u> |

Note 5. Property, Plant and Equipment

Property, plant and equipment consist of the following at December 31:

| | 2004 | 2003 |
|-------------------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> |
| Equipment | \$ 333,276 | \$ 316,567 |
| Building and land | 179,415 | 169,803 |
| Furniture and fixtures | 36,415 | 35,413 |
| Leasehold improvements | 23,129 | 24,996 |
| | <u> </u> | <u> </u> |
| | 572,235 | 546,779 |
| Less accumulated depreciation | (329,877) | (288,259) |
| | <u> </u> | <u> </u> |
| | <u>\$ 242,358</u> | <u>\$ 258,520</u> |

Depreciation expense for the above property, plant and equipment was \$51,277, \$52,953 and \$42,068 for the years ended December 31, 2004, 2003 and 2002, respectively.

Note 6. Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2004 and 2003 are as follows:

| | |
|--|-------------------|
| Balance as of December 31, 2002 | \$ 152,941 |
| Change in estimate of exit costs relating to the Integration (Note 18) | 3,792 |
| Foreign currency translation | 31,148 |
| | <hr/> |
| Balance as of December 31, 2003 | 187,881 |
| Acquisition of businesses | 20,225 |
| Impairment loss | (5,454) |
| Change in estimate of exit costs relating to the Integration (Note 18) | (663) |
| Foreign currency translation | 15,665 |
| | <hr/> |
| Balance as of December 31, 2004 | <u>\$ 217,654</u> |

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

In February 2004, the Company acquired a research and advisory firm focused exclusively on the global financial services industry. In May 2004, the Company acquired a consulting firm specializing in the optimization of customer relationships. The Company identified for one of the acquisitions above, certain indicators of potential impairment, including lower than anticipated revenues during 2004 and loss of key customers which would negatively impact future revenue growth. Accordingly, the Company recorded impairment losses of \$6,560 (goodwill of \$5,454 and other intangible assets of \$1,106), which are reflected within general and administrative expenses on the consolidated statements of operations herein.

Note 7. Other Intangible Assets

The following table sets forth net intangible assets, other than goodwill:

| | December 31, 2004 | | | December 31, 2003 | | |
|--------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets: | | | | | | |
| Capitalized software | \$ 327,733 | \$ (207,371) | \$ 120,362 | \$ 283,217 | \$ (148,408) | \$ 134,809 |
| Trademarks and tradenames | 24,061 | (17,728) | 6,333 | 20,204 | (9,802) | 10,402 |
| Other | 7,170 | (3,367) | 3,803 | 728 | (728) | |
| Total | 358,964 | (228,466) | 130,498 | 304,149 | (158,938) | 145,211 |
| Unamortized intangible assets: | | | | | | |
| Customer relationships | 198,486 | | 198,486 | 182,419 | | 182,419 |
| Total | \$ 557,450 | \$ (228,466) | \$ 328,984 | \$ 486,568 | \$ (158,938) | \$ 327,630 |

Additions to capitalized software primarily relate to internal projects associated with system enhancements or infrastructure improvements adjusted for the translation of capitalized software denominated in foreign currency. MasterCard's acquisitions during 2004 are discussed in Note 6 herein and resulted in an increase in trademarks and tradenames in the amount of \$2,650 and an increase in other amortizable intangible assets, including covenants not to compete, customer lists and a research library, in the amount of \$7,548.

Amortizable trademarks and tradenames and unamortizable customer relationships include assets which are denominated in foreign currency. As such, a component of the net change in these intangible assets is attributable to foreign currency translation. In particular, customer relationships increased \$16,067 and trademarks increased \$1,207 in 2004 for the portion of these assets assumed in the acquisition of Europay International S.A. on June 28, 2002, as discussed in Note 18 herein.

Amortization and impairment expense on the assets above amounted to the following:

| | For the Years Ended December 31, | | |
|--------------|---|-------------|-------------|
| | 2004 | 2003 | 2002 |
| Amortization | \$ 72,040 | \$ 66,598 | \$ 48,437 |
| Impairment | \$ 1,973 | \$ 3,371 | \$ 6,370 |

Table of Contents**MASTERCARD INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share data)**

During the years 2004, 2003 and 2002, impairment charges of \$867, \$3,371 and \$6,370, respectively, were recorded primarily in connection with decisions to discontinue the use of various technologies. The Company performed an impairment analysis on the related technology and concluded that fair value was estimated as zero due to discontinued future use of the underlying technology. In addition, during 2004, the Company identified and recorded impairment losses of \$1,106 for one of the acquisitions discussed in Note 6 herein. Impairment charges are recorded in general and administrative expense on the consolidated statements of operations for each of the years ended December 31, 2004, 2003 and 2002.

The following table sets forth the estimated future amortization expense on amortizable intangible assets for the year ending:

| | |
|----------------------------------|-----------|
| December 31, 2005 | \$ 59,330 |
| December 31, 2006 | \$ 41,740 |
| December 31, 2007 | \$ 23,257 |
| December 31, 2008 | \$ 3,460 |
| December 31, 2009 and thereafter | \$ 2,711 |

Note 8. Accrued Expenses

Accrued expenses consist of the following at December 31:

| | 2004 | 2003 |
|--------------------------------|-------------------|-------------------|
| Accrued personnel | \$ 190,114 | \$ 171,811 |
| Accrued rebates and incentives | 163,278 | 128,082 |
| Accrued advertising | 136,107 | 122,309 |
| Accrued taxes | 63,940 | 60,017 |
| Other | 94,580 | 72,946 |
| | \$ 648,019 | \$ 555,165 |

Note 9. Pension, Savings Plan and Other Benefits

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The Company maintains a noncontributory defined benefit pension plan with a cash balance feature covering substantially all of its U.S. employees. This pension plan credits participants annually with an amount equal to a percentage of eligible pay based on age and service, as well as providing earnings credits based on each participant's account balance. Additionally, the Company has an unfunded nonqualified supplemental executive retirement plan that provides certain key employees with supplemental retirement benefits in excess of limits imposed on qualified plans by U.S. tax laws.

Effective January 1, 2003, the Company changed its method of calculating the market-related value of plan assets used in determining the expected return on asset component of its annual pension cost. Under the previous method, 80 percent of the gains and losses on plan assets were deferred and recognized in the calculated market-related value over the following four years. Under the new method, the market-related value equals the current fair value of the plan assets. The new method is considered preferable because annual pension expense will reflect changes in the market performance of plan assets on a more timely basis.

The cumulative effect of this change in accounting principle related to periods prior to 2003 is a benefit to earnings for the year ended December 31, 2003, in the amount of \$7,768, less income taxes

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

of \$2,819, for a net benefit of \$4,949. The Company's net periodic pension cost would have been reduced by \$1,928 for 2003 if it had not changed its valuation method. Applying the new methodology retroactively to January 1, 2002 would have had a negligible impact on net income and net income per share for the year ended December 31, 2002.

On June 28, 2002, in connection with its acquisition of MasterCard Europe, the Company assumed a defined benefit plan (European Plan) covering substantially all employees affiliated with MasterCard Europe. On December 31, 2002, the Company settled the benefit obligations and terminated the European Plan. All excess assets are being transferred to a new defined contribution plan.

The following table sets forth the pension plans' funded status, key assumptions and amounts recognized in the Company's Consolidated Balance Sheets at December 31, 2004 and 2003. The U.S. plans include both the qualified and the nonqualified pension plans. The Company uses a December 31 measurement date for its pension plans.

| | U.S. Plans | | European Plan | |
|--|-------------------|-------------------|-----------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Change in benefit obligation | | | | |
| Benefit obligation at beginning of year | \$ 148,718 | \$ 125,490 | \$ | \$ |
| Service cost | 16,151 | 16,857 | | |
| Interest cost | 9,795 | 8,477 | | |
| Actuarial loss | 5,698 | 3,121 | | |
| Benefits paid | (8,891) | (5,227) | | |
| Benefit obligation at end of year | <u>\$ 171,471</u> | <u>\$ 148,718</u> | <u>\$</u> | <u>\$</u> |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of year | \$ 126,975 | \$ 104,257 | \$ 3,316 | \$ 4,926 |
| Actual return on plan assets | 11,983 | 25,445 | 215 | 1,332 |
| Employer contributions | 15,000 | 2,500 | | |
| Benefits paid | (8,891) | (5,227) | (2,051) | (2,942) |
| Fair value of plan assets at end of year | <u>\$ 145,067</u> | <u>\$ 126,975</u> | <u>\$ 1,480</u> | <u>\$ 3,316</u> |
| Reconciliation of funded status | | | | |
| Funded status | \$ (26,404) | \$ (21,743) | \$ 1,480 | \$ 3,316 |
| Unrecognized actuarial loss | 28,934 | 26,172 | | |
| Unrecognized prior service cost | (1,162) | (1,477) | | |

| | | | | |
|---|-----------|-----------|----------|----------|
| Net amount recognized | \$ 1,368 | \$ 2,952 | \$ 1,480 | \$ 3,316 |
| Amounts recognized on the Consolidated Balance Sheets consist of: | | | | |
| Prepaid benefit cost | \$ 10,500 | \$ 10,598 | \$ 1,480 | \$ 3,316 |
| Accrued benefit cost | (9,132) | (7,646) | | |
| Net amount recognized | \$ 1,368 | \$ 2,952 | \$ 1,480 | \$ 3,316 |
| Weighted-average assumptions used to determine end of year benefit obligations | | | | |
| Discount rate | 5.75% | 6.25% | | |
| Rate of compensation increase | 5.37% | 5.37% | | |

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The accumulated benefit obligation for the U.S. plans was \$142,047 and \$123,642 at December 31, 2004 and 2003, respectively.

Information for the Company's nonqualified pension plan, which has an accumulated benefit obligation in excess of plan assets, is as follows:

| | December 31, | |
|--------------------------------|--------------|----------|
| | 2004 | 2003 |
| Projected benefit obligation | \$ 9,624 | \$ 8,081 |
| Accumulated benefit obligation | 8,803 | 7,587 |
| Fair value of plan assets | | |

Net periodic pension cost (benefit) includes the following components for the years ended December 31, 2004, 2003, and 2002:

| | U.S. Plans | | | European Plan | | |
|-------------------------------------|------------|-----------|-----------|---------------|----------|------------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Service cost | \$ 16,150 | \$ 16,857 | \$ 14,592 | \$ | \$ | \$ 1,140 |
| Interest cost | 9,795 | 8,477 | 7,508 | | | 335 |
| Expected return on plan assets | (10,319) | (8,661) | (6,712) | 215 | 1,332 | (360) |
| Amortization of prior service cost | (314) | (314) | (314) | | | |
| Amortization of transition asset | | | (32) | | | |
| Recognized actuarial loss | 1,272 | 3,562 | 1,409 | | | |
| Curtailement gain | | | | | | (3,731) |
| Net periodic pension cost (benefit) | \$ 16,584 | \$ 19,921 | \$ 16,451 | \$ 215 | \$ 1,332 | \$ (2,616) |

Weighted-average assumptions used to determine net periodic pension cost (benefit) for the years ended December 31:

U.S. Plans

European Plan

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| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
|--------------------------------|-------|-------|-------|------|------|-------|
| Discount rate | 6.25% | 6.75% | 7.25% | | | 5.25% |
| Expected return on plan assets | 8.50% | 8.50% | 8.50% | | | 5.25% |
| Rate of compensation increase | 5.37% | 5.37% | 7.00% | | | 4.25% |

The expected return on plan assets is primarily based on long-term historical returns in equity and fixed income markets. Based on estimated returns of 10 percent on equity investments and 6 percent on fixed income investments and the portfolio targeted asset allocation range, the weighted average expected return of the qualified pension plan assets is 8.5 percent.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The Company's qualified pension plan's weighted-average asset allocations at December 31, 2004 and 2003 by asset category are as follows:

| Asset Class | Target Asset Allocation | Plan Assets at December 31, | |
|------------------------|-------------------------------|-----------------------------------|-------------|
| | | 2004 | 2003 |
| U.S. Equity Securities | | | |
| Large/medium cap | 35-45% | 39% | 39% |
| Small cap | 10-20 | 15 | 17 |
| Non-U.S. Equity | 10-20 | 15 | 17 |
| Fixed income | 25-40 | 30 | 27 |
| Other | | 1 | |
| Total | | 100% | 100% |

Plan assets are managed with a long-term perspective to ensure that there is an adequate level of assets to support benefit payments to participants over the life of the qualified plan. The Company periodically conducts asset-liability studies to establish the preferred target asset allocation. Plan assets are managed within the asset allocation ranges above, toward targets of 40% large cap U.S. equity, 15% small cap U.S. equity, 15% non-U.S. equity and 30% fixed income, with periodic rebalancing to maintain plan assets within the target asset allocation ranges. Plan assets are managed by external investment managers. Investment manager performance is measured against benchmarks for each asset class and peer group on quarterly, one-, three- and five-year periods. An independent consultant assists management with investment manager selections and performance evaluations. Approximately 8% of plan assets at December 31, 2003 which are classified as fixed income are invested in cash equivalents supporting obligations to purchase fixed income securities at future dates. The other category includes cash that is available to pay expected benefit payments and expenses.

At December 31, 2004 and 2003, the funded status of the qualified plan exceeded minimum funding requirements and the Company was not required to make contributions. In December 2004, the Company elected to make a voluntary \$15,000 contribution to its qualified pension plan. The Company expects to make additional voluntary contributions totaling \$25,000 before September 15, 2005.

The following table summarizes expected benefit payments through 2014 including those payments expected to be paid from the company's general assets. Since the majority of the benefit payments are made in the form of lump-sum distributions, actual benefit payments may differ from expected benefits payments.

| | |
|-----------|-----------|
| 2005 | \$ 19,506 |
| 2006 | 18,091 |
| 2007 | 17,336 |
| 2008 | 22,958 |
| 2009 | 20,336 |
| 2010-2014 | 123,428 |

The majority of the Company's U.S. employees are eligible to participate in a savings and profit sharing plan sponsored by the Company. Effective January 1, 2003, the Company amended its former savings plan to incorporate a new profit sharing component. The new plan retains most of the characteristics of the former plan. Similar to the former plan, the new plan allows employees to

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

contribute a portion of their base compensation on a pre-tax and after-tax basis in accordance with specified guidelines. The Company matches a percentage of the employee contributions up to certain limits. Under the new plan, the Company may also contribute a discretionary profit sharing component linked to its performance each year. In addition, the Company has several defined contribution plans outside of the United States. The Company's contribution expense related to all of its savings plans was \$35,517, \$30,626 and \$24,285 for 2004, 2003 and 2002, respectively.

The Company has a Value Appreciation Program (VAP), which is a frozen incentive compensation plan established in 1995. Annual awards were granted to VAP participants from 1995 through 1998, which entitled participants to the net appreciation on a portfolio of securities of MasterCard members. In 1999, the VAP was replaced by an Executive Incentive Plan (EIP). Although contributions to the VAP have been discontinued, assets remain and participants are entitled to the net appreciation on the portfolio of securities in accordance with plan provisions. The Company's liability related to the VAP at December 31, 2004 and 2003 was \$10,274 and \$9,589 respectively, and the expense/(income) was \$3,145, \$8,497 and (\$3,854) for the years ending December 31, 2004, 2003 and 2002, respectively.

MasterCard EIP is a performance unit plan, in which participants receive grants of units with a target value contingent on the achievement of the Company's long-term performance goals. Employees who are designated Senior Vice President or higher are eligible for participation in any performance period, provided they have met certain performance criteria. The Compensation Committee and/or the President and Chief Executive Officer may also designate other employees as eligible to participate in the plan.

The final value of the units under the EIP is calculated based on the Company's performance over a three-year period. The performance units vest over three- and five-year periods. Awards are paid in the form of cash over a five-year vesting period. Upon completion of the three-year performance period, participants receive a payment equal to 80 percent of the award earned. The remaining 20 percent of the award is paid upon completion of two additional years of service. The Company's liability related to EIP at December 31, 2004 and December 31, 2003 was \$76,787 and \$79,179 respectively, and the expense was \$42,627, \$27,764 and \$36,545 for the years ending December 31, 2004, 2003 and 2002, respectively.

Both the VAP and the EIP are accounted for in accordance with FASB Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans (FIN 28). In accordance with FIN 28, compensation is accrued as a charge to expense over the periods the employee performs the related services.

Note 10. Postretirement Health and Life Insurance Benefits

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The Company maintains a postretirement plan providing health coverage and life insurance benefits for substantially all of its U.S. employees and retirees.

In December 2003, the United States enacted into law the Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act establishes a prescription drug benefit under Medicare, known as Medicare Part D , and a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Company believes that benefits provided to certain participants will be at least actuarially equivalent to Medicare Part D, and, accordingly, the Company will be entitled to a subsidy.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

In May 2004, the FASB issued FASB Staff Position No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP 106-2). FSP 106-2 requires companies to account for the effects of the federal subsidy on benefits attributable to past service as an actuarial experience gain and as a reduction of the service cost component of net postretirement health care costs for amounts attributable to current service, if the benefit provided is at least actuarially equivalent to Medicare Part D.

The Company determined the effects of the Act were not a significant event requiring an interim remeasurement. Consequently, as permitted by FSP 106-2, net periodic postretirement benefit cost for 2004 does not reflect the effects of the Act. The accumulated postretirement benefit obligation (APBO) was remeasured at December 31, 2004 to reflect the effects of the Act, which resulted in a reduction in the APBO of \$2,680.

The following table presents the status of the Company's postretirement benefit plan recognized in the Company's Consolidated Balance Sheets at December 31, 2004 and 2003. The Company uses a December 31 measurement date for its postretirement plan.

| | <u>2004</u> | <u>2003</u> |
|--|-------------------|-------------------|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | \$ 44,909 | \$ 33,386 |
| Service cost | 3,095 | 2,533 |
| Interest cost | 2,967 | 2,226 |
| Actuarial loss | 7,052 | 7,239 |
| Plan participants' contribution | 17 | |
| Benefits paid | (745) | (475) |
| | <u> </u> | <u> </u> |
| Benefit obligation at end of year | \$ 57,295 | \$ 44,909 |
| | <u> </u> | <u> </u> |
| Change in plan assets | | |
| Employer contributions | 728 | \$ 475 |
| Plan participants' contribution | 17 | |
| Benefits paid | (745) | (475) |
| | <u> </u> | <u> </u> |
| Fair value of plan assets at end of year | \$ | \$ |
| | <u> </u> | <u> </u> |
| Reconciliation of funded status | | |
| Funded status | \$ (57,295) | \$ (44,909) |
| Unrecognized transition obligation | 4,637 | 5,217 |
| Unrecognized prior service cost | 636 | 704 |

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| | | |
|---|-------------------|-------------------|
| Unrecognized actuarial loss | 8,753 | 1,702 |
| | <u> </u> | <u> </u> |
| Accrued benefit cost | \$ (43,269) | \$ (37,286) |
| | <u> </u> | <u> </u> |
| Weighted-average assumptions used to determine end of year benefit obligations | | |
| Discount rate | 5.75% | 6.25% |
| Rate of compensation increase | 5.37% | 5.37% |

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Net periodic postretirement benefit cost for the years ended December 31 was:

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|--|-----------------|-----------------|-----------------|
| Service cost | \$ 3,095 | \$ 2,533 | \$ 2,208 |
| Interest cost | 2,967 | 2,226 | 1,919 |
| Amortization of prior service cost | 68 | 68 | 68 |
| Amortization of transition obligation | 580 | 580 | 580 |
| Recognized actuarial gain | | (152) | (405) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net periodic postretirement benefit cost | <u>\$ 6,710</u> | <u>\$ 5,255</u> | <u>\$ 4,370</u> |

The weighted-average assumptions used to determine net periodic postretirement cost for years ended December 31 were:

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|-------------------------------|-------------|-------------|-------------|
| Discount rate | 6.25% | 6.75% | 7.25% |
| Rate of compensation increase | 5.37% | 5.37% | 7.00% |

Assumed health care cost trend rates at December 31 were as follows:

| | <u>2004</u> | <u>2003</u> |
|--|-------------|-------------|
| Health care cost trend rate assumed for next year | 10.00% | 9.00% |
| Rate to which the cost trend rate is expected to decline (the ultimate trend rate) | 5.50% | 5.50% |
| Year that the rate reaches the ultimate trend rate | 2010 | 2008 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

| | |
|-------------|-------------|
| 1% increase | 1% decrease |
|-------------|-------------|

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| | | |
|--|----------|------------|
| Effect on postretirement obligation | \$ 7,105 | \$ (5,878) |
| Effect on total service and interest cost components | 822 | (679) |

The Company does not expect to make any contributions, other than benefit payments, to its postretirement plan in 2005. The Company funds its postretirement benefits as payments are required. The following table summarizes expected net benefit payments from the Company's general assets through 2014.

| Year | Expected | | Net |
|-----------|----------|----------|----------|
| | Benefit | Subsidy | Benefit |
| | Payments | Receipts | Payments |
| 2005 | \$ 1,654 | \$ | \$ 1,654 |
| 2006 | 2,202 | (48) | 2,154 |
| 2007 | 2,824 | (58) | 2,766 |
| 2008 | 3,420 | (75) | 3,345 |
| 2009 | 4,131 | (94) | 4,037 |
| 2010-2014 | 32,379 | (957) | 31,422 |

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Table of Contents**MASTERCARD INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share data)*****Note 11. Debt***

On June 18, 2004, the Company entered into a committed unsecured \$1,950,000 revolving credit facility (the Credit Facility) with certain financial institutions, which expires on June 17, 2005. Borrowings under the Credit Facility are available to provide liquidity in the event of one or more settlement failures by MasterCard International members and, subject to a limit of \$300,000, for general corporate purposes. The Credit Facility replaced MasterCard Incorporated's prior \$1,200,000 credit facility, which expired on June 18, 2004. Interest on borrowings under the Credit Facility is charged at the London Interbank Offered Rate plus 28 basis points. An additional 10 basis points would be applied if the aggregate borrowings under the Credit Facility were to exceed 33% of the commitments. MasterCard has agreed to pay a facility fee in connection with the Credit Facility, which varies based on MasterCard's credit rating and is currently equal to 7 basis points on the total commitment. The Company also agreed to pay upfront fees of \$906 and administrative fees of \$255 for the Credit Facility, which are being amortized straight-line over one year. Facility and other fees associated with the Credit Facility or prior facilities totaled \$2,234, \$1,742 and \$1,636 for each of the years ended December 31, 2004, 2003 and 2002, respectively. MasterCard was in compliance with the Credit Facility covenants as of December 31, 2004 and was in compliance with the covenants for the previous facility at December 31, 2003. There were no borrowings under the Credit Facility at December 31, 2004 or the previous facility at December 31, 2003. The majority of the Credit Facility lenders are members or affiliates of members of MasterCard International.

On January 1, 2003, the Company adopted the provisions of FIN 46, as discussed in Note 12. As a result of the consolidation of the variable interest entity, \$149,380 in long-term debt was recorded on the Company's consolidated balance sheet.

In June 1998, MasterCard International issued ten-year unsecured, subordinated notes (the Notes) paying a fixed interest rate of 6.67% per annum. The terms of the Notes require MasterCard to repay the principal amount on June 30, 2008. The Company has the option to prepay the principal amount of the Notes at anytime prior to the repayment date, however an additional make-whole amount must also be calculated and paid to investors at that time. The make whole amount represents the discounted value of the remaining principal and interest. The interest on the Notes was \$5,336 for each of the years ended December 31, 2004, 2003 and 2002. During 2004, MasterCard Incorporated amended certain covenant compliance obligations. The amendment aligns MasterCard's financial reporting and net worth covenant obligations with similar obligations under its other debt instruments. MasterCard entered into the amendment to better reflect MasterCard's corporate structure and to reduce the costs and administrative burden of complying with different debt covenants. The Company was in compliance with the covenants of the Notes as of December 31, 2004 and 2003. The principal amount of the Notes outstanding at December 31, 2004 and 2003 was \$80,000. The fair value of the Notes was estimated at \$86,006 and \$88,440 at December 31, 2004 and 2003, respectively.

During 2004, MasterCard Europe and European Payment System Services sprl, a subsidiary of MasterCard, reduced their multi-purpose uncommitted credit facility with a bank from 35,000 euros to a 1,000 euro overdraft facility for MasterCard Europe and European Payment System Services sprl and a 1,000 euro guarantee facility for MasterCard Europe. There were no material borrowings under these facilities at December 31, 2004; however at December 31, 2004 and 2003, the facility supported bank-issued guarantees for a total of 692 euros and 742 euros, respectively, which reduced the amount of funds available under the facility. For these bank guarantees, a guarantee fee is paid at a rate of 1.5% per annum.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

MasterCard Europe has one additional uncommitted credit agreement totaling 100,000 euros. There were no borrowings under this agreement at December 31, 2004 and 2003. MasterCard Europe canceled an uncommitted credit agreement totaling 30,000 euros during 2004.

Note 12. Consolidation of Variable Interest Entity

On August 31, 1999, MasterCard International entered into a ten-year synthetic lease agreement for a global technology and operations center located in O'Fallon, Missouri, called Winghaven. The lessor under the lease agreement is MasterCard International O'Fallon 1999 Trust (the Trust). The Trust, which is a variable interest entity was established for a single discrete purpose, is not an operating entity, has a limited life and has no employees. The Trust financed the operations center through a combination of a third party equity investment and the issuance of 7.36 percent Series A Senior Secured Notes (the Secured Notes) in the amount of \$149,380 due September 1, 2009.

Annual rent of \$11,390 is payable by MasterCard International and is equal to interest payments on the Secured Notes and a return to equity-holders. The future minimum lease payments are \$53,155 and are included in the future commitment schedule in Note 13. In conjunction with the lease agreement, MasterCard International executed a guarantee of 85.15 percent of the Secured Notes outstanding totaling \$127,197. Additionally, upon the occurrence of specific events of default, MasterCard International guarantees repayment of the total outstanding principal and interest on the Secured Notes and would take ownership of the facility. During 2004, MasterCard Incorporated became party to the guarantee and assumed certain covenant compliance obligations, including financial reporting and maintenance of consolidated net worth. The amendment to the guarantee aligns the Company's financial reporting and net worth covenant obligations under the guarantee with similar obligations under its other debt instruments. The Company entered into the amendment to the guarantee to better reflect the Company's corporate structure and to reduce the costs and administrative burden of complying with different debt covenants.

The lease agreement permits MasterCard International to purchase the facility upon 180 days notice at a purchase price equal to the aggregate outstanding principal amount of the Secured Notes, including any accrued and unpaid interest and investor equity, along with any accrued and unpaid amounts due to the investor under the lease agreement after August 31, 2006.

On January 1, 2003, the Company adopted the provisions of FIN 46 and consolidated the Trust on the Company's consolidated balance sheets, which resulted in recording \$154,000 in municipal bonds held by the Trust, \$149,380 in long-term debt and \$4,620 of minority interest relating to the equity in the Trust held by a third party. The redemption value of the minority interest approximates its carrying value and will be redeemed by the minority interest holders upon the maturity of the Secured Notes. For the years ended December 31, 2004 and 2003, the consolidation had no impact on net income (loss). However, interest income and interest expense were each increased by \$11,390 in each of the years ended December 31, 2004 and 2003.

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(In thousands, except per share data)

Note 13. Commitments and Contingent Liabilities

The future minimum payments under non-cancelable leases for office buildings and equipment, sponsorships, licensing and other agreements at December 31, 2004 are as follows:

| | Total | Sponsorship | | |
|--------------|-------------------|--------------------|-------------------|------------------------|
| | | Capital | Operating | Licensing & |
| | | Leases | Leases | Other |
| 2005 | \$ 300,244 | \$ 9,212 | \$ 37,185 | \$ 253,847 |
| 2006 | 207,811 | 4,168 | 30,097 | 173,546 |
| 2007 | 105,114 | 3,223 | 25,253 | 76,638 |
| 2008 | 62,280 | 2,213 | 17,663 | 42,404 |
| 2009 | 23,486 | 1,901 | 11,360 | 10,225 |
| Thereafter | 57,063 | 42,143 | 1,777 | 13,143 |
| Total | \$ 755,998 | \$ 62,860 | \$ 123,335 | \$ 569,803 |

Included in the table above are capital leases with imputed interest expense of \$16,906 and a net present value of minimum lease payments of \$45,954. In addition, at December 31, 2004, \$26,313 of the future minimum payments in the table above for leases, sponsorship, licensing and other agreements was accrued. Consolidated rental expense for the Company's office space was approximately \$32,269, \$28,298 and \$25,651 for the years ended December 31, 2004, 2003 and 2002, respectively. Consolidated lease expense for automobiles, computer equipment and office equipment was \$10,955, \$9,019 and \$5,061 for the years ended December 31, 2004, 2003 and 2002, respectively.

MasterCard licenses certain software to its customers. The license agreements contain guarantees under which the Company indemnifies licensees from any adverse judgments arising from claims of intellectual property infringement by third parties. The terms of the guarantees are equal to the terms of the license to which they relate. The amount of the guarantees are limited to damages, losses, costs, expenses or other liabilities incurred by the licensee as a result of any intellectual property rights claims. The Company does not generate significant revenues from software licensing. The fair value of the guarantees is estimated to be negligible.

Note 14. U.S. Merchant Lawsuit and Other Legal Settlements

During 2003, MasterCard settled the U.S. merchant lawsuit described in Note 16 herein and contract disputes with certain customers. MasterCard International signed a Memorandum of Understanding (MOU) with plaintiffs in the U.S. merchant lawsuit on April 30, 2003. On June 4, 2003, MasterCard International and plaintiffs signed a settlement agreement (the Settlement Agreement) embodying the terms originally set forth in the MOU. The Settlement Agreement required the Company to pay \$125,000 in 2003 and pay \$100,000 annually in December from 2004 through 2012. In addition, the Company adopted rules which permit U.S. merchants to elect not to accept MasterCard branded debit (or credit) cards, implemented programs to allow merchants to identify debit cards, provided signage to merchants and established a separate debit interchange rate for a required period. For a description of interchange, see the text under the heading Global Interchange Proceedings in Note 16 herein.

In connection with the signing of the MOU, MasterCard recorded a pre-tax charge of \$721,000 (\$469,000 after-tax) in the three months ended March 31, 2003, consisting of (i) the monetary amount

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(In thousands, except per share data)

of the U.S. merchant lawsuit settlement (discounted at 8 percent over the payment term), (ii) certain additional costs in connection with, and in order to comply with, other requirements of the U.S. merchant lawsuit settlement, and (iii) costs to address the merchants who opted not to participate in the plaintiff class in the U.S. merchant lawsuit. As noted above and described further in Note 16 herein, several lawsuits were initiated by merchants who opted not to participate in the plaintiff class in the U.S. merchant lawsuit. The opt-out merchant lawsuits are not covered by the terms of the Settlement Agreement. The \$721,000 pre-tax charge amount was an estimate, which was subsequently revised based on the approval of the Settlement Agreement by the court, and other factors. If necessary, future refinements will also be made.

In addition, during 2003 and 2004 certain other legal matters were settled or resolved with MasterCard's customers and employees. Accruals for these matters are included in other legal settlements.

Total liabilities for the U.S. merchant lawsuit and other legal settlements changed as follows:

| | |
|--|-------------------|
| Balance as of December 31, 2002 | \$ |
| U.S. merchant lawsuit and other legal settlements | 763,460 |
| Interest accretion | 42,686 |
| Payments | (133,680) |
| | <hr/> |
| Balance as of December 31, 2003 | 672,466 |
| Currency conversion court award of plaintiff attorneys' fees | 14,112 |
| Other legal settlements | 7,541 |
| Interest accretion | 51,223 |
| Payments | (149,948) |
| Other | 2,200 |
| | <hr/> |
| Balance as of December 31, 2004 | <u>\$ 597,594</u> |

Note 15. Income Tax

The total income tax provision (benefit) for the years ended December 31 is comprised of the following components:

| | | |
|------|------|------|
| 2004 | 2003 | 2002 |
|------|------|------|

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| | | | |
|---|------------------|---------------------|------------------|
| Current | | | |
| Federal | \$ 28,037 | \$ 7,526 | \$ 35,640 |
| State and local | 5,954 | 893 | 3,371 |
| Foreign | 14,203 | 6,601 | (2,666) |
| | <u>48,194</u> | <u>15,020</u> | <u>36,345</u> |
| Deferred | | | |
| Federal | 42,386 | (225,236) | 11,442 |
| State and local | (12,474) | 1,414 | 5,096 |
| Foreign | 7,534 | (11,976) | (10,924) |
| | <u>37,446</u> | <u>(235,798)</u> | <u>5,614</u> |
| Total income tax expense (benefit) | <u>\$ 85,640</u> | <u>\$ (220,778)</u> | <u>\$ 41,959</u> |

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(In thousands, except per share data)

The domestic and foreign components of earnings (losses) before income taxes for the years ended December 31 are as follows:

| | 2004 | 2003 | 2002 |
|---------------|-------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| United States | \$ 277,323 | \$ (576,420) | \$ 151,840 |
| Foreign | 46,377 | (35,100) | 6,548 |
| | <u> </u> | <u> </u> | <u> </u> |
| | \$ 323,700 | \$ (611,520) | \$ 158,388 |
| | <u> </u> | <u> </u> | <u> </u> |

MasterCard has not provided for U.S. federal income and foreign withholding taxes on approximately \$23,800 of undistributed earnings from non-U.S. subsidiaries as of December 31, 2004 because such earnings are intended to be reinvested indefinitely outside of the United States. If these earnings were distributed, foreign tax credits may become available under current law to reduce the resulting U.S. income tax liability.

The provision (benefit) for income taxes differs from the amount of income tax (benefit) determined by applying the appropriate statutory U.S. federal income tax rate to pretax income (loss) for the years ended December 31, as a result of the following:

For the years ended December 31,

| | 2004 | | 2003 | | 2002 | |
|--|---------------|----------------|---------------|----------------|---------------|----------------|
| | <u>Dollar</u> | | <u>Dollar</u> | | <u>Dollar</u> | |
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Income (loss) before income tax expense (benefit) and cumulative effect of accounting change | \$ 323,700 | | \$ (611,520) | | \$ 158,388 | |
| Federal statutory tax (benefit) | \$ 113,295 | 35.0% | \$ (214,032) | (35.0)% | \$ 55,436 | 35.0% |
| State tax effect, net of Federal benefit | 4,302 | 1.3% | 1,835 | 0.3% | 6,177 | 3.9% |
| Foreign tax effect, net of Federal benefit | 3,703 | 1.2% | (3,669) | (0.6)% | (2,718) | (1.7)% |
| Non-deductible expenses and other differences | 3,280 | 1.0% | 1,815 | 0.3% | 4,263 | 2.7% |
| Tax exempt income | (6,729) | (2.1)% | (6,727) | (1.1)% | (6,969) | (4.4)% |
| Adjustment to deferred tax for change in tax rate: | | | | | | |
| United States state | (8,540) | (2.6)% | | | (10,967) | (6.9)% |

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| | | | | | | |
|---|------------------|--------------|---------------------|----------------|------------------|--------------|
| Foreign | | | | | | |
| Credits, refund claims and settlement of audit matters: | | | | | | |
| United States | (10,912) | (3.4)% | | | | |
| Foreign | (12,759) | (3.9)% | | | (3,263) | (2.1)% |
| Income tax expense (benefit) | <u>\$ 85,640</u> | <u>26.5%</u> | <u>\$ (220,778)</u> | <u>(36.1)%</u> | <u>\$ 41,959</u> | <u>26.5%</u> |

The effective income tax (benefit) rate for the year ended December 31, 2004 was 26.5% versus an effective income tax (benefit) rate of (36.1)% for the year ended December 31, 2003. The lower 2004 rate was primarily attributable to the settlement and reassessment of various tax audit matters, the filing and recognition of refund claims and a one-time increase in our deferred state tax assets as a result of additional income subject to higher state and local tax rates.

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Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. The net deferred tax asset at December 31 is comprised of the following:

| | Assets (Liabilities) | | | |
|---|----------------------|-------------------|------------------|-------------------|
| | 2004 | | 2003 | |
| | Current | Non-current | Current | Non-current |
| Accrued liabilities (including U.S. merchant lawsuit) | \$ 30,879 | \$ 212,625 | \$ 72,065 | \$ 186,241 |
| Changes in tax accounting methods | (8,259) | | (139) | |
| Deferred compensation and benefits | 1,803 | 47,466 | 2,172 | 60,628 |
| Foreign operating losses | | | | 8,753 |
| Capital losses | | 3,396 | | 6,994 |
| Gains/losses included in comprehensive income | (313) | 178 | (3,610) | 593 |
| Intangible assets | | (58,292) | | (55,718) |
| Prepaid state tax credits | 107 | 4,913 | 126 | 5,759 |
| Property, plant and equipment | | (50,592) | | (53,398) |
| Other items | 1,992 | 6,443 | (908) | 3,356 |
| Valuation allowance | | (4,341) | | (3,425) |
| | <u>\$ 26,209</u> | <u>\$ 161,796</u> | <u>\$ 69,706</u> | <u>\$ 159,783</u> |

The valuation allowance relates to the Company's ability to recognize tax benefits associated with carry-forward capital losses and state net operating losses. If not utilized, approximately \$8,600 of the Company's carry-forward capital losses will expire in 2006 and \$700 will expire in 2007.

Note 16. Legal Proceedings

MasterCard is a party to legal proceedings with respect to a variety of matters in the ordinary course of business. Except as described below, MasterCard does not believe that any legal proceedings to which it is a party would have a material impact on its results of operations, financial position, or cash flows.

Department of Justice Antitrust Litigation and Related Private Litigation

In October 1998, the United States Department of Justice (DOJ) filed suit against MasterCard International, Visa U.S.A., Inc. and Visa International Corp. in the U.S. District Court for the Southern District of New York alleging that both MasterCard s and Visa s governance structure and policies violated U.S. federal antitrust laws. First, the DOJ claimed that dual governance the situation where a financial institution has a representative on the board of directors of MasterCard or Visa while a portion of its card portfolio is issued under the brand of the other association was anti-competitive and acted to limit innovation within the payment card industry. At the same time, the DOJ conceded that dual issuance a term describing the structure of the bank card industry in the United States in which a single financial institution can issue both MasterCard and Visa-branded cards was pro-competitive. Second, the DOJ challenged MasterCard s Competitive Programs Policy (CPP) and a Visa bylaw provision that prohibit financial institutions participating in the respective associations from issuing competing proprietary payment cards (such as American Express or Discover). The DOJ alleged that MasterCard s CPP and Visa s bylaw provision acted to restrain competition.

A bench trial concerning the DOJ s allegations was concluded on August 22, 2000. On October 9, 2001, the District Court judge issued an opinion upholding the legality and pro-competitive nature of

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dual governance. In so doing, the judge specifically found that MasterCard and Visa have competed vigorously over the years, that prices to consumers have dropped dramatically, and that MasterCard has fostered rapid innovations in systems, product offerings and services.

However, the judge also held that MasterCard's CPP and the Visa bylaw constitute unlawful restraints of trade under the federal antitrust laws. The judge found that the CPP and Visa bylaw weakened competition and harmed consumers by preventing competing proprietary payment card networks such as American Express and Discover from entering into agreements with banks to issue cards on their networks. In reaching this decision, the judge found that two distinct markets—a credit and charge card issuing market and a network services market—existed in the United States, and that both MasterCard and Visa had market power in the network market. MasterCard strongly disputes these findings and believes that the DOJ failed, among other things, to demonstrate that U.S. consumers have been harmed by the CPP.

On November 26, 2001, the judge issued a final judgment that ordered MasterCard to repeal the CPP insofar as it applies to issuers and enjoined MasterCard from enacting or enforcing any bylaw, rule, policy or practice that prohibits its issuers from issuing general purpose credit or debit cards in the United States on any other general purpose card network. The judge also concluded that during the period in which the CPP was in effect, MasterCard was able to "lock up" certain members by entering into long-term agreements with them pursuant to which the members committed to maintain a certain percentage of their general purpose card volume, new card issuance or total number of cards in force in the United States on MasterCard's network. Accordingly, the final judgment provided that there will be a period (commencing on the effective date of the judgment and ending on the later of two years from that date or two years from the resolution of any final appeal) during which MasterCard will be required to permit any issuer with which it entered into such an agreement prior to the effective date of the final judgment to terminate that agreement without penalty, provided that the reason for the termination is to permit the issuer to enter into an agreement with American Express or Discover. MasterCard would be free to apply to the District Court to recover funds paid but not yet earned under any terminated agreement. The final judgment imposed parallel requirements on Visa. The judge explicitly provided that MasterCard and Visa would be free to enter into new partnership or member business agreements in the future.

MasterCard appealed the judge's ruling with respect to the CPP. On September 17, 2003 a three-judge panel of the Second Circuit issued its decision upholding the District Court's decision. On October 4, 2004, the Supreme Court denied MasterCard's petition for certiorari, thereby exhausting all avenues for further appeal in this case. Thereafter, the parties agreed that October 15, 2004 would serve as the effective date of the final judgment.

In addition, on September 18, 2003, MasterCard filed a motion before the District Court judge in this case seeking to enjoin Visa, pending completion of the appellate process, from enforcing a newly-enacted bylaw requiring Visa's 100 largest issuers of debit cards in the United States to pay a so-called "settlement service" fee if they reduce their Visa debit volume by more than 10%. This bylaw was later modified to clarify that the settlement service fee would only be imposed if an issuer shifted its portfolio of debit cards to MasterCard. Visa implemented this bylaw provision following the settlement of the U.S. merchant lawsuit described under the heading "U.S. Merchant Opt Out and Consumer Litigations" below. MasterCard believes that this bylaw is punitive and inconsistent with the final judgment in the DOJ litigation. On December 8, 2003, the District Court judge ruled that the District Court

lacked jurisdiction to issue an injunction, but held that the court would have the authority to rescind contracts

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entered into by issuers with Visa during the time that the settlement service fee was in effect if the court's final judgment was upheld on appeal and the court finds that the settlement service fee violates the final judgment. As a result of the Supreme Court's denial of certiorari, the District Court now has jurisdiction over issues related to the final judgment in the DOJ litigation. On January 10, 2005, MasterCard moved before the District Court to enforce the terms of the final judgment and sought an order enjoining Visa from enforcing or maintaining its settlement service fee bylaw. In addition, MasterCard requested that the Court permit Visa's largest 100 debit issuers to rescind any debit issuance agreements they entered into with Visa while the settlement service fee was in effect. The motion is scheduled to be fully briefed on May 6, 2005. At this time it is not possible to determine the ultimate resolution of this matter.

On October 4, 2004, Discover Financial Services, Inc. filed a complaint against MasterCard, Visa U.S.A., Inc. and Visa International Incorporated. The complaint was filed in the U.S. District Court for the Southern District of New York and was designated as a related case to the DOJ litigation, and preliminarily assigned to the same judge. The complaint alleges that the implementation and enforcement of MasterCard's CPP and Visa's bylaw provision as well as MasterCard's Honor All Cards rule (and a similar Visa rule), which require merchants who accept MasterCard cards to accept for payment every validly presented MasterCard card, violated Sections 1 and 2 of the Sherman Act as well as California's Unfair Competition Act. The complaint also challenged MasterCard's no surcharge rule (and a similar Visa rule) under the same statutes. On December 10, 2004, MasterCard moved to dismiss the complaint in its entirety for failure to state a claim. In lieu of filing its opposition papers to MasterCard's motion, Discover filed an amended complaint on January 7, 2005. In the amended complaint, Discover dropped some of its claims, including its challenge against the no surcharge rule and its claims under California's Unfair Competition Act, but continues to allege that the implementation and enforcement of the Company's CPP, Visa's bylaw provision and the Honor All Cards rules are in violation of Sections 1 and 2 of the Sherman Act. Discover requests that the District Court apply collateral estoppel with respect to its final judgment in the DOJ litigation and enter an order that CPP and Visa's bylaw provision have injured competition and caused injury to Discover. Discover seeks treble damages in an amount to be proved at trial along with attorneys' fees and costs. On February 7, 2005, MasterCard moved to dismiss Discover's amended complaint in its entirety for failure to state a claim. Oral argument is scheduled for April 1, 2005. At this time it is not possible to determine the ultimate resolution of this matter. No provision for losses has been provided in connection with the Discover litigation.

On November 15, 2004, American Express filed a complaint against MasterCard, Visa and eight member banks, including J.P. Morgan Chase & Co., Bank of America Corp., Capital One Financial Corp., U.S. Bancorp, Household International Inc., Wells Fargo & Co., Provident Financial Corp. and USAA Federal Savings Bank. The complaint, which was filed in the U.S. District Court for the Southern District of New York, was designated as a related case to the DOJ litigation and was assigned to the same judge. The complaint alleges that the implementation and enforcement of MasterCard's CPP and Visa's bylaw provision violated Sections 1 and 2 of the Sherman Act. American Express seeks treble damages in an amount to be proved at trial, along with attorneys' fees and costs. On January 14, 2005, MasterCard filed a motion to dismiss the complaint for failure to state a claim. American Express' time in which to oppose MasterCard's motion is currently running. Oral argument on the motion is scheduled for April 1, 2005. At this time it is not possible to determine the ultimate resolution of this matter. No provision for losses has been provided in connection with the American Express litigation.

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MasterCard International, together with Visa U.S.A., Inc. and Visa International Corp., are defendants in a state court lawsuit in California. The lawsuit alleges that MasterCard and Visa wrongfully imposed an asserted one percent currency conversion fee on every credit card transaction by U.S. MasterCard and Visa cardholders involving the purchase of goods or services in a foreign country, and that such alleged fee is unlawful. This action, titled Schwartz v. Visa Int'l Corp., et al., was brought in the Superior Court of California in February 2000, purportedly on behalf of the general public. Trial of the Schwartz matter commenced on May 20, 2002 and concluded on November 27, 2002. The Schwartz action claims that the alleged fee grossly exceeds any costs the defendants might incur in connection with currency conversions relating to credit card purchase transactions made in foreign countries and is not properly disclosed to cardholders. MasterCard denies these allegations.

On April 8, 2003, the trial court judge issued a final decision in the Schwartz matter. In his decision, the trial judge found that MasterCard's currency conversion process does not violate the Truth in Lending Act or regulations, nor is it unconscionably priced under California law. However, the judge found that the practice is deceptive under California law, and ordered that MasterCard mandate that members disclose the currency conversion process to cardholders in cardholder agreements, applications, solicitations and monthly billing statements. As to MasterCard, the judge also ordered restitution to California cardholders. The judge issued a decision on restitution on September 19, 2003, which requires a traditional notice and claims process in which consumers have approximately six months to submit their claims. The court issued its final judgment on October 31, 2003. On December 29, 2003, MasterCard appealed the judgment. The final judgment and restitution process have been stayed pending MasterCard's appeal. On August 6, 2004 the court awarded plaintiff's attorneys' fees in the amount of \$28,224 to be paid equally by MasterCard and Visa. Accordingly, during the three months ended September 30, 2004, MasterCard accrued amounts totaling \$14,112 which are included in U.S. Merchant Lawsuit and Other Legal Settlements in the Consolidated Statements of Operations (see Note 14). MasterCard subsequently filed a notice of appeal on the attorneys' fee award on October 1, 2004. With respect to restitution, MasterCard believes that it is likely to prevail on appeal. At this time it is not possible to determine the ultimate resolution of this matter. Other than as set forth above, no provision for losses has been provided in connection with this matter.

In addition, MasterCard has been served with complaints in state courts in New York, Arizona, Texas, Florida, Arkansas, Illinois, Tennessee, Michigan, Pennsylvania, Ohio, Minnesota and Missouri seeking to, in effect, extend the judge's decision in the Schwartz matter to MasterCard cardholders outside of California. Some of these cases have been transferred to the U.S. District Court for the Southern District of New York and combined with the federal complaints in MDL No. 1409 discussed below. In other state court cases, MasterCard has moved to dismiss the claims. On July 28, 2004, a New York state action was dismissed without prejudice. On February 1, 2005 a Michigan action was dismissed with prejudice. MasterCard has also been served with complaints in state courts in California and Texas alleging it wrongfully imposed an asserted one percent currency conversion fee in every debit card transaction by U.S. MasterCard cardholders involving the purchase of goods or services in a foreign country and that such alleged fee is unlawful. Visa USA, Inc. and Visa International Corp. have been named as co-defendants in the California cases. One such Texas case was dismissed voluntarily by plaintiffs, however a new complaint is expected to be filed. At this time, it is not possible to determine the ultimate resolution of these matters and no provision for losses has been provided in connection with them.

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MasterCard International, Visa U.S.A., Inc., Visa International Corp., several member banks including Citibank (South Dakota), N.A., Citibank (Nevada), N.A., Chase Manhattan Bank USA, N.A., Bank of America, N.A. (USA), MBNA, and Diners Club are also defendants in a number of federal putative class actions that allege, among other things, violations of federal antitrust laws based on the asserted one percent currency conversion fee. Pursuant to an order of the Judicial Panel on Multidistrict Litigation, the federal complaints have been consolidated in MDL No. 1409 before Judge William H. Pauley III in the U.S. District Court for the Southern District of New York. In January 2002, the federal plaintiffs filed a Consolidated Amended Complaint (MDL Complaint) adding MBNA Corporation and MBNA America Bank, N.A. as defendants. This pleading asserts two theories of antitrust conspiracy under Section 1 of the Sherman Act: (i) an alleged inter-association conspiracy among MasterCard (together with its members), Visa (together with its members) and Diners Club to fix currency conversion fees allegedly charged to cardholders of no less than 1% of the transaction amount and frequently more; and (ii) two alleged intra-association conspiracies, whereby each of Visa and MasterCard is claimed separately to have conspired with its members to fix currency conversion fees allegedly charged to cardholders of no less than 1% of the transaction amount and to facilitate and encourage institution and collection of second tier currency conversion surcharges. The MDL Complaint also asserts that the alleged currency conversion fees have not been disclosed as required by the Truth in Lending Act and Regulation Z.

Defendants have moved to dismiss the MDL Complaint. On July 3, 2003, Judge Pauley issued a decision granting MasterCard's motion to dismiss in part. Judge Pauley dismissed the Truth in Lending claims in their entirety as against MasterCard, Visa and several of the member bank defendants. Judge Pauley did not dismiss the antitrust claims. Fact discovery in this matter has closed but expert discovery is ongoing. On November 12, 2003 plaintiffs filed a motion for class certification, which was granted on October 15, 2004. A trial date has been set for October 10, 2005. At this time, it is not possible to determine the ultimate resolution of this matter and no provision for losses has been provided in connection with it.

Merchant Chargeback-Related Litigations

On May 12, 2003, a complaint alleging violations of federal and state antitrust laws, breach of contract, fraud and other theories was filed in the U.S. District Court for the Central District of California (Los Angeles) against MasterCard by a merchant aggregator whose customers include businesses selling adult entertainment content over the Internet. The complaint's allegations focus on MasterCard's past and potential future assessments on the plaintiff's merchant bank (acquirer) for exceeding excessive chargeback standards in connection with the plaintiff's transaction activity as well as the effect of MasterCard's chargeback rules and other practices on card-not-present merchants. Chargebacks refer to a situation where a transaction is returned, or charged back, to an acquirer by an issuer at the request of cardholders or for other reasons. Prior to MasterCard filing any motion or responsive pleading, the plaintiff filed a voluntary notice of dismissal without prejudice on December 5, 2003. On the same date, the plaintiff filed a complaint in the U.S. District Court for the Eastern District of New York making similar allegations to those made in its initial California complaint. MasterCard moved to dismiss all of the claims in the complaint for failure to state a cause of action. The Court has yet to schedule oral argument on the motion.

In addition, on June 6, 2003, an action titled California Law Institute v. Visa U.S.A., et al. was initiated against MasterCard and Visa U.S.A., Inc. in the Superior Court of California, purportedly on behalf of the general public. Plaintiffs seek disgorgement, restitution

and injunctive relief for unlawful

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Table of Contents**MASTERCARD INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(In thousands, except per share data)**

and unfair business practices in violation of California Unfair Trade Practices Act Section 17200, et. seq. Plaintiffs purportedly allege that MasterCard's (and Visa's) chargeback fees are unfair and punitive in nature. Plaintiffs seek injunctive relief preventing MasterCard from continuing to engage in its chargeback practices and requiring MasterCard to provide restitution and/or disgorgement for monies improperly obtained by virtue of them. On November 19, 2004, MasterCard moved for judgment on the grounds that recent amendments to sections 17203 and 17204 of the California Business and Professions Code by the California State Ballot Initiative Proposition 64 mandate that the California Law Institute, as an unaffected plaintiff, does not have standing to pursue this action. By order dated December 29, 2004, the Court denied the motion but certified the question presented as appropriate for appellate resolution. On February 3, 2005, the Appellate Division denied MasterCard's petition for appellate review. On February 11, 2005, MasterCard petitioned the California Supreme Court for a review of the Appellate Division's denial of MasterCard's petition for appellate review. The California Supreme Court has not yet ruled on MasterCard's petition. Initial, but limited, discovery is now proceeding in this matter.

On September 20, 2004, MasterCard was served with a complaint titled PSW Inc. v. Visa U.S.A, Inc, MasterCard International Incorporated, et. al., No. 04-347, in the District Court of Rhode Island. The plaintiff, as alleged in the complaint, provided credit card billing services primarily for adult content web sites. The plaintiff alleges defendants' excessive chargeback standards, exclusionary rules, merchant registration programs, cross-border acquiring rules and interchange pricing to internet merchants violate federal and state antitrust laws as well as state contract and tort law. The plaintiff seeks \$60,000 in compensatory damages as well as \$180,000 in punitive damages. On November 24, 2004, MasterCard moved to dismiss the complaint. Plaintiff's opposition brief was filed on January 28, 2005 and MasterCard's reply was filed on February 9, 2005.

At this time it is not possible to determine the outcome of the merchant chargeback-related litigations. No provision for losses has been provided in connection with these litigations.

U.S. Merchant Opt Out and Consumer Litigations

Commencing in October 1996, several class action suits were brought by a number of U.S. merchants against MasterCard International and Visa U.S.A., Inc. challenging certain aspects of the payment card industry under U.S. federal antitrust law. Those suits were later consolidated in the U.S. District Court for the Eastern District of New York. The plaintiffs challenged MasterCard's Honor All Cards rule and a similar Visa rule. Plaintiffs claimed that MasterCard and Visa unlawfully tied acceptance of debit cards to acceptance of credit cards. The plaintiffs also claimed that MasterCard and Visa conspired to monopolize what they characterized as the point-of-sale debit card market, thereby suppressing the growth of regional networks such as ATM payment systems. On June 4, 2003, MasterCard International signed the Settlement Agreement to settle the claims brought by the plaintiffs in this matter, which the Court approved on December 19, 2003. A number of class members have appealed the District Court's approval of the settlement. These appeals are largely focused on the court's attorneys' fees award as well on the court's ruling on the scope of the release set forth in the Settlement Agreement. On January 4, 2005, the Second Circuit Court of Appeals issued an order affirming the District Court's approval of the U.S. merchant settlement agreement. Plaintiffs' time in which to seek certiorari of the Second Circuit's decision with the U.S. Supreme Court is currently running. For a further description of the U.S. merchant lawsuit settlement and its impact on MasterCard's financial results, see Note 14.

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Several lawsuits were commenced by merchants who have opted not to participate in the plaintiff class in the U.S. merchant lawsuit, including Best Buy Stores, CVS, Giant Eagle, Home Depot, Toys R Us and Darden Restaurants (collectively, the Opt Out Plaintiffs). The majority of these cases were filed in the U.S. District Court for the Eastern District of New York. MasterCard has entered into separate settlement agreements with each of the Opt Out Plaintiffs resolving their claims against MasterCard. The District Court has entered orders dismissing with prejudice each of the Opt Out Plaintiff's complaints against MasterCard. For a description of the impact of the settlements with the Opt Out Plaintiffs on MasterCard's financial results, see Note 14.

In addition, individual or multiple complaints have been brought in 19 different states and the District of Columbia under state unfair competition statutes against MasterCard International (and Visa) on behalf of putative classes of consumers. The claims in these actions mirror the allegations made in the U.S. merchant lawsuit and assert that merchants, faced with excessive merchant discount fees, have passed these overcharges to consumers in the form of higher prices on goods and services sold. While these actions are in their early stages, MasterCard has filed motions to dismiss the complaints in a number of state courts for failure to state a cause of action. Courts in Arizona, Iowa, New York, Michigan, Minnesota, Nebraska, Maine, North Dakota, Kansas, North Carolina, South Dakota, Vermont and Wisconsin have granted MasterCard's motions and dismissed the complaints with prejudice. The plaintiffs in the New York, Maine, Michigan, Kansas, Iowa, North Carolina, North Dakota and South Dakota cases have filed a notice of appeal, and the time in which the plaintiffs in the other states may appeal is currently running. The plaintiffs in Kansas, Maine, Vermont, North Carolina, Michigan, North Dakota and South Dakota have filed stipulations of dismissal withdrawing their appeals. The plaintiffs in Maine have moved to withdraw their appeal. Oral argument on the New York appeal is currently scheduled for March 1, 2005. The plaintiffs in Minnesota have filed a revised complaint on behalf of a purported class of Minnesota consumers who made purchases with debit cards rather than on behalf of all consumers. On January 6, 2005, MasterCard moved to dismiss the Minnesota complaint for failure to state a claim. Plaintiffs' time in which to oppose the motion in the Minnesota complaint is currently running. In addition, the courts in Tennessee and California have granted MasterCard's motion to dismiss the respective state unfair competition claims but have denied MasterCard's motions with respect to unjust enrichment claims in Tennessee and Section 17200 claims for unlawful, unfair, and/or fraudulent business practices in California. On February 2, 2005 the court granted MasterCard permission to appeal the trial court's decision in Tennessee on the unjust enrichment claims. On that same date, the court granted plaintiff's motion to appeal the court's dismissal of the state unfair competition claims. The time in which to file an application to the appellate court for permission to appeal is currently running. MasterCard is awaiting decisions on its motions to dismiss in the other state courts. At this time, it is not possible to determine the outcome of these consumer cases and no provision for losses has been provided in connection with them. The consumer class actions are not covered by the terms of the Settlement Agreement in the U.S. merchant lawsuit.

Global Interchange Proceedings

Interchange fees represent a sharing of payment system costs among the financial institutions participating in a four-party payment card system such as MasterCard's. Typically, interchange fees are paid by the merchant bank (the acquirer) to the cardholder bank (the issuer) in connection with transactions initiated with the payment system's cards. These fees reimburse the issuer for a portion of the costs incurred by it in providing services which are of benefit to all participants in the system, including acquirers and merchants. MasterCard establishes a multilateral interchange fee (MIF) in certain circumstances as a default fee that applies when there is no other interchange fee arrangement.

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between the issuer and the acquirer. MasterCard establishes a variety of MIF rates depending on such considerations as the location and the type of transaction, and collects the MIF on behalf of the institutions entitled to receive it. As described more fully below, MIFs are subject to regulatory or legal review and/or challenges in a number of jurisdictions. At this time, it is not possible to determine the ultimate resolution of any of the interchange proceedings described below. Accordingly, no provision for losses has been provided in connection with them.

European Union. In September 2000, the European Commission issued a Statement of Objections challenging Visa International's cross-border MIF under European Community competition rules. On July 24, 2002, the European Commission announced its decision to exempt the Visa MIF from these rules based on certain changes proposed by Visa to its MIF. Among other things, in connection with the exemption order, Visa agreed to adopt a cost-based methodology for calculating its MIF similar to the methodology employed by MasterCard, which considers the costs of certain specified services provided by issuers, and to reduce its MIF rates for debit and credit transactions to amounts at or below certain specified levels.

On September 25, 2003, the European Commission issued a Statement of Objections challenging MasterCard Europe's cross-border MIF. MasterCard Europe filed its response to this Statement of Objections on January 5, 2004. MasterCard Europe is engaged in discussions with the European Commission in order to determine under what conditions, if any, the European Commission would issue a favorable ruling regarding MasterCard Europe's MIF. If MasterCard is unsuccessful in obtaining a favorable ruling, the European Commission could issue a prohibition decision ordering MasterCard to change the manner in which it calculates its cross-border MIF. MasterCard could appeal such a decision to the European Court of Justice. Because the cross-border MIF constitutes an essential element of MasterCard Europe's operations, changes to it could significantly impact MasterCard International's European members and the MasterCard business in Europe. In addition, a negative decision by the European Commission could lead to the filing of private actions against MasterCard by merchants seeking substantial damages.

United Kingdom Office of Fair Trading. On September 25, 2001, the Office of Fair Trading of the United Kingdom (OFT) issued a Rule 14 Notice under the U.K. Competition Act 1998 challenging the MasterCard MIF, the fee paid by acquirers to issuers in connection with point of sale transactions, and multilateral service fee (MSF), the fee paid by issuers to acquirers when a customer uses a MasterCard-branded card in the United Kingdom either at an ATM or over the counter to obtain a cash advance. Until recently, the MIF and MSF were established by MasterCard U.K. Members Forum Limited (formerly MEPUK) (MMF) for domestic credit card transactions in the United Kingdom. The notice contained preliminary conclusions to the effect that the MasterCard U.K. MIF and MSF may infringe U.K. competition law and do not qualify for an exemption in their present forms. In January 2002, MasterCard, MEPUK and several MasterCard U.K. members responded to the notice. On February 11, 2003, the OFT issued a supplemental Rule 14 Notice, which also contained preliminary conclusions challenging MasterCard's U.K. MIF under the Competition Act. On May 2, 2003, MasterCard and MMF responded to the supplemental notice. On November 10, 2004, the OFT issued a third notice (now called a Statement of Objections) claiming that the MIF infringes U.K. competition law. In February 2005, MasterCard and MMF responded to the Statement of Objections. An oral hearing has been scheduled for March 2, 2005.

On November 18, 2004, MasterCard's board of directors adopted a resolution withdrawing the authority of the U.K. members to set domestic MIFs and MSFs and conferring such authority

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exclusively on MasterCard's President and Chief Executive Officer. As a result, if MasterCard and MMF are unsuccessful in obtaining a favorable ruling in the current proceeding, the OFT would have to commence a new proceeding for the purpose of ordering MasterCard to change the manner in which it calculates its U.K. MIF. The OFT has informed MasterCard that, if it issues a prohibition decision in the current proceedings, it is likely to commence a new proceeding challenging MasterCard's setting of MIFs. Because the MIF constitutes an essential element of MasterCard's U.K. operations, negative decisions by the OFT in the current or any future proceedings could have a significant adverse impact on MasterCard's U.K. members and on MasterCard's competitive position and overall business in the U.K. In addition, a negative decision by the OFT could lead to the filing of private actions against MasterCard by merchants seeking substantial damages. In the event of a negative decision by the OFT in the current proceeding, MasterCard and MMF intend to appeal to the Competition Appeals Tribunal and to seek interim relief. Similarly, it is likely that MasterCard would appeal a negative decision by the OFT in any future proceeding to the Competition Appeals Tribunal and to seek interim relief.

United States. In July 2002, a purported class action lawsuit was filed by a group of merchants in the U.S. District Court for the Northern District of California against MasterCard International, Visa U.S.A., Inc., Visa International Corp. and several member banks in California alleging, among other things, that MasterCard's and Visa's interchange fees contravene the Sherman Act. The suit seeks treble damages in an unspecified amount, attorney's fees and injunctive relief, including the divestiture of bank ownership of MasterCard and Visa, and the elimination of MasterCard and Visa marketing activities. On March 4, 2004, the court dismissed the lawsuit with prejudice in reliance upon the approval of the Settlement Agreement in the U.S. merchant lawsuit by the U.S. District Court for the Eastern District of New York, which held that the settlement and release in that case extinguished the claims brought by the merchant group in the present case. The plaintiffs have appealed the U.S. District Court for the Eastern District of New York's approval of the U.S. merchant lawsuit settlement and release to the Second Circuit Court of Appeals and have also appealed the U.S. District Court for the Northern District of California's dismissal of the present lawsuit to the Ninth Circuit Court of Appeals. On January 4, 2005, the Second Circuit Court of Appeals issued an order affirming the District Court's approval of the U.S. merchant lawsuit settlement agreement, including the District Court's finding that the settlement and release extinguished such claims. Plaintiffs' time in which to seek certiorari of the Second Circuit's decision with the U.S. Supreme Court is currently running. The appeal to the Ninth Circuit is currently pending.

On October 8, 2004, a new purported class action lawsuit was filed by a group of merchants in the U.S. District Court for the Northern District of California against MasterCard International, Visa U.S.A., Inc., Visa International Corp. and several member banks in California alleging, among other things, that MasterCard's and Visa's interchange fees contravene the Sherman Act and the Clayton Act. The complaint contains similar allegations to those brought in the interchange case described in the preceding paragraph, and plaintiffs have designated it as a related case. The plaintiffs seek damages and an injunction against MasterCard (and Visa) setting interchange and engaging in joint marketing activities, which plaintiffs allege include the purported negotiation of merchant discount rates with certain merchants. On November 19, 2004, MasterCard filed an answer to the complaint.

Other Jurisdictions. MasterCard is aware that regulatory authorities in certain other jurisdictions, including Poland, Spain, New Zealand, Portugal, Mexico, Colombia, South Africa and Switzerland are reviewing MasterCard's and/or its members' interchange fees and/or related practices and may seek to regulate the establishment of such fees and/or such practices.

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(In thousands, except per share data)

Note 17. Settlement and Travelers Cheque Risk Management

Settlement risk is the legal exposure due to the difference in timing between the payment transaction date and subsequent settlement. Settlement risk is estimated using the average daily card charges during the quarter multiplied by the estimated number of days to settle. The Company has global risk management policies and procedures, which include risk standards to provide a framework for managing the Company's settlement exposure. MasterCard International's rules generally guarantee the payment of MasterCard transactions and certain Cirrus and Maestro transactions between principal members. The term and amount of the guarantee are unlimited. Member-reported transaction data and the transaction clearing data underlying the settlement risk exposure calculation may be revised in subsequent reporting periods.

In the event that MasterCard International effects a payment on behalf of a failed member, MasterCard International may seek an assignment of the underlying receivables. Subject to approval by the Board of Directors, members may be assessed for the amount of any settlement loss.

MasterCard requires certain members that are not in compliance with the Company's risk standards in effect at the time of review to post collateral, typically in the form of letters of credit and bank guarantees. This requirement is based on management review of the individual risk circumstances for each member that is out of compliance. In addition to these amounts, MasterCard holds collateral to cover variability and future growth in member programs; the possibility that it may choose to pay merchants to protect brand integrity in the event of merchant bank (acquirer) failure, although it is not contractually obligated to do so; and Cirrus and Maestro related risk. MasterCard monitors its credit risk portfolio on a regular basis to estimate potential concentration risks and the adequacy of collateral on hand. Additionally, from time to time, the Company reviews its risk management methodology and standards. As such, the amounts of uncollateralized estimated settlement exposure relating to non-compliant members are revised as necessary.

Estimated settlement exposure, and the portion of the Company's uncollateralized settlement exposure for MasterCard-branded transactions that relates to members that are deemed not to be in compliance with, or that are under review in connection with, the Company's risk management standards, at December 31, 2004 and 2003 were as follows:

| | 2004 | 2003 |
|---|-------------------|-------------------|
| | <u> </u> | <u> </u> |
| MasterCard-branded transactions: | | |
| Gross legal settlement exposure | \$ 14,055,973 | \$ 11,880,152 |
| Collateral held for legal settlement exposure | (1,482,319) | (1,344,621) |
| | <u> </u> | <u> </u> |
| Net uncollateralized settlement exposure | \$ 12,573,654 | \$ 10,535,531 |

| | | |
|---|-------------------|-------------------|
| Uncollateralized settlement exposure attributable to non-compliant members | \$ 299,995 | \$ 250,984 |
| Cirrus and Maestro transactions: | | |
| Gross legal settlement exposure | \$ 1,294,145 | \$ 591,317 |

Although MasterCard holds collateral at the member level, the Cirrus and Maestro estimated settlement exposures are calculated at the regional level. Therefore, these settlement exposures are reported on a gross basis, rather than net of collateral. For the quarter ended December 31, 2004, a significant portion of the increase in Cirrus and Maestro estimated settlement exposures (\$492,745) was attributable to the conversion of non-branded transactions to Maestro transactions in the United Kingdom.

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MasterCard's estimated settlement exposure under the MasterCard brand, net of collateral, had concentrations of 56% and 58% in North America and 23% and 22% in Europe at December 31, 2004 and 2003, respectively.

A significant portion of uncollateralized settlement exposure attributable to non-compliant members is concentrated in three members (\$163,786 and \$157,955 for December 31, 2004 and 2003, respectively).

MasterCard guarantees the payment of MasterCard-branded travelers cheques in the event of issuer default. The guarantee estimate is based on all outstanding MasterCard-branded travelers cheques, reduced by an actuarial determination of cheques that are not anticipated to be presented for payment. The term and amount of the guarantee are unlimited. MasterCard calculated its MasterCard-branded travelers cheques exposure under this guarantee as \$1,172,533 and \$1,205,921 at December 31, 2004 and 2003, respectively.

A significant portion of the Company's credit risk is concentrated in one MasterCard traveler's cheque issuer. MasterCard has obtained an unlimited guarantee estimated at \$969,593 and \$996,927 at December 31, 2004 and 2003, respectively, from a financial institution that is a member, to cover all of the exposure of outstanding travelers cheques with respect to that issuer. In addition, MasterCard has obtained guarantees estimated at \$28,592 and \$32,101 at December 31, 2004 and 2003, respectively, from financial institutions that are members in order to cover the exposure of outstanding travelers cheques with respect to another issuer. These guarantee amounts have also been reduced by an actuarial determination of cheques that are not anticipated to be presented for payment.

Based on the Company's ability to assess its members for settlement and travelers cheque losses, the effectiveness of the Company's global risk management policies and procedures, and the historically low level of losses that the Company has experienced, management believes the probability of future payments for settlement and travelers cheque losses in excess of existing reserves is negligible. However, if circumstances in the future change, the Company may need to reassess whether it would be necessary to record an obligation for the fair value of some or all of its settlement and travelers cheque guarantees.

Note 18. Acquisition of Europay International S.A. (EPI) (the Integration)

MasterCard acquired, directly and indirectly, 100% of the shares of EPI not previously owned by MasterCard International pursuant to a Share Exchange and Integration Agreement, dated as of February 13, 2002, entered into by MasterCard, MasterCard International and EPI (the Integration Agreement). EPI, now MasterCard Europe, is the Company's principal operating subsidiary in Europe. MasterCard Europe's primary business is to license a full range of payment programs and services to financial institutions in the European region and to provide a set of information processing and transaction delivery services to these institutions. The Integration has allowed MasterCard International and MasterCard Europe to form an integrated, global payments

company with a single management team and governance structure. The results of EPI's operations have been included in the consolidated financial statements of the Company from June 28, 2002.

Purchase Price for EPI

MasterCard Incorporated issued 23,760 shares to the shareholders of EPI and MasterCard Europay U.K. Limited (MEPUK) in the Integration, in return for directly and indirectly acquiring 100%

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of the shares of EPI not previously owned by MasterCard International. However, of the 23,760 shares issued, only 17,610 were considered to be issued unconditionally. The share exchange agreements, under which the shares were issued, are described in Note 19, *Stockholders' Equity*, herein. As discussed more fully below, the purchase price for EPI was based on the estimated value of the unconditional shares only, and this estimated value was determined on the basis of an independent valuation. Considering this valuation and the 17,610 unconditional shares issued, the purchase price of EPI was \$267,856, excluding estimated acquisition costs of \$10,486 that were incurred by the Company.

In calculating the purchase price of EPI, the Company considered only the unconditional shares issued to the former shareholders of EPI and MEPUK because the Integration Agreement provides that the number of shares allocated to these shareholders will potentially increase or decrease at the end of a three-year transition period as a result of the application of a global proxy formula for the third year of the transition period. Of the 23,760 shares attributable to the exchange of EPI and MEPUK shares, 6,150 shares are conditional shares subject to reallocation at the end of the transition period. EPI and MEPUK shareholders therefore received 17,610 unconditional shares at closing.

Since former EPI and MEPUK shareholders would retain or receive additional shares of MasterCard Incorporated at the end of the transition period without remitting any additional consideration, any shares retained or received by them that are above their minimum allocation at that time would constitute a part of the purchase price. Any such additional shares would be valued at that time based upon the fair value of the stock of MasterCard Incorporated. Any such reallocation of shares to former EPI and MEPUK shareholders will increase the purchase price for EPI and, accordingly, the amount of goodwill and additional paid-in capital recorded.

Fair Value of EPI Assets Acquired and Liabilities Assumed

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at June 28, 2002, the date of the acquisition of EPI in the Integration, as determined based on an independent appraisal, and also reflects subsequent refinements to the estimated fair values as discussed below. Certain balances for assets acquired and liabilities assumed have been reclassified to conform to MasterCard presentation for consistency:

| | |
|--------------------------------|------------|
| Current assets | \$ 193,865 |
| Property, plant, and equipment | 46,376 |
| Goodwill | 141,901 |
| Other intangible assets | 182,241 |
| Other assets | 6,652 |
| | <hr/> |
| Total assets acquired | 571,035 |

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| | |
|---------------------------|------------|
| Current liabilities | 196,724 |
| Deferred income taxes | 69,361 |
| Other liabilities | 26,608 |
| <hr/> | |
| Total liabilities assumed | 292,693 |
| <hr/> | |
| Net assets acquired | \$ 278,342 |
| <hr/> | |

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Subsequent to the acquisition date of EPI, the purchase price allocation was refined and amounts were reallocated among the assets acquired and liabilities assumed. The table above has been adjusted to reflect these refinements, which include a \$7,166 increase to the exit cost liability estimate, a \$4,836 decrease to the deferred tax estimate, a \$4,911 decrease to the value assigned to certain capitalized software technologies and a \$7,240 increase to goodwill. Changes to the exit cost liability are discussed below and the changes to goodwill are provided in Note 6.

Pursuant to the Integration Agreement, the bylaws of MasterCard International adopted on June 28, 2002 provide that the Company will assume the first \$7,000 of losses or liabilities that relate to any breach of EPI's representations or warranties in the Integration Agreement. Any such losses or liabilities in excess of \$7,000 could, under MasterCard International's bylaws, be levied against MasterCard International's European members as an assessment. MasterCard anticipates that certain former EPI liabilities could trigger this bylaw provision. The \$7,000 is included in total liabilities assumed above.

Exit Costs Relating to the Integration

Included in the total liabilities assumed above are estimates of exit costs relating to the Integration. The exit cost activities are expected to be completed in 2005. The changes in the liability for exit costs are summarized as follows:

| | Europay Brand/Logo Elimination | Redundant Computer Systems/ Technology Elimination | Workforce Reduction | Total |
|-------------------------------------|---|---|--------------------------------|--------------|
| Balance as of December 31, 2001 | \$ | \$ | \$ | \$ |
| Initial exit costs upon Integration | 11,225 | 7,794 | 2,515 | 21,534 |
| Utilization | | (2,341) | | (2,341) |
| Change in estimate | | 2,583 | (542) | 2,041 |
| Change due to currency translation | 656 | 75 | 147 | 878 |
| Balance as of December 31, 2002 | 11,881 | 8,111 | 2,120 | 22,112 |
| Utilization | (3,433) | (5,888) | (1,278) | (10,599) |
| Change in estimate | | 6,199 | (69) | 6,130 |
| Change due to currency translation | 2,004 | 1,388 | 269 | 3,661 |

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| | | | | |
|------------------------------------|---------|----------|--------|----------|
| Balance as of December 31, 2003 | 10,452 | 9,810 | 1,042 | 21,304 |
| Utilization | (9,564) | (7,093) | (21) | (16,678) |
| Change in estimate | (642) | | (363) | (1,005) |
| Change due to currency translation | (246) | (80) | (60) | (386) |
| Balance as of December 31, 2004 | \$ | \$ 2,637 | \$ 598 | \$ 3,235 |

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

The following table provides explanations for the Company's changes in its preliminary estimate of exit costs related to the Integration:

| | Years Ended December 31, | | |
|--|--------------------------|----------|----------|
| | 2004 | 2003 | 2002 |
| Description | | | |
| Identification of an additional redundant computer system and incremental costs of systems elimination | \$ | \$ 6,199 | \$ 2,583 |
| Redeployment of certain employees | (363) | (69) | (542) |
| Actual costs less than initially accrued for brand/logo elimination | (642) | | |
| Total change in estimate | \$ (1,005) | \$ 6,130 | \$ 2,041 |

These changes in estimate resulted in a corresponding net increase (decrease) in goodwill, net of taxes. No further changes to the exit cost liability are anticipated.

Pro Forma Results of Operations

The unaudited pro forma results of operations for the year ended December 31, 2002 as if EPI had been combined as of January 1, 2002, are as follows:

| | |
|--|--------------|
| Revenue | \$ 2,000,158 |
| Net income | \$ 126,630 |
| Net income per share (basic and diluted) | \$ 1.27 |

These results have been prepared for comparative purposes only, and are not necessarily indicative of the results that would have occurred had the acquisition of EPI occurred on the date indicated.

Note 19. Stockholders' Equity

The authorized capital stock of MasterCard Incorporated consists of 275,000 shares of class A redeemable common stock, par value \$.01 per share (of which 84,000 shares are issued and outstanding); 25,000 shares of class B convertible common stock, par value \$.01 per share (of which 16,000 shares are issued and outstanding); and 75,000 shares of class C common stock, par value \$.01 per share (of which no shares are issued or outstanding). Class C common stock may be issued from time to time with voting powers, designations, preferences and other rights to be determined by the MasterCard board of directors, in compliance with certain limitations, as set forth in the certificate of incorporation of MasterCard.

MasterCard capital stock is privately held by certain of the Company's customers. Transfer of shares of common stock and assignment of the right to receive shares is not permitted, except under specific circumstances, until July 1, 2005. After July 1, 2005, each stockholder must maintain an ownership percentage of common stock that is no less than 75% and no more than 125% of the most recent global proxy calculation, which is the formula set forth in the MasterCard Incorporated's bylaws to determine the allocation of shares to stockholders based on their business contributions to the MasterCard Incorporated. Stockholders may be required to purchase or sell shares of MasterCard in order to satisfy these requirements. Only principal members of MasterCard International may hold shares of MasterCard.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

If a stockholder of MasterCard ceases to be a principal member of MasterCard International before July 1, 2005, the common stock may be redeemed at par value. After July 1, 2005, MasterCard Incorporated may, at its option, redeem the common stock of a stockholder that ceases to be a principal member of MasterCard International for the book value of the shares, based on MasterCard's financial statements most recently filed with the Securities and Exchange Commission. If MasterCard Incorporated does not redeem the stockholder's shares, a stockholder ceasing to be a member of MasterCard International after July 1, 2005 will be required to offer the unredeemed shares to the other stockholders of MasterCard in accordance with procedures to be established by the board of directors.

The class A and B shares were issued on June 28, 2002, pursuant to an Agreement and Plan of Merger dated as of February 13, 2002, in which MasterCard International merged with a subsidiary of MasterCard Incorporated (the Conversion). In the Conversion, each principal member of MasterCard International received shares of class A redeemable common stock and class B convertible common stock of MasterCard, representing each member's existing equity interest in the Company. Additionally, each principal member of MasterCard International received a class A membership interest in MasterCard International, representing that member's continued rights as a licensee to use MasterCard's brands, programs, products and services. MasterCard Incorporated owns the sole class B membership interest in MasterCard International, entitling MasterCard Incorporated to exercise all economic rights and substantially all voting rights in MasterCard International. MasterCard International is the Company's principal operating subsidiary.

In connection with the Conversion, MasterCard acquired EPI, which is described Note 18 herein. In connection with the Integration Agreement, each shareholder of EPI (other than MasterCard International and MEPUK) entered into a separate share exchange agreement pursuant to which it exchanged its EPI shares for shares of class A redeemable and class B convertible common stock of MasterCard. The shareholders of MEPUK entered into an agreement pursuant to which they exchanged their MEPUK shares for class A and class B stock of MasterCard. As a result of the Integration, EPI and MEPUK became wholly-owned subsidiaries of MasterCard. MEPUK's sole asset is shares of EPI (now MasterCard Europe). In addition, under the terms of the Integration Agreement, class B convertible common stock will automatically be converted into class A redeemable common stock on or about July 1, 2005, except for certain shares of class B stock attributable to the ec Pictogram brand in Europe (ec Picto shares). In accordance with the Integration Agreement, the shares of class A stock will then be reallocated among the stockholders of MasterCard as of that date. The ec Picto shares will automatically be converted into class A stock and reallocated on or about July 1, 2007, in accordance with the terms of the Integration Agreement.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

Note 20. Foreign Exchange Risk Management

The Company enters into foreign exchange contracts to minimize risk associated with anticipated receipts and disbursements denominated in foreign currencies and the possible changes in value due to foreign exchange fluctuations of assets and liabilities denominated in foreign currencies. MasterCard's forward contracts are classified by functional currency as summarized below:

U.S. Dollar Functional Currency

| | December 31, 2004 | | December 31, 2003 | |
|--|-------------------|----------------------|-------------------|----------------------|
| | Notional | Estimated Fair Value | Notional | Estimated Fair Value |
| Forward Contracts | | | | |
| Commitments to purchase foreign currency | \$ 40,981 | \$ 1,854 | \$ 64,147 | \$ 595 |
| Commitments to sell foreign currency | 20,226 | (655) | 60,162 | (46) |

Euro Functional Currency

| | December 31, 2004 | | December 31, 2003 | |
|--|-------------------|----------------------|-------------------|----------------------|
| | Notional | Estimated Fair Value | Notional | Estimated Fair Value |
| Forward Contracts | | | | |
| Commitments to purchase foreign currency | \$ 128,253 | \$ (6,494) | \$ 178,030 | \$ (5,112) |

The currencies underlying the foreign currency forward contracts consist primarily of euro, Swiss francs, Japanese yen and U.K. pounds sterling. The fair value of the foreign currency forward contracts generally reflects the estimated amounts that the Company would receive or (pay), on a pre-tax basis, to terminate the contracts at the reporting date based on broker quotes for the same or similar instruments. The terms of the foreign currency forward contracts are generally less than 18 months. The Company has deferred \$3,497 and \$3,069 of net losses, after tax, in accumulated other comprehensive income as of December 31, 2004 and 2003, respectively, all of which is expected to be reclassified to earnings within the next twelve months to provide an economic offset to the earnings impact of the anticipated cash flows hedged.

The Company's derivative financial instruments are subject to both credit and market risk. Credit risk is the risk of loss due to failure of a counterparty to perform its obligations in accordance with contractual terms. Market risk is the potential change in an investment's value caused by fluctuations in interest and currency exchange rates, credit spreads or other variables. Credit and market risk related to derivative instruments were not material at December 31, 2004 and 2003.

Generally, the Company does not obtain collateral related to forward contracts because of the high credit ratings of the counterparties that are members. The amount of accounting loss the Company would incur if the counterparties failed to perform according to the terms of the contracts is not considered material.

Note 21. Segment Reporting

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, MasterCard has one reportable segment, Payment Services. All of the Company's activities are interrelated, and each activity is dependent upon and supportive of the other. Accordingly,

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except per share data)

all significant operating decisions are based upon analyses of MasterCard as one operating segment. The President and Chief Executive Officer has been identified as the chief operating decision-maker. During 2004, MasterCard had one customer which generated approximately \$315,000 revenues, which are greater than 10 percent of the Company's revenues.

Revenue by geographic market is based on the location of our customer that issued the cards which are generating the revenue. Revenue generated in the U.S. was approximately 58%, 63% and 61% of total revenues in 2004, 2003 and 2002, respectively. No individual country, other than the U.S., generated more than 10% of total revenues in either period. MasterCard does not maintain or measure long-lived assets by geographic location.

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Table of Contents**MASTERCARD INCORPORATED****SUMMARY OF QUARTERLY DATA**

(In thousands, except per share data)

| | 2005 Quarter Ended | |
|---|--------------------|------------|
| | March 31 | June 30 |
| | (Unaudited) | |
| Revenue | \$ 658,238 | \$ 771,867 |
| Operating income | 151,513 | 192,436 |
| Net income | 93,294 | 120,248 |
| Net income per share (basic and diluted) | \$.93 | \$ 1.20 |
| Weighted average shares outstanding (basic and diluted) | 100,000 | 100,000 |

| | 2004 Quarter Ended | | | | 2004 Total |
|---|--------------------|------------|--------------|-------------|--------------|
| | March 31 | June 30 | September 30 | December 31 | |
| | (Unaudited) | | | | |
| Revenue | \$ 594,310 | \$ 647,275 | \$ 667,841 | \$ 683,904 | \$ 2,593,330 |
| Operating income | 118,472 | 98,461 | 149,551 | (19,812) | 346,672 |
| Net income | 73,568 | 65,707 | 97,515 | 1,270 | 238,060 |
| Net income per share (basic and diluted) | \$.74 | \$.66 | \$.98 | \$.01 | \$ 2.38 |
| Weighted average shares outstanding (basic and diluted) | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |

| | 2003 Quarter Ended | | | | 2003 Total |
|---|--------------------|------------|--------------|-------------|--------------|
| | March 31 | June 30 | September 30 | December 31 | |
| | (Unaudited) | | | | |
| Revenue | \$ 512,215 | \$ 556,893 | \$ 594,169 | \$ 567,574 | \$ 2,230,851 |
| Operating income (loss) | (667,760) | 49,945 | 118,900 | (102,947) | (601,862) |
| Net income (loss) | (425,391) | 32,327 | 74,399 | (67,128) | (385,793) |
| Net income (loss) per share (basic and diluted) | \$ (4.25) | \$.32 | \$.74 | \$ (.67) | \$ (3.86) |
| Weighted average shares outstanding (basic and diluted) | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

of MasterCard Incorporated:

We have reviewed the accompanying consolidated balance sheet of MasterCard Incorporated and its subsidiaries as of June 30, 2005, and the related consolidated statements of operations, consolidated condensed statements of comprehensive income, and the consolidated statements of cash flows for each of the six-month periods ended June 30, 2005 and 2004 and the consolidated statement of changes in stockholders' equity for the six-month period ended June 30, 2005. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2004, and the related consolidated statements of operations, of comprehensive income (loss), of changes in stockholders' /members' equity, and of cash flows for the year then ended, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2004; and in our report dated March 1, 2005, we expressed unqualified opinions thereon. Our report contained an explanatory paragraph for a change in accounting principle and the adoption of an accounting standard, as stated in the paragraph below. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2004, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

The Company changed its method for calculating the market-related value of pension plan assets used in determining the expected return on the assets component of annual pension cost in 2003 and the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities", which resulted in the consolidation of a special purpose entity in 2003.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

New York, New York

August 4, 2005

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MASTERCARD INCORPORATED

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | June 30, | December 31, |
|---|--------------------------------------|---------------------|
| | 2005 | 2004 |
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 520,081 | \$ 328,996 |
| Investment securities, at fair value: | | |
| Trading | 23,395 | 27,407 |
| Available-for-sale | 719,262 | 781,486 |
| Accounts receivable | 324,589 | 293,292 |
| Settlement due from members | 205,705 | 223,738 |
| Restricted security deposits held for members | 104,892 | 87,300 |
| Prepaid expenses | 106,293 | 124,595 |
| Other current assets | 34,484 | 35,982 |
| Total Current Assets | 2,038,701 | 1,902,796 |
| Property, plant and equipment, at cost (less accumulated depreciation of \$349,105 and \$329,877) | 230,720 | 242,358 |
| Deferred income taxes | 249,156 | 235,023 |
| Goodwill | 196,224 | 217,654 |
| Other intangible assets (less accumulated amortization of \$252,446 and \$227,738) | 293,354 | 328,984 |
| Municipal bonds held-to-maturity | 194,855 | 195,295 |
| Other assets | 144,914 | 142,560 |
| Total Assets | \$ 3,347,924 | \$ 3,264,670 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Accounts payable | \$ 177,891 | \$ 187,035 |
| Settlement due to members | 169,198 | 186,858 |
| Restricted security deposits held for members | 104,892 | 87,300 |
| Obligations under U.S. merchant lawsuit and other legal settlements current (Notes 8 and 10) | 114,222 | 129,047 |
| Accrued expenses | 598,369 | 648,019 |
| Other current liabilities | 57,006 | 63,103 |
| Total Current Liabilities | 1,221,578 | 1,301,362 |
| Deferred income taxes | 63,548 | 73,227 |
| Obligations under U.S. merchant lawsuit and other legal settlements (Notes 8 and 10) | 491,559 | 468,547 |
| Long-term debt | 229,476 | 229,569 |
| Other liabilities | 208,615 | 212,393 |
| Total Liabilities | 2,214,776 | 2,285,098 |
| Commitments and Contingencies (Notes 7 and 10) | | |
| Minority interest | 4,620 | 4,620 |
| Stockholders Equity | | |
| Class A redeemable common stock, \$.01 par value; authorized 275,000,000 shares, issued and outstanding 84,000,000 shares | 840 | 840 |
| Class B convertible common stock, \$.01 par value; authorized 25,000,000 shares, issued and outstanding 16,000,000 shares | 160 | 160 |
| Additional paid-in capital | 967,368 | 967,368 |
| Retained earnings (accumulated deficit) | 92,338 | (121,204) |
| Accumulated other comprehensive income, net of tax: | | |

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| | | |
|---|---------------------|---------------------|
| Cumulative foreign currency translation adjustments | 64,781 | 127,481 |
| Net unrealized gain on investment securities available-for-sale | 1,214 | 3,804 |
| Net unrealized gain (loss) on derivatives accounted for as hedges | 1,827 | (3,497) |
| | <hr/> | <hr/> |
| Total accumulated other comprehensive income, net of tax | 67,822 | 127,788 |
| | <hr/> | <hr/> |
| Total Stockholders Equity | 1,128,528 | 974,952 |
| | <hr/> | <hr/> |
| Total Liabilities and Stockholders Equity | \$ 3,347,924 | \$ 3,264,670 |
| | <hr/> | <hr/> |

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

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MASTERCARD INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | Six Months Ended June 30, | |
|--|--|-------------------|
| | 2005 | 2004 |
| | (In thousands, except per share data) | |
| Revenues, net | \$ 1,430,105 | \$ 1,241,585 |
| Operating Expenses | | |
| General and administrative | 625,803 | 561,494 |
| Advertising and market development | 403,257 | 396,320 |
| U.S. merchant lawsuit and other legal settlements (Notes 8 and 10) | | 3,896 |
| Depreciation | 24,191 | 26,437 |
| Amortization | 32,905 | 36,505 |
| Total operating expenses | 1,086,156 | 1,024,652 |
| Operating income | 343,949 | 216,933 |
| Other Income (Expense) | | |
| Investment income, net | 23,528 | 21,609 |
| Interest expense | (34,333) | (34,413) |
| Minority interest in (earnings) losses of subsidiaries | (76) | 17 |
| Other (expense) income, net | (1,479) | (191) |
| Total other income (expense) | (12,360) | (12,978) |
| Income before income taxes | 331,589 | 203,955 |
| Income tax expense | 118,047 | 64,680 |
| Net Income | \$ 213,542 | \$ 139,275 |
| Net Income per Share (Basic and Diluted) | \$ 2.14 | \$ 1.39 |
| Weighted average shares outstanding (Basic and Diluted) | 100,000 | 100,000 |

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

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MASTERCARD INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Six Months | |
|---|-------------------|-------------------|
| | Ended June 30, | |
| | 2005 | 2004 |
| | (In thousands) | |
| Operating Activities | | |
| Net income | \$ 213,542 | \$ 139,275 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 24,191 | 26,437 |
| Amortization | 32,905 | 36,505 |
| Deferred income taxes | (12,156) | 1,513 |
| Other | 5,785 | 2,061 |
| Changes in operating assets and liabilities: | | |
| Trading securities | 4,012 | 2,267 |
| Accounts receivable | (39,854) | 9,152 |
| Settlement due from members | (4,648) | 12,720 |
| Prepaid expenses and other current assets | 13,496 | 11,146 |
| Accounts payable | (3,538) | (72,439) |
| Settlement due to members | 1,086 | (16,248) |
| Legal settlement accruals, including accretion of imputed interest | 8,187 | 17,641 |
| Accrued expenses | (37,643) | (40,169) |
| Net change in other assets and liabilities | (8,086) | 15,068 |
| Net cash provided by operating activities | 197,279 | 144,929 |
| Investing Activities | | |
| Purchases of property, plant and equipment | (18,925) | (5,681) |
| Capitalized software | (22,024) | (19,416) |
| Purchases of investment securities available-for-sale | (1,265,993) | (585,821) |
| Proceeds from sales and maturities of investment securities available-for-sale | 1,320,205 | 569,435 |
| Acquisition of businesses, net of cash acquired | | (29,861) |
| Other investing activities | (265) | (5,007) |
| Net cash provided by (used in) investing activities | 12,998 | (76,351) |
| Effect of exchange rate changes on cash and cash equivalents | (19,192) | (1,822) |
| Net increase in cash and cash equivalents | 191,085 | 66,756 |
| Cash and cash equivalents beginning of period | 328,996 | 248,119 |
| Cash and cash equivalents end of period | \$ 520,081 | \$ 314,875 |
| Supplemental Cash Flows: | | |
| Cash paid for income taxes | \$ 70,807 | \$ 27,014 |
| Cash paid for interest | 8,477 | 8,517 |

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

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MASTERCARD INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

| | Six Months | |
|--|-------------------|-------------------|
| | Ended June 30, | |
| | 2005 | 2004 |
| | (In thousands) | |
| Net Income | \$ 213,542 | \$ 139,275 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments | (62,700) | (10,606) |
| Net unrealized gain (loss) on investment securities available-for-sale | (2,590) | (8,017) |
| Net unrealized gain (loss) on derivatives accounted for as hedges | 5,324 | 1,555 |
| Other comprehensive income (loss), net of tax | (59,966) | (17,068) |
| Comprehensive Income | \$ 153,576 | \$ 122,207 |

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

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(In thousands, except per share and percent data)

Note 1. Summary of Significant Accounting Policies

Organization MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International Incorporated (MasterCard International) and MasterCard Europe sprl (MasterCard Europe) (together, MasterCard or the Company), provide transaction processing and related services to customers principally in support of their credit, deposit access (debit), electronic cash and automated teller machine payment programs, and travelers cheque programs. The common stock of MasterCard Incorporated is privately owned by certain of the Company s customers. MasterCard enters into transactions with its customers in the normal course of business and operates a system for payment processing among its customers.

Consolidation and basis of presentation The consolidated financial statements include the accounts of MasterCard and its majority-owned and controlled entities, including the Company s variable interest entity. Intercompany transactions are eliminated in consolidation. Minority interest is recorded for consolidated entities in which the Company owns less than 100% of the interest. Minority interest represents the equity interest not owned by the Company. The Company follows accounting principles generally accepted in the United States of America. Certain prior period amounts have been reclassified to conform to 2005 classifications.

The consolidated financial statements for the six months ended June 30, 2005 and 2004 and as of June 30, 2005 are unaudited, and in the opinion of management include normal recurring adjustments that are necessary to present fairly the results for interim periods. The balance sheet as of December 31, 2004 was derived from the audited consolidated financial statements as of December 31, 2004. Due to seasonal fluctuations and other factors, the results of operations for the six months ended June 30, 2005 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited consolidated financial statements do not include all of the disclosures required by accounting principles generally accepted in the United States of America. For additional disclosures, including a summary of the Company s significant accounting policies, reference should be made to the Company s consolidated financial statements as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003, and 2002 included in this prospectus.

Note 2. Goodwill and Other Intangible Assets

The carrying amount of goodwill as of June 30, 2005 was \$196,224 compared to \$217,654 as of December 31, 2004. The change in the balance is primarily related to the foreign currency translation of the goodwill relating to the acquisition of MasterCard Europe.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(In thousands, except per share and percent data)

The following table sets forth net intangible assets, other than goodwill:

| | June 30, 2005 | | | December 31, 2004 | | |
|--------------------------------|---------------|--------------|------------|-------------------|--------------|------------|
| | Gross | | Net | Gross | | Net |
| | Carrying | Accumulated | Carrying | Carrying | Accumulated | Carrying |
| | Amount | Amortization | Amount | Amount | Amortization | Amount |
| Amortized intangible assets: | | | | | | |
| Capitalized software | \$ 339,878 | \$ (231,749) | \$ 108,129 | \$ 327,733 | \$ (207,371) | \$ 120,362 |
| Trademarks and tradenames | 22,449 | (16,766) | 5,683 | 24,061 | (17,728) | 6,333 |
| Other | 6,442 | (3,931) | 2,511 | 6,442 | (2,639) | 3,803 |
| Total | 368,769 | (252,446) | 116,323 | 358,236 | (227,738) | 130,498 |
| Unamortized intangible assets: | | | | | | |
| Customer relationships | 177,031 | | 177,031 | 198,486 | | 198,486 |
| Total | \$ 545,800 | \$ (252,446) | \$ 293,354 | \$ 556,722 | \$ (227,738) | \$ 328,984 |

A portion of the Company's intangible assets are denominated in foreign currencies. As such, a component of the net change in these intangible assets is attributable to foreign currency translation. For example, the change in the value of euro relative to the U.S. dollar resulted in a decrease of \$21,455 from December 31, 2004 to June 30, 2005 in the unamortized customer relationships relating to the acquisition of MasterCard Europe.

Amortization expense on the assets above was \$32,905 and \$36,505 for the six months ended June 30, 2005 and 2004, respectively. Impairment charges of \$1,348 and \$467 for the six months ended June 30, 2005 and 2004, respectively, were recorded primarily in connection with management's decision to discontinue the use of various technologies with associated capitalized software balances. The following table sets forth the estimated future amortization expense of amortizable intangible assets existing as of June 30, 2005 for the periods ending:

| | |
|-------------------|-----------|
| Remainder of 2005 | \$ 28,989 |
| December 31, 2006 | \$ 46,890 |
| December 31, 2007 | \$ 28,757 |
| December 31, 2008 | \$ 8,613 |

Note 3. Pension Plans

The Company maintains a noncontributory defined benefit pension plan with a cash balance feature covering substantially all of its U.S. employees. Additionally, the Company has an unfunded nonqualified supplemental executive retirement plan that provides certain key employees with supplemental retirement benefits in excess of limits imposed on qualified plans by U.S. tax laws. For both plans, net periodic pension cost is as follows:

| | Six Months | |
|------------------------------------|-----------------------|-----------------|
| | Ended June 30, | |
| | 2005 | 2004 |
| Service cost | \$ 9,159 | \$ 8,076 |
| Interest cost | 5,168 | 4,898 |
| Expected return on plan assets | (6,384) | (5,160) |
| Amortization of prior service cost | (127) | (158) |
| Recognized actuarial loss | 665 | 636 |
| Net periodic pension cost | \$ 8,481 | \$ 8,292 |

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(In thousands, except per share and percent data)

The funded status of the qualified plan exceeds minimum funding requirements. In December 2004, the Company committed to make voluntary contributions of \$40,000 to its qualified plan before September 15, 2005. Through June 30, 2005, the Company contributed \$30,000 of this commitment, of which \$15,000 was made in December 2004, and expects to make further voluntary contributions of \$10,000 before September 15, 2005.

Note 4. Postretirement Health and Life Insurance Benefits

The Company maintains a postretirement plan providing health coverage and life insurance benefits for substantially all of its U.S. employees and retirees. Net periodic postretirement benefit cost is as follows:

| | Six Months | |
|--|-------------------|-------------------|
| | Ended June 30, | |
| | 2005 | 2004 |
| Service cost | \$ 1,594 | \$ 1,548 |
| Interest cost | 1,716 | 1,482 |
| Amortization of prior service cost | 34 | 34 |
| Amortization of transition obligation | 290 | 290 |
| Recognized actuarial loss | 130 | |
| | <u> </u> | <u> </u> |
| Net periodic postretirement benefit cost | \$ 3,764 | \$ 3,354 |

The Company funds its postretirement benefits as payments are required through cash flows from operations.

Note 5. Accrued Expenses

Accrued expenses consist of the following:

| | June 30, 2005 | December 31, 2004 |
|---------------------|-------------------|----------------------|
| Customer incentives | \$ 153,608 | \$ 163,278 |
| Personnel costs | 137,368 | 190,114 |
| Taxes | 115,719 | 63,940 |
| Advertising | 98,702 | 136,107 |
| Other | 92,972 | 94,580 |
| | <u>\$ 598,369</u> | <u>\$ 648,019</u> |

Note 6. Credit Facility

On June 17, 2005, the Company entered into a committed unsecured \$2,250,000 revolving credit facility (the Credit Facility) with certain financial institutions. The Credit Facility, which expires on June 16, 2006, replaced MasterCard Incorporated's prior \$1,950,000 credit facility which expired on June 17, 2005. Borrowings under the facility are available to provide liquidity in the event of one or more settlement failures by MasterCard International members and, subject to a limit of \$300,000, for general corporate purposes. Interest on borrowings under the Credit Facility would be charged at the London Interbank Offered Rate (LIBOR) plus 28 basis points or an alternative base rate. An additional

Table of Contents**MASTERCARD INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****(In thousands, except per share and percent data)**

10 basis points would be applied if the aggregate borrowings under the Credit Facility exceed 33% of the commitments. MasterCard agreed to pay a facility fee which varies based on MasterCard's credit rating and is currently equal to 7 basis points on the total commitment. MasterCard was in compliance with the Credit Facility covenants as of June 30, 2005. There were no borrowings under the Credit Facility at June 30, 2005. The majority of Credit Facility lenders are members or affiliates of members of MasterCard International.

Note 7. Commitments and Contingent Liabilities

The future minimum payments under non-cancelable leases for office buildings and equipment, sponsorships, licensing and other agreements at June 30, 2005 are as follows:

| | Total | Capital Leases | Operating Leases | Sponsorship, Licensing and Other |
|-----------------------|-------------------|---------------------------|-----------------------------|---|
| The remainder of 2005 | \$ 226,333 | \$ 4,660 | \$ 22,415 | \$ 199,258 |
| 2006 | 212,600 | 4,877 | 30,124 | 177,599 |
| 2007 | 126,092 | 4,008 | 25,286 | 96,798 |
| 2008 | 67,728 | 2,386 | 17,824 | 47,518 |
| 2009 | 31,462 | 1,959 | 11,405 | 18,098 |
| Thereafter | 50,626 | 42,294 | 1,768 | 6,564 |
| Total | \$ 714,841 | \$ 60,184 | \$ 108,822 | \$ 545,835 |

The table above excludes obligations from performance based agreements with our customers and merchants due to their contingent nature. Included in the table above are capital leases with imputed interest expense of \$15,348 and a net present value of minimum lease payments of \$44,836. At June 30, 2005, \$27,439 of the future minimum payments in the table above for leases, sponsorship, licensing and other agreements was included in accounts payable or accrued expenses. Consolidated rental expense for the Company's office space was approximately \$15,589 and \$15,917 for the six months ended June 30, 2005 and 2004, respectively. Consolidated lease expense for automobiles, computer equipment and office equipment was \$7,876 and \$5,266 for the six months ended June 30, 2005 and 2004, respectively.

MasterCard licenses certain software to its customers. The license agreements contain guarantees under which the Company indemnifies licensees from any adverse judgments arising from claims of intellectual property infringement by third parties. The terms of the guarantees are equal to the terms of the license to which they relate. The amount of the guarantees are limited to damages, losses, costs, expenses or other liabilities incurred by the licensee as a result of any intellectual property rights claims. The Company does not generate significant revenues from software licensing. The fair value of the guarantees is estimated to be negligible.

Note 8. U.S. Merchant Lawsuit and Other Legal Settlements

In 2003, MasterCard settled the U.S. merchant lawsuit described in Note 10 herein and contract disputes with certain customers. On June 4, 2003, MasterCard International and plaintiffs signed a settlement agreement (the Settlement Agreement) which required the Company to pay \$125,000 in 2003 and pay \$100,000 annually each December from 2004 through 2012. In addition, the Company adopted rules which permit U.S. merchants to elect not to accept MasterCard branded debit or credit

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cards, implemented programs to allow merchants to identify debit cards, provided signage to merchants and established a separate debit interchange rate for a required period. For a description of interchange, see the text under the heading "Global Interchange Proceedings" in Note 10 herein. Also in 2003, several other lawsuits were initiated by merchants who opted not to participate in the plaintiff class in the U.S. merchant lawsuit. The "opt-out" merchant lawsuits are not covered by the terms of the Settlement Agreement and were settled in 2005. In addition, during 2003 and 2004 MasterCard accrued for settlements and resolutions with MasterCard's customers and employees, a portion of which were paid in 2005. During the six months ended June 30, 2005, total liabilities for the U.S. merchant lawsuit and other legal settlements changed as follows:

| | |
|---------------------------------|------------|
| Balance as of December 31, 2004 | \$ 597,594 |
| Interest accretion | 23,122 |
| Payments | (14,935) |
| | <hr/> |
| Balance as of June 30, 2005 | \$ 605,781 |
| | <hr/> |

Note 9. Income Tax

The effective tax rate for the six months ended June 30, 2005 was 35.6%, compared to 31.7% for the six months ended June 30, 2004. The rate in 2004 was lower than 2005 primarily due to the settlement and reassessment of various tax audit matters, the filing and recognition of refund claims and revaluation of the Company's deferred state tax assets due to a higher effective state tax rate.

Note 10. Legal and Regulatory Proceedings

MasterCard is a party to legal proceedings with respect to a variety of matters in the ordinary course of business. Except as described below, MasterCard does not believe that any legal proceedings to which it is a party would have a material impact on its results of operations, financial position, or cash flows.

Department of Justice Antitrust Litigation and Related Private Litigations

In October 1998, the United States Department of Justice ("DOJ") filed suit against MasterCard International, Visa U.S.A., Inc. and Visa International Corp. in the U.S. District Court for the Southern District of New York alleging that both MasterCard's and Visa's

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governance structure and policies violated U.S. federal antitrust laws. First, the DOJ claimed that dual governance the situation where a financial institution has a representative on the board of directors of MasterCard or Visa while a portion of its card portfolio is issued under the brand of the other association was anti-competitive and acted to limit innovation within the payment card industry. Second, the DOJ challenged MasterCard's Competitive Programs Policy (CPP) and a Visa bylaw provision that prohibit financial institutions participating in the respective associations from issuing competing proprietary payment cards (such as American Express or Discover). The DOJ alleged that MasterCard's CPP and Visa's bylaw provision acted to restrain competition.

On October 9, 2001, the District Court judge issued an opinion upholding the legality and pro-competitive nature of dual governance. However, the judge also held that MasterCard's CPP and the Visa bylaw constitute unlawful restraints of trade under the federal antitrust laws. On November 26, 2001, the judge issued a final judgment that ordered MasterCard to repeal the CPP insofar as it applies

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(In thousands, except per share and percent data)

to issuers and enjoined MasterCard from enacting or enforcing any bylaw, rule, policy or practice that prohibits its issuers from issuing general purpose credit or debit cards in the United States on any other general purpose card network. The final judgment also provides that from the effective date of the final judgment until October 15, 2006, MasterCard is required to permit any issuer with which it entered into such an agreement prior to the effective date of the final judgment to terminate that agreement without penalty, provided that the reason for the termination is to permit the issuer to enter into an agreement with American Express or Discover. The final judgment imposes parallel requirements on Visa.

MasterCard appealed the judge's ruling with respect to the CPP. On September 17, 2003 a three-judge panel of the Second Circuit issued its decision upholding the District Court's decision. On October 4, 2004, the Supreme Court denied MasterCard's petition for certiorari, thereby exhausting all avenues for further appeal in this case. Thereafter, the parties agreed that October 15, 2004 would serve as the effective date of the final judgment.

On September 18, 2003, MasterCard filed a motion before the District Court judge in the DOJ litigation seeking to enjoin Visa, pending completion of the appellate process, from enforcing a newly-enacted bylaw requiring Visa's 100 largest issuers of debit cards in the United States to pay a so-called settlement service fee if they reduce their Visa debit volume by more than 10%. This bylaw was later modified to clarify that the settlement service fee would only be imposed if an issuer shifted its portfolio of debit cards to MasterCard. Visa implemented this bylaw provision following the settlement of the U.S. merchant lawsuit described under the heading U.S. Merchant and Consumer Litigations below. MasterCard believes that this bylaw is punitive and inconsistent with the final judgment in the DOJ litigation. As a result of the Supreme Court's denial of certiorari, the District Court now has jurisdiction over issues related to the final judgment in the DOJ litigation. On January 10, 2005, MasterCard moved before the District Court to enforce the terms of the final judgment and sought an order enjoining Visa from enforcing or maintaining its settlement service fee bylaw. In addition, MasterCard requested that the Court permit Visa's largest 100 debit issuers to rescind any debit issuance agreements they entered into with Visa while the settlement service fee was in effect. The motion was fully briefed on June 3, 2005, and no date for a hearing has been scheduled. At this time it is not possible to determine the ultimate resolution of this matter.

On October 4, 2004, Discover Financial Services, Inc. filed a complaint against MasterCard, Visa U.S.A., Inc. and Visa International Incorporated. The complaint was filed in the U.S. District Court for the Southern District of New York and was designated as a related case to the DOJ litigation, and preliminarily assigned to the same judge. The complaint alleges that the implementation and enforcement of MasterCard's CPP and Visa's bylaw provision as well as MasterCard's Honor All Cards rule (and a similar Visa rule), which require merchants who accept MasterCard cards to accept for payment every validly presented MasterCard card, violated Sections 1 and 2 of the Sherman Act as well as California's Unfair Competition Act. The complaint also challenged MasterCard's no surcharge rule (and a similar Visa rule) under the same statutes. On December 10, 2004, MasterCard moved to dismiss the complaint in its entirety for failure to state a claim. In lieu of filing its opposition papers to MasterCard's motion, Discover filed an amended complaint on January 7, 2005. In the amended complaint, Discover dropped some of its claims, including its challenge against the no surcharge rule and its claims under California's Unfair Competition Act, but continued to allege that the implementation and enforcement of the Company's CPP, Visa's bylaw provision and the Honor All Cards rules are in violation of Sections 1 and 2 of the Sherman Act. Discover requested that the District Court apply collateral estoppel with respect to its final judgment in the DOJ litigation and enter an order that the CPP and Visa's bylaw provision have injured competition and caused injury to

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Discover. Discover seeks treble damages in an amount to be proved at trial along with attorneys' fees and costs. On February 7, 2005, MasterCard moved to dismiss Discover's amended complaint in its entirety for failure to state a claim. On April 14, 2005, the Court denied, at this stage in the litigation, Discover's request to give collateral estoppel effect to the findings in the DOJ litigation. In addition, the Court denied MasterCard's motion to dismiss a number of Discover's claims. However, the Court reserved ruling with respect to MasterCard's motion to dismiss those portions of Discover's claims that are based on MasterCard's Honor All Cards rule as well those claims under Section 2 of the Sherman Act. On June 30, 2005, the Court found that MasterCard's motion to dismiss Discover's Honor All Cards claims was moot since Discover's counsel acknowledged that Discover was not bringing a tying claim based on the Honor All Cards Rules. The parties are still awaiting the Court's ruling on the motion to dismiss Discover's claims brought under Section 2 of the Sherman Act. Discovery will commence after the Court issues this ruling. At this time it is not possible to determine the ultimate resolution of this matter. No provision for losses has been provided in connection with the Discover litigation.

On November 15, 2004, American Express filed a complaint against MasterCard, Visa and eight member banks, including JPMorgan Chase & Co., Bank of America Corp., Capital One Financial Corp., U.S. Bancorp, Household International Inc., Wells Fargo & Co., Provident Financial Corp. and USAA Federal Savings Bank. The complaint, which was filed in the U.S. District Court for the Southern District of New York, was designated as a related case to the DOJ litigation and was assigned to the same judge. The complaint alleges that the implementation and enforcement of MasterCard's CPP and Visa's bylaw provision violated Sections 1 and 2 of the Sherman Act. American Express seeks treble damages in an amount to be proved at trial, along with attorneys' fees and costs. On January 14, 2005, MasterCard filed a motion to dismiss the complaint for failure to state a claim. On April 14, 2005, the District Court denied, at this stage in the litigation, American Express' request to give collateral estoppel effect to the findings in the DOJ litigation. In addition, the Court denied MasterCard's motion to dismiss a number of American Express claims. However, the Court reserved ruling with respect to MasterCard's motion to dismiss those portions of American Express claims that were brought under Section 2 of the Sherman Act. Discovery will commence after the Court issues this ruling. At this time it is not possible to determine the ultimate resolution of this matter. No provision for losses has been provided in connection with the American Express litigation.

Currency Conversion Litigations

MasterCard International, together with Visa U.S.A., Inc. and Visa International Corp., are defendants in a state court lawsuit in California. The lawsuit alleges that MasterCard and Visa wrongfully imposed an asserted one percent currency conversion fee on every credit card transaction by U.S. MasterCard and Visa cardholders involving the purchase of goods or services in a foreign country, and that such alleged fee is unlawful. This action, titled *Schwartz v. Visa Int'l Corp., et al.*, was brought in the Superior Court of California in February 2000, purportedly on behalf of the general public. Trial of the Schwartz matter commenced on May 20, 2002 and concluded on November 27, 2002. The Schwartz action claims that the alleged fee grossly exceeds any costs the defendants might incur in connection with currency conversions relating to credit card purchase transactions made in foreign countries and is not properly disclosed to cardholders. MasterCard denies these allegations.

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On April 8, 2003, the trial court judge issued a final decision in the Schwartz matter. In his decision, the trial judge found that MasterCard's currency conversion process does not violate the Truth in Lending Act or regulations, nor is it unconscionably priced under California law. However, the

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judge found that the practice is deceptive under California law, and ordered that MasterCard mandate that members disclose the currency conversion process to cardholders in cardholder agreements, applications, solicitations and monthly billing statements. As to MasterCard, the judge also ordered restitution to California cardholders. The judge issued a decision on restitution on September 19, 2003, which requires a traditional notice and claims process in which consumers have approximately six months to submit their claims. The court issued its final judgment on October 31, 2003. On December 29, 2003, MasterCard appealed the judgment. The final judgment and restitution process have been stayed pending MasterCard's appeal. On August 6, 2004 the court awarded plaintiff's attorneys' fees in the amount of \$28,224 to be paid equally by MasterCard and Visa. Accordingly, during the three months ended September 30, 2004, MasterCard accrued amounts totaling \$14,112 which are included in U.S. Merchant Lawsuit and Other Legal Settlements in the Consolidated Statements of Operations (see Note 8). MasterCard subsequently filed a notice of appeal on the attorneys' fee award on October 1, 2004. With respect to restitution, MasterCard believes that it is likely to prevail on appeal. In February 2005, MasterCard filed an appeal regarding applicability of Proposition 64, which amended sections 17203 and 17204 of the California Business and Professions Code, to this action. Oral argument on the appeal took place on July 18, 2005 on this issue. At this time it is not possible to determine the ultimate resolution of this matter. Other than as set forth above, no provision for losses has been provided in connection with this matter.

In addition, MasterCard has been served with complaints in state courts in New York, Arizona, Texas, Florida, Arkansas, Illinois, Tennessee, Michigan, Pennsylvania, Ohio, Minnesota and Missouri seeking to, in effect, extend the judge's decision in the Schwartz matter to MasterCard cardholders outside of California. Some of these cases have been transferred to the U.S. District Court for the Southern District of New York and combined with the federal complaints in MDL No. 1409 discussed below. In other state court cases, MasterCard has moved to dismiss the claims. On February 1, 2005, a Michigan action was dismissed with prejudice and on April 12, 2005, the plaintiff agreed to withdraw his appeal of that decision. On June 24, 2005, a Minnesota action was dismissed with prejudice. The time has not yet run for the plaintiff to file an appeal. MasterCard has also been served with complaints in state courts in California, Texas and New York alleging it wrongfully imposed an asserted one percent currency conversion fee in every debit card transaction by U.S. MasterCard cardholders involving the purchase of goods or services in a foreign country and that such alleged fee is unlawful. Visa USA, Inc. and Visa International Corp. have been named as co-defendants in the California cases. One such Texas case was dismissed voluntarily by plaintiffs. At this time, it is not possible to determine the ultimate resolution of these matters and no provision for losses has been provided in connection with them.

MasterCard International, Visa U.S.A., Inc., Visa International Corp., several member banks including Citibank (South Dakota), N.A., Citibank (Nevada), N.A., Chase Bank USA, N.A., Bank of America, N.A. (USA), MBNA, and Diners Club are also defendants in a number of federal class actions that allege, among other things, violations of federal antitrust laws based on the asserted one percent currency conversion fee. Pursuant to an order of the Judicial Panel on Multidistrict Litigation, the federal complaints have been consolidated in MDL No. 1409 before Judge William H. Pauley III in the U.S. District Court for the Southern District of New York. In January 2002, the federal plaintiffs filed a Consolidated Amended Complaint (MDL Complaint) adding MBNA Corporation and MBNA America Bank, N.A. as defendants. This pleading asserts two theories of antitrust conspiracy under Section 1 of the Sherman Act: (i) an alleged inter-association conspiracy among MasterCard (together with its members), Visa (together with its members) and Diners Club to fix currency conversion fees allegedly charged to cardholders of no less than 1% of the transaction amount and frequently more; and (ii) two

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alleged intra-association conspiracies, whereby each of Visa and MasterCard is claimed separately to have conspired with its members to fix currency conversion fees allegedly charged to cardholders of no less than 1% of the transaction amount and to facilitate and encourage institution and collection of second tier currency conversion surcharges. The MDL Complaint also asserts that the alleged currency conversion fees have not been disclosed as required by the Truth in Lending Act and Regulation Z.

Defendants have moved to dismiss the MDL Complaint. On July 3, 2003, Judge Pauley issued a decision granting MasterCard's motion to dismiss in part. Judge Pauley dismissed the Truth in Lending claims in their entirety as against MasterCard, Visa and several of the member bank defendants. Judge Pauley did not dismiss the antitrust claims. Fact and expert discovery in this matter have closed. On November 12, 2003 plaintiffs filed a motion for class certification, which was granted on October 15, 2004. On March 9, 2005, Judge Pauley issued a decision on defendants' motion to reconsider the class certification decision. The Judge ruled that the arbitration provisions in the cardholder agreements of member bank defendants, Bank One, MBNA, Provident, Household and Bank of America are valid as to those respective banks and MasterCard and, consequently, cardholders of those banks can no longer participate in the class action certified in his earlier decision and must pursue any claims through arbitration. Plaintiffs moved for further reconsideration, which was denied by Judge Pauley on June 16, 2005. In addition, Judge Pauley declined to give effect to the arbitration clauses in the Citibank and Chase cardholder agreements; both banks have noticed an appeal of that decision. The trial date which has been set for May 15, 2006. At this time, it is not possible to determine the ultimate resolution of this matter and no provision for losses has been provided in connection with it.

Merchant Chargeback-Related Litigations

On May 12, 2003, a complaint alleging violations of federal and state antitrust laws, breach of contract, fraud and other theories was filed in the U.S. District Court for the Central District of California (Los Angeles) against MasterCard by a merchant aggregator whose customers include businesses selling adult entertainment content over the Internet. The complaint's allegations focus on MasterCard's past and potential future assessments on the plaintiff's merchant bank (acquirer) for exceeding excessive chargeback standards in connection with the plaintiff's transaction activity as well as the effect of MasterCard's chargeback rules and other practices on card-not-present merchants. Chargebacks refer to a situation where a transaction is returned, or charged back, to an acquirer by an issuer at the request of cardholders or for other reasons. Prior to MasterCard filing any motion or responsive pleading, the plaintiff filed a voluntary notice of dismissal without prejudice on December 5, 2003. On the same date, the plaintiff filed a complaint in the U.S. District Court for the Eastern District of New York making similar allegations to those made in its initial California complaint. MasterCard moved to dismiss all of the claims in the complaint for failure to state a cause of action. On March 30, 2005 the judge granted MasterCard's motion and dismissed all of the claims in the complaint. On April 11, 2005, the plaintiff filed a notice of appeal of the district court's order. On June 30, 2005, the plaintiff filed its brief in support of its appeal. MasterCard's opposition brief is currently due to be filed on August 30, 2005.

In addition, on June 6, 2003, an action titled California Law Institute v. Visa U.S.A, et al. was initiated against MasterCard and Visa U.S.A., Inc. in the Superior Court of California, purportedly on behalf of the general public. Plaintiffs seek disgorgement, restitution and injunctive relief for unlawful and unfair business practices in violation of California Unfair Trade Practices Act Section 17200,

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et. seq. Plaintiffs purportedly allege that MasterCard's (and Visa's) chargeback fees are unfair and punitive in nature. Plaintiffs seek injunctive relief preventing MasterCard from continuing to engage in its chargeback practices and requiring MasterCard to provide restitution and/or disgorgement for monies improperly obtained by virtue of them. On June 10, 2005, MasterCard filed a motion requesting that the Court bifurcate certain dispositive issues to be tried separately. The parties are waiting for a ruling on that motion. Initial, but limited, discovery is now proceeding in this matter.

On September 20, 2004, MasterCard was served with a complaint titled PSW Inc. v. Visa U.S.A, Inc., MasterCard International Incorporated, et. al., No. 04-347, in the District Court of Rhode Island. The plaintiff, as alleged in the complaint, provided credit card billing services primarily for adult content web sites. The plaintiff alleges defendants' excessive chargeback standards, exclusionary rules, merchant registration programs, cross-border acquiring rules and interchange pricing to internet merchants violate federal and state antitrust laws as well as state contract and tort law. The plaintiff seeks \$60,000 in compensatory damages as well as \$180,000 in punitive damages. On November 24, 2004, MasterCard moved to dismiss the complaint. Prior to the Court ruling on MasterCard's motion to dismiss, plaintiffs filed an amended complaint on April 6, 2005. This complaint generally mirrors the original complaint but includes additional causes of action based on the purported deprivation of plaintiff's rights under the First Amendment of the U.S. Constitution. On May 20, 2005, MasterCard moved to dismiss all of PSW's claims in the complaint for failure to state a claim. The plaintiff filed its opposition to MasterCard's motion on July 7, 2005. The Court has not yet scheduled oral argument on the motion.

At this time it is not possible to determine the outcome of the merchant chargeback-related litigations. No provision for losses has been provided in connection with these litigations.

U.S. Merchant and Consumer Litigations

Commencing in October 1996, several class action suits were brought by a number of U.S. merchants against MasterCard International and Visa U.S.A., Inc. challenging certain aspects of the payment card industry under U.S. federal antitrust law. Those suits were later consolidated in the U.S. District Court for the Eastern District of New York. The plaintiffs challenged MasterCard's Honor All Cards rule and a similar Visa rule. Plaintiffs claimed that MasterCard and Visa unlawfully tied acceptance of debit cards to acceptance of credit cards. The plaintiffs also claimed that MasterCard and Visa conspired to monopolize what they characterized as the point-of-sale debit card market, thereby suppressing the growth of regional networks such as ATM payment systems. On June 4, 2003, MasterCard International signed the Settlement Agreement to settle the claims brought by the plaintiffs in this matter, which the Court approved on December 19, 2003. A number of class members have appealed the District Court's approval of the settlement. These appeals are largely focused on the Court's attorneys' fees award as well on the Court's ruling on the scope of the release set forth in the Settlement Agreement. On January 4, 2005, the Second Circuit Court of Appeals issued an order affirming the District Court's approval of the U.S. merchant Settlement Agreement. The settlement is now final as no class members filed a petition for certiorari with the Supreme Court regarding the Second Circuit's affirmation of the district court's approval of the settlement. For a further description of the U.S. merchant lawsuit settlement and its impact on MasterCard's financial results, see Note 8.

In addition, individual or multiple complaints have been brought in 19 different states and the District of Columbia under state unfair competition statutes against MasterCard International (and Visa) on behalf of putative classes of consumers. The claims in these actions largely mirror the allegations

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made in the U.S. merchant lawsuit and assert that merchants, faced with excessive merchant discount fees, have passed these overcharges to consumers in the form of higher prices on goods and services sold. While these actions are in their early stages, MasterCard has filed motions to dismiss the complaints in a number of state courts for failure to state a cause of action. Courts in Arizona, Iowa, New York, Michigan, Minnesota, Nebraska, Maine, North Dakota, Kansas, North Carolina, South Dakota, Vermont, Wisconsin and the District of Columbia have granted MasterCard's motions and dismissed the complaints with prejudice. Plaintiffs have appealed several of these decisions. The plaintiffs in Minnesota have filed a revised complaint on behalf of a purported class of Minnesota consumers who made purchases with debit cards rather than on behalf of all consumers. On July 12, 2005, the court granted MasterCard's motion to dismiss the Minnesota complaint for failure to state a claim and dismissed the complaint with prejudice. The time in which plaintiffs may appeal this decision is currently running. In addition, the courts in Tennessee and California have granted MasterCard's motion to dismiss the respective state unfair competition claims but have denied MasterCard's motions with respect to unjust enrichment claims in Tennessee and Section 17200 claims for unlawful, unfair, and/or fraudulent business practices in California. Both parties have appealed the Tennessee decisions. MasterCard is awaiting decisions on its motions to dismiss in the other state courts.

On March 14, 2005, MasterCard was served with a complaint that was filed in Ohio state court on behalf of a putative class of consumers under Ohio state unfair competition law. The claims in this action mirror those in the consumer actions described above but also name as co-defendants a purported class of merchants who were class members in the U.S. merchant lawsuit. Plaintiffs allege that Visa, MasterCard and the class members of the U.S. merchant lawsuit conspired to attempt to monopolize the debit card market by tying debit card acceptance to credit card acceptance. MasterCard's time in which to respond to the complaint is currently running.

At this time, it is not possible to determine the outcome of these consumer cases and no provision for losses has been provided in connection with them. The consumer class actions are not covered by the terms of the Settlement Agreement in the U.S. merchant lawsuit.

Global Interchange Proceedings

Interchange fees represent a sharing of payment system costs among the financial institutions participating in a four-party payment card system such as MasterCard's. Typically, interchange fees are paid by the merchant bank (the acquirer) to the cardholder bank (the issuer) in connection with transactions initiated with the payment system's cards. These fees reimburse the issuer for a portion of the costs incurred by it in providing services which are of benefit to all participants in the system, including acquirers and merchants. MasterCard or its members establish a multilateral interchange fee (MIF) in certain circumstances as a default fee that applies when there is no other interchange fee arrangement between the issuer and the acquirer. MasterCard establishes a variety of MIF rates depending on such considerations as the location and the type of transaction, and collects the MIF on behalf of the institutions entitled to receive it. As described more fully below, MasterCard's or its members' MIFs are subject to regulatory or legal review and/or challenges in a number of jurisdictions. At this time, it is not possible to determine the ultimate resolution of any of the interchange proceedings described below. Accordingly, no provision for losses has been provided in connection with them.

European Union. In September 2000, the European Commission issued a Statement of Objections challenging Visa International's cross-border MIF under European Community competition rules. On July 24, 2002, the European Commission announced its decision to exempt the Visa MIF

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from these rules based on certain changes proposed by Visa to its MIF. Among other things, in connection with the exemption order, Visa agreed to adopt a cost-based methodology for calculating its MIF similar to the methodology employed by MasterCard, which considers the costs of certain specified services provided by issuers, and to reduce its MIF rates for debit and credit transactions to amounts at or below certain specified levels.

On September 25, 2003, the European Commission issued a Statement of Objections challenging MasterCard Europe's cross-border MIF. MasterCard Europe filed its response to this Statement of Objections on January 5, 2004. MasterCard Europe is engaged in discussions with the European Commission in order to determine under what conditions, if any, the European Commission would issue a favorable ruling regarding MasterCard Europe's MIF. If MasterCard is unsuccessful in obtaining a favorable ruling, the European Commission could issue a prohibition decision ordering MasterCard to change the manner in which it calculates its cross-border MIF. MasterCard could appeal such a decision to the European Court of Justice. Because the cross-border MIF constitutes an essential element of MasterCard Europe's operations, changes to it could significantly impact MasterCard International's European members and the MasterCard business in Europe. In addition, a negative decision by the European Commission could lead to the filing of private actions against MasterCard by merchants seeking substantial damages.

United Kingdom Office of Fair Trading. On September 25, 2001, the Office of Fair Trading of the United Kingdom (OFT) issued a Rule 14 Notice under the U.K. Competition Act 1998 challenging the MasterCard MIF, the fee paid by acquirers to issuers in connection with point of sale transactions, and multilateral service fee (MSF), the fee paid by issuers to acquirers when a customer uses a MasterCard-branded card in the United Kingdom either at an ATM or over the counter to obtain a cash advance. Until November 2004 (see below), the MIF and MSF were established by MasterCard U.K. Members Forum Limited (formerly MEPUK) (MMF) for domestic credit card transactions in the United Kingdom. The notice contained preliminary conclusions to the effect that the MasterCard U.K. MIF and MSF may infringe U.K. competition law and do not qualify for an exemption in their present forms. In January 2002, MasterCard, MEPUK and several MasterCard U.K. members responded to the notice. On February 11, 2003, the OFT issued a supplemental Rule 14 Notice, which also contained preliminary conclusions challenging MasterCard's U.K. MIF under the Competition Act. On May 2, 2003, MasterCard and MMF responded to the supplemental notice. On November 10, 2004, the OFT issued a third notice (now called a Statement of Objections) claiming that the MIF infringes U.K. and European Union competition law. In February 2005, MasterCard and MMF responded to the Statement of Objections. An oral hearing was held on March 2, 2005. The OFT is expected to reach a decision later this year.

On November 18, 2004, MasterCard's board of directors adopted a resolution withdrawing the authority of the U.K. members to set domestic MasterCard MIFs and MSFs and conferring such authority exclusively on MasterCard's President and Chief Executive Officer. As a result, if MasterCard and MMF are unsuccessful in obtaining a favorable ruling in the current proceeding, the OFT would have to commence a new proceeding for the purpose of ordering MasterCard to change the manner in which it calculates its U.K. MIF. The OFT has informed MasterCard that, if it issues a prohibition decision in the current proceedings, it is likely to commence a new proceeding challenging MasterCard's setting of MIFs. Because the MIF constitutes an essential element of MasterCard's U.K. operations, negative decisions by the OFT in the current or any future proceedings could have a significant adverse impact on MasterCard's U.K. members and on MasterCard's competitive position and overall business in the U.K. In addition, a negative decision by the OFT could lead to the filing of

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private actions against MasterCard by merchants seeking substantial damages. In the event of a negative decision by the OFT in the current proceeding, MasterCard and MMF intend to appeal to the Competition Appeals Tribunal and possibly to seek interim relief. Similarly, it is likely that MasterCard would appeal a negative decision by the OFT in any future proceeding to the Competition Appeals Tribunal and would seek interim relief.

United States. In July 2002, a purported class action lawsuit was filed by a group of merchants in the U.S. District Court for the Northern District of California against MasterCard International, Visa U.S.A., Inc., Visa International Corp. and several member banks in California alleging, among other things, that MasterCard's and Visa's interchange fees contravene the Sherman Act. The suit seeks treble damages in an unspecified amount, attorney's fees and injunctive relief, including the divestiture of bank ownership of MasterCard and Visa, and the elimination of MasterCard and Visa marketing activities. On March 4, 2004, the court dismissed the lawsuit with prejudice in reliance upon the approval of the Settlement Agreement in the U.S. merchant lawsuit by the U.S. District Court for the Eastern District of New York, which held that the settlement and release in that case extinguished the claims brought by the merchant group in the present case. The plaintiffs have appealed the U.S. District Court for the Eastern District of New York's approval of the U.S. merchant lawsuit settlement and release to the Second Circuit Court of Appeals and have also appealed the U.S. District Court for the Northern District of California's dismissal of the present lawsuit to the Ninth Circuit Court of Appeals. On January 4, 2005, the Second Circuit Court of Appeals issued an order affirming the District Court's approval of the U.S. merchant lawsuit settlement agreement, including the District Court's finding that the settlement and release extinguished such claims. Plaintiffs did not seek certiorari of the Second Circuit's decision with the U.S. Supreme Court. The appeal to the Ninth Circuit is currently pending.

On October 8, 2004, a new purported class action lawsuit was filed by a group of merchants in the U.S. District Court for the Northern District of California against MasterCard International, Visa U.S.A., Inc., Visa International Corp. and several member banks in California alleging, among other things, that MasterCard's and Visa's interchange fees contravene the Sherman Act and the Clayton Act. The complaint contains similar allegations to those brought in the interchange case described in the preceding paragraph, and plaintiffs have designated it as a related case. The plaintiffs seek damages and an injunction against MasterCard (and Visa) setting interchange and engaging in joint marketing activities, which plaintiffs allege include the purported negotiation of merchant discount rates with certain merchants. On November 19, 2004, MasterCard filed an answer to the complaint. The plaintiff filed an amended complaint on April 25, 2005. MasterCard moved to dismiss the claims in the complaint for failure to state a claim and, in the alternative, also moved for summary judgment with respect to certain of the claims. The Court heard oral argument on MasterCard's motion to dismiss on July 8, 2005. On July 25, 2005, the Court issued an order granting MasterCard's motion to dismiss and dismissed the plaintiff's complaint with prejudice. The time in which the plaintiff can appeal this decision is currently running.

On June 22, 2005, a purported class action lawsuit was filed by a group of merchants in the U.S. District Court of Connecticut against MasterCard International Incorporated, Visa U.S.A., Inc. Visa International Service Association and a number of member banks alleging, among other things, that MasterCard's and Visa's purported setting of interchange fees violates Section 1 of the Sherman Act. In addition, the complaint alleges MasterCard's and Visa's purported tying and bundling of transaction fees also constitutes a violation of Section 1 of the Sherman Act. The suit seeks treble damages in an unspecified amount, attorney's fees and injunctive relief. MasterCard's time in which to respond to the

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(In thousands, except per share and percent data)

complaint is currently running. In addition, on June 28, 2005, a second class action lawsuit was filed on behalf of a purported class of merchants in the Southern District of New York against MasterCard, Visa U.S.A., Inc. and Visa International. This suit alleges that MasterCard and Visa's interchange fees violate Section 1 of the Sherman Act. The suit also alleges that MasterCard and Visa have enacted various rules, including the no surcharge rule, which purportedly constitute unlawful restraints of trade. The suit seeks treble damages, attorney's fees and injunctive relief. There has been a number of additional class action lawsuits on behalf of merchants filed in the Southern District of New York generally mirroring the allegations contained in the lawsuits described above. Likewise, there have been a number of complaints containing similar allegations filed in the Northern District of California and the District of Connecticut. MasterCard has yet to be served with the complaints in the majority of these actions, and its time in which to respond to the complaints with which it has been served is currently running.

At this time it is not possible to determine the outcome of these interchange-related litigations. No provisions for losses have been provided in connection with these litigations.

Other Jurisdictions.

In Spain, the Competition Tribunal issued a decision in April 2005 denying the interchange fee exemption applications of two of the three domestic credit and debit card processing systems and beginning the process to revoke the exemption it had previously granted to the third such system. The interchange fees set by these three processors apply to MasterCard transactions in Spain and consequently, MasterCard has appealed this decision. In addition, the Tribunal expressed views as to the appropriate manner for setting domestic interchange fees which, if implemented, would result in substantial reductions in credit and debit card interchange fees in Spain. This could have a material impact on MasterCard's business in Spain.

MasterCard is aware that regulatory authorities and/or central banks in certain other jurisdictions, including Poland, New Zealand, Portugal, Mexico, Colombia, South Africa, Hungary and Switzerland are reviewing MasterCard's and/or its members' interchange fees and/or related practices and may seek to regulate the establishment of such fees and/or such practices.

Note 11. Settlement and Travelers Cheque Risk Management

Settlement risk is the legal exposure due to the difference in timing between the payment transaction date and subsequent settlement. Settlement risk is estimated using the average daily card charges during the quarter multiplied by the estimated number of days to settle. The Company has global risk management policies and procedures, which include risk standards to provide a framework for managing the Company's settlement exposure. MasterCard International's rules generally guarantee the payment of MasterCard transactions and certain Cirrus and Maestro transactions between principal members. The term and amount of the guarantee are unlimited. Member-reported transaction data and the transaction clearing data underlying the settlement risk

exposure calculation may be revised in subsequent reporting periods.

In the event that MasterCard International effects a payment on behalf of a failed member, MasterCard International may seek an assignment of the underlying receivables. Subject to approval by the Board of Directors, members may be assessed for the amount of any settlement loss.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(In thousands, except per share and percent data)

MasterCard requires certain members that are not in compliance with the Company's risk standards in effect at the time of review to post collateral, typically in the form of letters of credit and bank guarantees. This requirement is based on management review of the individual risk circumstances for each member that is out of compliance. In addition to these amounts, MasterCard holds collateral to cover variability and future growth in member programs; the possibility that it may choose to pay merchants to protect brand integrity in the event of merchant bank/acquirer failure, although it is not contractually obligated to do so; and Cirrus and Maestro related risk. MasterCard monitors its credit risk portfolio on a regular basis to estimate potential concentration risks and the adequacy of collateral on hand. Additionally, from time to time, the Company reviews its risk management methodology and standards. As such, the amounts of estimated settlement exposure are revised as necessary.

Estimated settlement exposure, and the portion of the Company's uncollateralized settlement exposure for MasterCard-branded transactions that relates to members that are deemed not to be in compliance with, or that are under review in connection with, the Company's risk management standards were as follows:

| | <u>June 30, 2005</u> | <u>December 31, 2004</u> |
|---|----------------------|--------------------------|
| MasterCard-branded transactions: | | |
| Gross legal settlement exposure | \$ 13,898,001 | \$ 14,055,973 |
| Collateral held for legal settlement exposure | (1,295,809) | (1,482,319) |
| Net uncollateralized settlement exposure | <u>\$ 12,602,192</u> | <u>\$ 12,573,654</u> |
| Uncollateralized settlement exposure attributable to non-compliant members | <u>\$ 314,806</u> | <u>\$ 299,995</u> |
| Cirrus and Maestro transactions: | | |
| Gross legal settlement exposure | <u>\$ 1,553,481</u> | <u>\$ 1,294,145</u> |

Although MasterCard holds collateral at the member level, the Cirrus and Maestro estimated settlement exposures are calculated at the regional level. Therefore, these settlement exposures are reported on a gross basis, rather than net of collateral.

Of the total estimated settlement exposure under the MasterCard brand, net of collateral, the U.S. generated approximately 51% and 52% at June 30, 2005 and December 31, 2004, respectively. No individual country, other than the U.S. generated more than 10% of this exposure. Of the total uncollateralized settlement exposure attributable to non-compliant members, five members represented approximately 69% and 65% at June 30, 2005 and December 31, 2004, respectively.

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MasterCard guarantees the payment of MasterCard-branded travelers cheques in the event of issuer default. The guarantee estimate is based on all outstanding MasterCard-branded travelers cheques, reduced by an actuarial determination of cheques that are not anticipated to be presented for payment. The term and amount of the guarantee are unlimited. MasterCard calculated its MasterCard-branded travelers cheques exposure under this guarantee as \$1,074,957 and \$1,172,533 at June 30, 2005 and December 31, 2004, respectively.

A significant portion of the Company's travelers cheque credit risk is concentrated in one MasterCard travelers cheque issuer. MasterCard has obtained an unlimited guarantee estimated at \$882,281 and \$969,593 at June 30, 2005 and December 31, 2004, respectively, from a financial institution that is a member, to cover all of the exposure of outstanding travelers cheques with respect to that issuer. In addition, MasterCard has obtained guarantees estimated at \$27,915 and \$28,592 at

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Table of Contents**MASTERCARD INCORPORATED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****(In thousands, except per share and percent data)**

June 30, 2005 and December 31, 2004, respectively, from financial institutions that are members in order to cover the exposure of outstanding travelers cheques with respect to another issuer. These guarantee amounts have also been reduced by an actuarial determination of cheques that are not anticipated to be presented for payment.

Based on the Company's ability to assess its members for settlement and travelers cheque losses, the effectiveness of the Company's global risk management policies and procedures, and the historically low level of losses that the Company has experienced, management believes the probability of future payments for settlement and travelers cheque losses in excess of existing reserves is negligible. However, if circumstances in the future change, the Company may need to reassess whether it would be necessary to record an obligation for the fair value of some or all of its settlement and travelers cheque guarantees.

Note 12. Foreign Exchange Risk Management

The Company enters into foreign currency forward contracts to minimize risk associated with anticipated receipts and disbursements denominated in foreign currencies and the possible changes in value due to foreign exchange fluctuations of assets and liabilities denominated in foreign currencies. MasterCard's forward contracts are classified by functional currency as summarized below:

U.S. Dollar Functional Currency

| | <u>June 30, 2005</u> | | <u>December 31, 2004</u> | |
|--|----------------------|-------------------|--------------------------|-------------------|
| | Estimated | | Estimated | |
| | <u>Notional</u> | <u>Fair Value</u> | <u>Notional</u> | <u>Fair Value</u> |
| Forward Contracts | | | | |
| Commitments to purchase foreign currency | \$ 61,278 | \$ (365) | \$ 40,981 | \$ 1,854 |
| Commitments to sell foreign currency | 40,760 | (147) | 20,226 | (655) |

Euro Functional Currency

| | <u>June 30, 2005</u> | | <u>December 31, 2004</u> | |
|--------------------------|----------------------|------------------|--------------------------|------------------|
| | Estimated | | Estimated | |
| | <u>Notional</u> | <u>Estimated</u> | <u>Notional</u> | <u>Estimated</u> |
| Forward Contracts | | | | |

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| | _____ | <u>Fair Value</u> | _____ | <u>Fair Value</u> |
|--|-----------|-------------------|------------|-------------------|
| Commitments to purchase foreign currency | \$ 90,213 | \$ 3,423 | \$ 128,253 | \$ (6,494) |
| Commitments to sell foreign currency | 50,488 | (780) | | |

The currencies underlying the foreign currency forward contracts consist primarily of euro, U.K. pounds sterling, Swiss francs, Japanese yen and Australian dollars. The fair value of the foreign currency forward contracts generally reflects the estimated amounts that the Company would receive or (pay), on a pre-tax basis, to terminate the contracts at the reporting date based on broker quotes for the same or similar instruments. The terms of the foreign currency forward contracts are generally less than 18 months. The Company has deferred \$1,827 of net gains and \$3,497 of net losses, after tax, in accumulated other comprehensive income as of June 30, 2005 and December 31, 2004, respectively, all of which is expected to be reclassified to earnings within the next six months to provide an economic offset to the earnings impact of the anticipated cash flows hedged.

The Company's derivative financial instruments are subject to both credit and market risk. Credit risk is the risk of loss due to failure of the counterparty to perform its obligations in accordance with contractual terms. Market risk is the potential change in an investment's value caused by fluctuations in interest and currency exchange rates, credit spreads or other variables. Credit and market risk related to derivative instruments were not material at June 30, 2005 and December 31, 2004.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(In thousands, except per share and percent data)

Generally, the Company does not obtain collateral related to forward contracts because of the high credit ratings of the counterparties that are members. The amount of accounting loss the Company would incur if the counterparties failed to perform according to the terms of the contracts is not considered material.

Note 13. Stockholders Equity

MasterCard's capital stock is privately held by certain of the Company's customers which are principal members of MasterCard International. Each principal member of MasterCard International also has a class A membership interest in MasterCard International, representing that member's continued rights as a licensee to use MasterCard's brands, programs, products and services. MasterCard Incorporated owns the sole class B membership interest in MasterCard International, entitling MasterCard Incorporated to exercise all economic rights and substantially all voting rights in MasterCard International. MasterCard International is the Company's principal operating subsidiary.

The authorized capital stock of MasterCard Incorporated at June 30, 2005 consists of 275,000 shares of class A redeemable common stock, par value \$.01 per share (of which 84,000 shares are issued and outstanding); 25,000 shares of class B convertible common stock, par value \$.01 per share (of which 16,000 shares are issued and outstanding); and 75,000 shares of class C common stock, par value \$.01 per share (of which no shares are issued or outstanding). Class C common stock may be issued from time to time with voting powers, designations, preferences and other rights to be determined by the MasterCard board of directors, in compliance with certain limitations, as set forth in the certificate of incorporation of MasterCard.

The class A and B shares were issued on June 28, 2002, pursuant to an Agreement and Plan of Merger dated as of February 13, 2002, in which MasterCard International merged with a subsidiary of MasterCard Incorporated (the "Conversion") and the Integration Agreement pursuant to which MasterCard Incorporated acquired all of the outstanding shares of Europay International S.A. (now MasterCard Europe) (the "Integration"). In the Conversion and Integration, each principal member of MasterCard International received shares of class A redeemable common stock and class B convertible common stock of MasterCard, representing each member's existing equity interest in the Company.

Pursuant to the Company's bylaws (the "bylaws"), on July 1, 2005 all of the Company's class B convertible common stock converted to class A redeemable common stock. Thereafter, all class A redeemable common stock will be reallocated among the Company's stockholders (the "reallocation") based on a global proxy calculation set forth in the Company's bylaws. The global proxy calculation is based on the stockholders' business contribution to MasterCard Incorporated during the twelve months ended June 30, 2005. MasterCard Incorporated intends to redeem and issue shares in order to facilitate the reallocation, which is anticipated to be finalized no later than the fourth quarter of 2005. The global proxy calculation will occur annually after July 1, 2005 based on each stockholder's business contribution to MasterCard Incorporated during the previous twelve months. Transfers of shares of common stock and assignment of the right to receive shares were not permitted until July 1, 2005. After July 1, 2005, no reallocation will occur however each stockholder must maintain an ownership percentage of common stock that is no less than

75% and no more than 125% of the shares determined in the most recent global proxy calculation. Stockholders may be required to purchase or sell shares of MasterCard, in accordance with procedures established by the Company, in order to satisfy these requirements.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(In thousands, except per share and percent data)

The bylaws also set forth that customers that became principal members of MasterCard International subsequent to January 1, 2001, would be eligible to participate in the reallocation. To permit this to occur, the Company will issue one share to principal members that qualify to participate in the reallocation as of July 1, 2005 but did not receive shares on June 28, 2002. Accordingly, MasterCard issued 348 shares to such principal members on July 1, 2005. The issuance of this common stock will be recorded at par in the three months ended September 30, 2005 by reclassifying a portion of retained earnings to common stock. All shares received by these new members, both issued and as a result of the reallocation, will be restricted for resale under applicable U.S. securities laws.

After July 1, 2005, MasterCard Incorporated may, at its option, redeem the common stock of a stockholder that ceases to be a principal member of MasterCard International for the book value of the shares, based on MasterCard's financial statements most recently filed with the Securities and Exchange Commission. If MasterCard Incorporated does not redeem the stockholder's shares, a stockholder ceasing to be a member of MasterCard International after July 1, 2005 will be required to offer the unredeemed shares to the other stockholders of MasterCard in accordance with procedures to be established by the Company.

Note 14. Acquisition of MasterCard Europe

On June 28, 2002, MasterCard Incorporated issued 23,760 shares of its common stock to the shareholders of Europay International (EPI), now MasterCard Europe, and MasterCard Europay U.K. Limited (MEPUK), in return for directly and indirectly acquiring 100% of the shares of EPI not previously owned by MasterCard International. Of the 23,760 shares attributable to the exchange of EPI and MEPUK shares, 6,150 shares are conditional shares subject to reallocation as of July 1, 2005, as described in Note 13 herein.

Each shareholder of EPI (other than MasterCard International and MEPUK) entered into a separate share exchange agreement pursuant to which it exchanged its EPI shares for shares of class A redeemable and class B convertible common stock of MasterCard Incorporated. The shareholders of MEPUK entered into an agreement pursuant to which they exchanged their MEPUK shares for class A redeemable and class B convertible common stock of MasterCard Incorporated. As a result, EPI and MEPUK became wholly-owned subsidiaries of MasterCard Incorporated. MEPUK's sole asset was shares of EPI (now MasterCard Europe). In addition, class B convertible common stock automatically converted into class A redeemable common stock on July 1, 2005.

In calculating the purchase price of EPI, the Company considered only the unconditional shares issued to the former shareholders of EPI and MEPUK. Since former EPI and MEPUK shareholders will retain or receive additional shares without remitting any additional consideration, any conditional shares retained or received by them will constitute a part of the purchase price. Any conditional shares issued will be valued based upon the estimated fair value of the stock of MasterCard Incorporated as of July 1, 2005 and will result in an increase to the purchase price for EPI, the amount of goodwill and additional paid-in capital initially recorded. The Company began the process of determining the reallocation of the shares among its stockholders as of July 1, 2005.

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The reallocation of the shares and the determination of the amount of EPI conditional shares, if any, to be issued to the former shareholders of EPI and MEPUK are anticipated to be finalized no later than the fourth quarter of 2005. Based on preliminary estimates of the performance of the Company's shareholders and other pertinent data utilized in the reallocation formula, the Company anticipates the purchase price for EPI and accordingly the amount of goodwill recorded will increase. Subsequent to the determination of the incremental purchase price, the total amount of goodwill relating to the acquisition of MasterCard Europe will be tested for impairment.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(In thousands, except per share and percent data)

Note 15. Subsequent Event (Not covered by the review report of the Independent Registered Public Accounting Firm)

As more fully described in Note 10, MasterCard is party to a number of currency conversion litigations. Based upon current developments in these cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, MasterCard recorded an additional \$48,000 of legal reserves in September 2005. Based on future developments, this estimate may be revised.

As more fully described in Note 10, in the United Kingdom the OFT issued a decision on September 6, 2005 concluding that MasterCard's U.K. MIFs contravene U.K. and European Union competition law. In addition, the OFT has stated that it will commence a new investigation of MasterCard's current U.K. MIFs and, if it determines that they contravene U.K. and European Union competition law, it will issue a new decision and possibly levy fines accruing from the date of its first decision. At this time, it is not possible to determine the ultimate resolution of this matter and no provision for losses has been made in connection with this decision.

The Company's Board of Directors approved plans to transition to being a publicly traded company. As part of the transition, MasterCard will reclassify its existing shares of common stock into a higher number of shares of common stock. Accordingly, the Company will restate its common shares outstanding and earnings per share for historical periods once the transition to a publicly traded company is completed.

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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Through and including _____, (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

61,535,098 Shares

MasterCard Incorporated

Class A Common Stock

Goldman, Sachs & Co.

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

The following table sets forth the expenses payable by the Registrant in connection with the issuance and distribution of the Class A common stock being registered hereby. All of such expenses are estimates, other than the filing and listing fees payable to the Securities and Exchange Commission, the New York Stock Exchange and the National Association of Securities Dealers, Inc.

| | |
|--|------------|
| Filing Fee Securities and Exchange Commission | \$ 288,365 |
| Listing Fee New York Stock Exchange | 250,000 |
| Fee National Association of Securities Dealers | 75,500 |
| Fees and Expenses of Counsel | * |
| Printing Expenses | * |
| Fees and Expenses of Accountants | * |
| Blue Sky Fees and Expenses | * |
| Transfer Agent Fees and Expenses | * |
| Miscellaneous Expenses | * |
| | ----- |
| Total | \$ * |
| | ----- |

* To be provided by amendment.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the General Corporation Law of the State of Delaware (the "DGCL") grants each corporation organized thereunder the power to indemnify any person who is or was a director, officer, employee or agent of a corporation or enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of being or having been in any such capacity, if he acted in good faith in a manner reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action, or proceeding, had no reasonable cause to believe his conduct was unlawful, except that with respect to an action brought by or in the right of the corporation such indemnification is limited to expenses (including attorneys' fees). Our amended and restated certificate of incorporation provides that we must indemnify our directors and officers and members of the European Board to the fullest extent authorized by the DGCL.

Section 102(b)(7) of the DGCL enables a corporation, in its certificate of incorporation or an amendment thereto, to eliminate or limit the personal liability of a director to the corporation or its stockholders for monetary damages for violations of the directors fiduciary duty, except (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the

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DGCL (providing for liability of directors for unlawful payment of dividends or unlawful stock purchases or redemptions) or (iv) for any transaction from which a director derived an improper personal benefit. Our certificate of incorporation provides for such limitations on liability for our directors and members of the European Board.

We currently maintain liability insurance for our directors and officers. In connection with this offering, we will obtain additional liability insurance for our directors and officers. Such insurance would be available to our directors and officers in accordance with its terms.

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Reference is made to the form of underwriting agreement to be filed as Exhibit 1.1 hereto for provisions providing that the underwriters are obligated under certain circumstances, to indemnify our directors, officers and controlling persons against certain liabilities under the Securities Act of 1933, as amended.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

On July 1, 2005 MasterCard Incorporated issued an aggregate of 348 shares of its class A redeemable common stock, par value \$.01 per share, or one share each, to 348 Class A members of its subsidiary, MasterCard International Incorporated, for \$.01 per share. The issuance of such shares was not registered under the Securities Act because the shares were offered and sold in a transaction exempt from registration under Section 4(2) of the Securities Act.

Table of Contents**ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.*****(a) Exhibit Index***

- 1.1* Form of Underwriting Agreement relating to MasterCard Incorporated's Class A common stock.
- 3.1(a) Form of Second Amended and Restated Certificate of Incorporation of MasterCard Incorporated.
- 3.1(b) Form of Second Amended and Restated Bylaws of MasterCard Incorporated.
- 3.2(a) Form of Second Amended and Restated Certificate of Incorporation of MasterCard International Incorporated.
- 3.2(b) Form of Second Amended and Restated Bylaws of MasterCard International Incorporated.
- 4.1 Form of MasterCard International Incorporated Note Purchase Agreement, dated as of June 30, 1998, regarding \$80,000,000 of 6.67% Subordinated Notes due June 30, 2008 (incorporated by reference to Exhibit 4 to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form S-4 filed November 9, 2001 (No. 333-67544)).
- 4.2 Amendment to MasterCard International Incorporated Note Purchase Agreement, dated August 4, 2004, regarding \$80,000,000 of 6.67% Subordinated Notes due June 30, 2008 (incorporated by reference to Exhibit 4.1 to the Registrant's Report on Form 10-Q filed November 9, 2004 (No. 000-50250)).
- 5.1* Opinion of Simpson Thacher & Bartlett LLP.
- 10.1 Settlement Agreement, dated as of June 4, 2003, between MasterCard International Incorporated and Plaintiffs in the class action litigation entitled In Re Visa Check/MasterMoney Antitrust Litigation (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed August 8, 2003 (No. 000-50250)).
- 10.2 \$2,250,000,000 Credit Agreement, dated as of June 17, 2005, among MasterCard Incorporated, MasterCard International Incorporated, the several lenders, Citigroup Global Markets Inc., as sole lead arranger and sole book manager, Citibank, N.A., as co-administrative agent, JPMorgan Chase Bank, N.A. as co-administrative agent, and J.P. Morgan Securities, Inc., as co-arranger (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed August 4, 2005 (No. 000-50250)).
- 10.3 Lease, dated as of August 31, 1999, between MasterCard International O'Fallon 1999 Trust and MasterCard International Incorporated, relating to \$149,380,000 7.36% Series A Senior Secured Notes due September 1, 2009 of MasterCard International O'Fallon 1999 Trust and up to \$5,000,000 Series B Senior Secured Notes due September 1, 2009 of MasterCard International O'Fallon 1999 Trust (incorporated by reference to Exhibit 10.3 to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form S-4 filed November 9, 2001 (No. 333-67544)).
- 10.4 Guarantee, dated as of August 31, 1999, made by MasterCard International Incorporated in favor of State Street Bank and Trust Company of Missouri, N.A., as Indenture Trustee for the Noteholders under the Indenture, dated as of August 31, 1999 between MasterCard International O'Fallon 1999 Trust and the Indenture Trustee (incorporated by reference to Exhibit 10.4 to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form S-4 filed November 9, 2001 (No. 333-67544)).
- 10.4.1 First Amendment To Guarantee, dated as of November 23, 2004, between MasterCard International Incorporated, MasterCard Incorporated and UMB Bank & Trust, N.A. (incorporated by reference to Exhibit 10.4.1 to the Registrant's Annual Report on Form 10-K filed March 2, 2005 (No. 000-50250))

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|----------|--|
| 10.5 | Indenture, dated as of August 31, 1999, from MCI O Fallon 1999 Trust to State Street Bank and Trust Company of Missouri, N.A., relating to the MasterCard Winghaven facility (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed August 8, 2003 (No. 000-50250)). |
| 10.6 | Lease, dated as of April 1, 2003, between MasterCard International, LLC and City of Kansas City, Missouri relating to the Kansas City facility (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed August 8, 2003 (No. 000-50250)). |
| 10.7** | Agreement, dated as of January 1, 2004, by and among MasterCard International Incorporated, Citibank, N.A., et al. (incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 10-Q filed August 5, 2004 (No. 000-50250)). |
| 10.7.1** | MasterCard International Citibank, N.A Agreement, dated December 31, 2004, between MasterCard International Incorporated and Citibank, N.A. (incorporated by reference to Exhibit 10.7.1 to the Registrant's Annual Report on Form 10-K filed March 2, 2005 (No. 000-50250)) |
| 10.8*** | Master Agreement, dated as of February 8, 2005, between MasterCard International Incorporated and JPMorgan Chase Bank, National Association (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed May 9, 2005 (No. 000-50250)). |
| 10.9 | Employment Agreement between MasterCard International Incorporated and Robert W. Selander (incorporated by reference to Exhibit 10.7 to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form S-4 filed November 9, 2001 (No. 333-67544)). |
| 10.9.1 | Addendum to the Employment Agreement between MasterCard International Incorporated and Robert W. Selander, dated February 28, 2005 (incorporated by reference to Exhibit 10.9.1 to the Registrant's Annual Report on Form 10-K filed March 2, 2005 (No. 000-50250)). |
| 10.10 | Form of Employment Agreement between MasterCard International Incorporated and Executive Officers other than the President and Chief Executive Officer (incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K filed March 7, 2003 (No. 333-67544)). |
| 10.11 | MasterCard International Incorporated Executive Incentive Plan as Amended and Restated Effective January 1, 2004 (incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed March 4, 2004 (No. 000-50250)). |
| 10.12 | MasterCard International Incorporated Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.10 to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form S-4 filed November 9, 2001 (No. 333-67544)). |
| 10.13 | MasterCard International Incorporated Value Appreciation Program (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed November 19, 2004 (No. 000-50250)). |
| 10.14 | MasterCard International Incorporated Annual Incentive Compensation Plan (AICP), as amended and restated, effective January 1, 2005 (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed March 2, 2005 (No. 000-50250)). |
| 10.15 | MasterCard International Incorporated Annuity Bonus Program: Statement of Company Payroll and Procedures, as amended and restated January 1, 2000 (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K filed March 2, 2005 (No. 000-50250)). |

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| 10.16 | MasterCard International Incorporated Deferral Plan, as amended and restated January 1, 2003 (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed March 2, 2005 (No. 000-50250)). |
| 10.17 | Schedule of Non-employee Directors' Annual Compensation (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed March 2, 2005 (No. 000-50250)). |
| 10.18 | Change-in-Control Agreement between MasterCard International Incorporated and Robert W. Selander (incorporated by reference to Exhibit 10.11 to Pre-Effective Amendment No. 2 to the Registrant's Registration Statement on Form S-4 filed November 9, 2001 (No. 333-67544)). |
| 10.19 | Form of Change-in-Control Agreement between MasterCard International Incorporated and Executive Officers other than the President and Chief Executive Officer (incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed March 7, 2003 (No. 333-67544)). |
| 10.20 | Euro 100,000,000 Multi-Currency Overdraft Facility Agreement, dated as of September 30, 2002, between MasterCard Europe sprl and HSBC Bank plc (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed November 14, 2002 (No. 333-67544)). |
| 10.21 | MasterCard International Incorporated Senior Executive Annual Incentive Compensation Plan, effective January 1, 2005 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed August 4, 2005 (No. 000-50250)). |
| 10.22 | MasterCard International Incorporated Senior Executive Incentive Plan, effective January 1, 2005 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed August 4, 2005 (No. 000-50250)). |
| 15.1 | Letter from PricewaterhouseCoopers LLP regarding Unaudited Interim Financial Information |
| 21.1 | List of Subsidiaries of MasterCard Incorporated. |
| 23.1 | Consent of PricewaterhouseCoopers LLP. |
| 23.3* | Consent of Simpson Thacher & Bartlett LLP (included as part of Exhibit 5.1)* |
| 24.1 | Power of Attorney (included on signature pages to this Registration Statement) |

* To be filed by amendment.

** Exhibit omits certain information that has been filed separately with the Securities and Exchange Commission and has been granted confidential treatment.

*** The registrant has applied for confidential treatment of portions of this exhibit. Accordingly, portions have been omitted and filed separately with the Securities and Exchange Commission.

(b) Financial Statement Schedules

All consolidated financial statement schedules are omitted because they are not applicable, not required or the information is included elsewhere in the consolidated financial statements or notes thereto in this prospectus.

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ITEM 17. UNDERTAKINGS

(a) The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(b) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

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Tara Maguire

(acting principal accounting officer)

/s/ WILLIAM F. ALDINGER

Director

William F. Aldinger

/s/ SILVIO BARZI

Director

Silvio Barzi

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| <u>Signature</u> | <u>Title</u> |
|------------------------------------|------------------------------------|
| /s/ DONALD L. BOUDREAU | Director |
| Donald L. Boudreau | |
| /s/ AUGUSTO M. ESCALANTE | Director |
| Augusto M. Escalante | |
| /s/ RICHARD FAIRBANK | Director |
| Richard Fairbank | |
| /s/ BERND M. FIESELER | Director |
| Bernd M. Fieseler | |
| /s/ BALDOMERO FALCONES JAQUOTOT | Chairman of the Board and Director |
| Baldomero Falcones Jaquotot | |
| /s/ IWAO IJIMA | Director |
| Iwao Iijima | |
| /s/ MICHEL LUCAS | Director |
| Michel Lucas | |
| /s/ NORMAN C. McLUSKIE | Director |
| Norman C. McLuskie | |
| /s/ SIDDHARTH N. MEHTA | Director |
| Siddharth N. Mehta | |
| /s/ ROBERT W. PEARCE | Director |
| Robert W. Pearce | |
| /s/ MICHAEL PRATT | Director |
| Michael Pratt | |
| /s/ TAN TEONG HEAN | Director |
| Tan Teong Hean | |
| /s/ JAC VERHAEGEN | Director |
| Jac Verhaegen | |

/s/ LANCE L. WEAVER

Director

Lance L. Weaver

/s/ ROBERT B. WILLUMSTAD

Vice Chairman and Director

Robert B. Willumstad

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