

MASTERCARD INC
Form S-1/A
May 23, 2006
Table of Contents

As filed with the Securities and Exchange Commission on May 23, 2006.

Registration No. 333-128337

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 8 TO

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

Edgar Filing: MASTERCARD INC - Form S-1/A

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

including area code, of agent for service)

Copies to:

Vincent Pagano, Jr., Esq.

David Lopez, Esq.

Joshua Ford Bonnie, Esq.

Cleary Gottlieb Steen & Hamilton LLP

Simpson Thacher & Bartlett LLP

One Liberty Plaza

425 Lexington Avenue

New York, NY 10006-1470

New York, NY 10017-3954

Telephone: (212) 225-2000

Telephone: (212) 455-2000

Facsimile: (212) 225-3999

Facsimile: (212) 455-2502

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. "

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities To Be Registered | Amount to be Registered(1) | Proposed Maximum Offering Price Per Share | Proposed Maximum Aggregate Offering Price(2) | Amount of Registration Fee(3) |
|--|----------------------------|---|--|-------------------------------|
| Class A common stock, par value \$.0001 per share | 66,134,989 shares | \$43.00 | \$2,843,804,527 | \$330,502.08 |

(1) Includes 4,614,077 shares subject to the underwriters' option to purchase additional shares.

(2) Estimated solely for the purpose of determining the amount of the registration fee in accordance with Rule 457(a) under the Securities Act of 1933.

(3) Previously paid.

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.

Table of Contents

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 May 23, 2006.

61,520,912 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 61,520,912 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 \$40.00 and \$43.00. The Class A common stock has been approved for listing on the New York Stock Exchange under the symbol MA.

Subject to limited exceptions, our certificate of incorporation will prohibit any person from beneficially owning more than 15% of the Class A common stock.

We intend to use all but \$650 million of our net proceeds from this offering to redeem shares of Class B common stock from our existing stockholders.

See Risk Factors on page 13 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.

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

To the extent that the underwriters sell more than 61,520,912 shares of Class A common stock, the underwriters have the option to purchase up to an additional 4,614,077 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 _____, 2006.

Goldman, Sachs & Co.

Citigroup

Goldman, Sachs & Co.

HSBC

JPMorgan

Bear, Stearns & Co. Inc.

Cowen and Company

Deutsche Bank Securities

Harris Nesbitt

KeyBanc Capital Markets

Santander Investment

Prospectus dated _____, 2006.

Table of Contents

Table of Contents

Table of Contents

Table of Contents

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. 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 the credit, debit and related payment programs of nearly 25,000 financial institutions. We manage a family of well-known, widely accepted payment card brands, including MasterCard[®], MasterCard Electronic, Maestro[®] and Cirrus[®], which we license to these financial institutions. As part of managing these brands, we also provide our financial institution 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. 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).

A typical transaction processed over our system involves four parties in addition to ourselves: the cardholder, the merchant, the issuer (the cardholder's bank) and the acquirer (the merchant's bank). Our customers are the financial institutions that act as issuers and acquirers. Using our transaction processing services, issuers and acquirers 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 \$1.7 trillion in 2005, a 13% increase in U.S. dollar terms over the GDV reported in 2004. For the first three months of 2006, GDV was \$426 billion, a 12% increase in U.S. dollar terms over the GDV reported in the first three months of 2005. In 2005, we processed 13.7 billion transactions (including 2.6 billion PIN-based online debit transactions), a 13% increase over the transactions processed in 2004.

Table of Contents

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.

Table of Contents

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. These insights, in turn, facilitate our ability to pursue additional opportunities with these customers in connection with both our core transaction processing business and the related value-added services we provide, such as the consulting services provided by MasterCard Advisors.

Worldwide Acceptance. Based on information from our customers, as of March 31, 2006, cards carrying the MasterCard brand were accepted at over 24 million locations around the world, including merchant locations, ATMs and other locations where cash may be obtained. 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 transaction processing services to both new and existing 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 40 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, we believe that our integrated corporate structure and worldwide presence enables us to provide globally coordinated payment solutions to multinational customers more effectively than our competitors whose businesses are limited in geographic scope or organized principally as separate regional operating companies. As customers continue to consolidate, we believe our 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. Through MasterCard Advisors, we seek to leverage our deep functional expertise in many important areas of the payments industry for our customers. By further investing in strong

Table of Contents

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. We are also focused on expanding the role of MasterCard in higher-growth segments of the global payments industry, such as commercial, premium, 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 has run in 106 countries and 50 languages.

Risks Related to our Business and Industry

The operation of our business involves a number of risks. For example:

Increased Legal and Regulatory Scrutiny of Interchange Fees. Interchange fees, which represent a sharing of payment system costs among acquirers and issuers, have been the subject of increased regulatory scrutiny and litigation as they have increased in recent years and as card-based forms of payment have become relatively more important to local economies. 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

Table of Contents

connection with interchange fees. However, if issuers cannot collect or are forced to reduce interchange fees, this could reduce the number of financial institutions willing to participate in a four-party payment card system such as ours, 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.

Litigation. We are exposed to a variety of significant lawsuits in addition to those relating to interchange fees, including federal antitrust claims, claims under state unfair competition statutes and claims relating to our currency conversion practices. If we are found liable in any of these lawsuits, we may, among other things, be forced to pay damages and/or change our business practices and pricing structure, which could have a material adverse effect on our revenue and profitability, or, in certain circumstances, even cause us to become insolvent, and result in a significant reduction in the value, or the complete loss, of your investment. Except with respect to currency conversion litigations, we have not established reserves for any of the significant legal proceedings in which we are currently involved.

Heightened Competition. 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.

Expected Credit Ratings Downgrade. Due to the loss of MasterCard International's right to impose special assessments upon its members in connection with this offering, Standard & Poor's Rating Services expects to lower our credit ratings.

Expected Net Loss for the Second Quarter and Full Year of 2006. At the time of this offering, we intend to donate 13,496,933 newly-issued shares of our Class A common stock and cash to The MasterCard Foundation, a private charitable foundation incorporated in Canada. 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. As a result of this expense, we expect to record a significant net loss in the second quarter of 2006 and a net loss for the 2006 fiscal year.

Substantial Portion of Offering Proceeds Unavailable. 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 shares from our existing stockholders, who include affiliates of the underwriters. Accordingly, we will not have those proceeds available to us to invest in and grow our business.

Additional Offering of Class A Common Stock. In the event that the underwriters do not exercise in full their option to purchase additional 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 from our existing stockholders so that, immediately following such subsequent offering and redemption, our existing stockholders own approximately 41% of our equity. This additional issuance may depress the market price of our Class A common stock.

Adverse Effect of New Ownership and Governance Structure on our Customer Relationships. Our existing stockholders are also principal members of MasterCard International, who we refer to as our members and who are also our customers. In connection with this offering, our certificate of incorporation will be amended to provide that our members

Table of Contents

may 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. In addition, with the exception of directors elected by the Class M common stockholders, persons affiliated with our customers will not be permitted to serve as directors of MasterCard. If our members are dissatisfied with these changes to our corporate governance structure, it could have a material adverse effect on our business relationships 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, which may reduce their interest in the continued success of our business.

See **Risk Factors** for a discussion of factors you should carefully consider before deciding to invest in shares of our Class A common stock.

The Offering Transactions

Prior to this offering of shares of our newly-authorized Class A common stock, we will reclassify all of our approximately 100 million 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 13,496,933 shares of our Class A common stock as a donation to The MasterCard Foundation, a private charitable foundation incorporated in Canada that will be controlled by directors who are independent of us and our members. 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. Our board of directors has approved this redemption. We intend to use the remaining proceeds to increase our capital, defend ourselves against legal and regulatory challenges, expand our role in targeted geographies and higher growth segments of the global payment industry and for other general corporate purposes. 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 61,520,912 shares of Class A common stock representing 46% of our equity and 82% of our general voting power (or 66,134,989 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 13,496,933 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)

Table of Contents

and our existing stockholders will own 59,951,485 shares of Class B common stock representing 44% of our equity (or 55,337,408 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. Commencing on the fourth anniversary of the consummation of this offering, each of the shares of Class B common stock will be convertible for shares of 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. In the event that the underwriters do not exercise in full their option to purchase up to an additional 4,614,077 shares of Class A common stock from us in connection with this offering, our certificate of incorporation will require us, subject to applicable law and to the board of directors' fiduciary duties, 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 be competitively advantaged as compared with other four-party payment card systems as customers will view our new structure as a more stable base upon which 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.

Table of Contents

The Offering

Class A common stock offered 61,520,912 shares

Class A common stock and

Class B common stock outstanding

after the offering transactions:

Class A common stock 75,017,845 shares

Class B common stock 59,951,485 shares

134,969,330 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 or other 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 the preferential or other amounts, if any, payable 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.

Table of Contents

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, defend ourselves against legal and regulatory challenges, expand our role in targeted geographies and higher growth segments of the global payments industry and for other general corporate purposes. Approximately 30% of the aggregate redemption price in connection with the redemption of the shares of Class B common stock will be received by affiliates of the underwriters. See Use of Proceeds.

Risk factors

See Risk Factors beginning on page 13 of this prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our Class A common stock.

New York Stock Exchange symbol

MA

Dividend policy

Following this offering and subject to legally available funds, we currently intend to pay a quarterly cash dividend at an annual rate initially equal to \$0.36 per share (or a quarterly rate initially equal to \$0.09 per share) of Class A common stock and Class B common stock, commencing in the fourth quarter of 2006. The declaration and payment of any future dividends will be at the sole discretion of our board of directors after taking into account various factors, including our financial condition, settlement guarantees, operating results, available cash and current and anticipated cash needs. See Dividend Policy.

Table of Contents

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 4,614,077 shares from us and that the shares to be sold in this offering are sold at \$41.50 per share, which is the mid-point of the price range indicated on the front cover of this prospectus.

In addition, shares outstanding and other information based thereon do not reflect 5,300,000 shares of Class A common stock reserved for issuance under our long term equity based incentive plan, including (1) the shares of Class A common stock underlying the unvested restricted stock units (RSUs) we intend to grant to our non-executive management employees at the time of this offering, (2) the shares of Class A common stock underlying the RSUs to be issued upon the conversion of certain outstanding awards under our existing cash based long term incentive plans to our long term equity based incentive plan, and (3) the shares of Class A common stock underlying the 2006 awards under our long term equity based incentive plan. See Management IPO Date RSU Award to Non-Executive Management Employees and MasterCard Long Term Incentive Plan Incentive Plan Benefits.

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

The statement of operations data presented below for the years ended December 31, 2005, 2004 and 2003, and the balance sheet data as of December 31, 2005 and 2004, 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, 2002 and 2001, and balance sheet data as of December 31, 2003, 2002 and 2001, 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 three months ended March 31, 2006 and March 31, 2005 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 presentation of our financial position and results of operations for such periods. Interim results for the three months ended March 31, 2006 are not necessarily indicative of, and are not projections for, the results to be expected for the full year ending December 31, 2006. The results of MasterCard Europe's operations have been included in our consolidated statements of operations from June 28, 2002 to the present. The pro forma net income (loss) per share amounts are not audited. The data set forth below should be read in conjunction with, and is qualified by reference to, Management's Discussion and Analysis of Financial Condition and Results of Operations and our annual consolidated financial statements and the notes to those statements included in this prospectus.

| | Year Ended December 31, | | | | | Three Months Ended March 31, | |
|--|-------------------------|--------------|--------------|--------------|--------------|------------------------------|------------|
| | 2001 | 2002(1) | 2003 | 2004 | 2005 | 2005 | 2006 |
| (In thousands, except per share and operating data) | | | | | | | |
| Statement of Operations Data: | | | | | | | |
| Revenue | \$ 1,611,334 | \$ 1,891,811 | \$ 2,230,851 | \$ 2,593,330 | \$ 2,937,628 | \$ 658,238 | \$ 738,453 |
| General and Administrative | 813,927 | 965,299 | 1,098,552 | 1,185,837 | 1,351,082 | 306,616 | 347,837 |
| Advertising and Market Development | 505,732 | 694,010 | 851,150 | 915,851 | 1,008,268 | 171,679 | 182,683 |
| U.S. Merchant Lawsuit and Other Legal Settlements | | | 763,460 | 21,653 | 75,158 | | |
| Depreciation and Amortization | 69,973 | 90,505 | 119,551 | 123,317 | 109,936 | 28,430 | 25,220 |
| Operating Income (Loss) | 221,702 | 141,997 | (601,862) | 346,672 | 393,184 | 151,513 | 182,713 |
| Other Income (Expense) | 11,237 | 16,391 | (9,658) | (22,972) | 14,154 | (7,318) | 10,204 |
| Income (Loss) before cumulative effect of accounting change | 142,061 | 116,429 | (390,742) | 238,060 | 266,719 | 93,294 | 126,744 |
| Net Income (Loss) | 142,061 | 116,429 | (385,793) | 238,060 | 266,719 | 93,294 | 126,744 |
| Net Income (Loss) Per Share before cumulative effect of accounting change (Basic and Diluted)(2) | 1.98 | 1.35 | (3.91) | 2.38 | 2.67 | .93 | 1.27 |
| Net Income (Loss) Per Share (Basic and Diluted)(2) | 1.98 | 1.35 | (3.86) | 2.38 | 2.67 | .93 | 1.27 |
| Pro forma Net Income Per Share (Basic and Diluted)(3) | 1.05 | .86 | (2.86) | 1.76 | 1.98 | .69 | .94 |
| Balance Sheet Data (at period end): | | | | | | | |
| Cash and Cash Equivalents | \$ 165,943 | \$ 218,575 | \$ 248,119 | \$ 328,996 | \$ 545,273 | \$ 359,992 | \$ 494,792 |
| Investment Securities current | 504,443 | 653,349 | 662,391 | 808,893 | 736,619 | 724,756 | 812,184 |
| Total Assets | 1,486,305 | 2,260,875 | 2,900,905 | 3,264,670 | 3,700,544 | 3,247,049 | 3,710,961 |
| Long-Term Debt | 80,065 | 80,107 | 229,574 | 229,569 | 229,489 | 229,536 | 229,551 |
| Obligations under U.S. Merchant Lawsuit and Other Legal Settlements, Long-term | | | 516,686 | 468,547 | 415,620 | 479,993 | 426,002 |
| Stockholders /Members Equity | 606,661 | 1,023,406 | 698,721 | 974,952 | 1,169,148 | 1,038,127 | 1,307,707 |
| Operating Data: | | | | | | | |

Edgar Filing: MASTERCARD INC - Form S-1/A

| | | | | | | | | | | | | | | |
|---|----|-------|----|-------|----|-------|----|--------|----|--------|----|-------|----|-------|
| GDV (in billions)(4) | \$ | 986 | \$ | 1,161 | \$ | 1,281 | \$ | 1,467 | \$ | 1,661 | \$ | 382 | \$ | 426 |
| Processed Transactions (in millions)(5) | | 7,532 | | 8,666 | | 9,943 | | 12,152 | | 13,733 | | 3,040 | | 3,521 |

Table of Contents

- (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. (EPI) in a transaction that we refer to as the Integration. On July 16, 2002, EPI was renamed MasterCard Europe S.A. (MasterCard Europe). On September 30, 2002, MasterCard Europe was reorganized in Belgium as MasterCard Europe sprl. Note 21 to our annual consolidated financial statements included in this prospectus more fully describes these transactions.
- (2) As more fully described in Summary The Offering Transactions, prior to this offering we will reclassify all of our approximately 100,000 outstanding shares of existing common stock so that our existing stockholders will 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. Accordingly, shares and per share data will be retroactively restated in the financial statements subsequent to the reclassification to reflect the reclassification as if it were effective at the start of the first period being presented in the financial statements.
- (3) Pro forma amounts give effect to the reclassification described above as if it were in place for the earliest fiscal year and interim periods presented.
- (4) 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. PIN-based 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.
- (5) The data set forth for processed transactions represents all transactions processed by MasterCard, including PIN-based online debit transactions. Prior to 2005, processed transactions reported by MasterCard included certain MasterCard-branded (excluding Maestro and Cirrus) transactions for which we received transaction details from our customers but which were not processed by our systems. Our management determined that it would be more appropriate to exclude such transactions from the processed transactions calculation. We have also updated our transaction detail in 2006 to remove certain online debit transactions which did not result in a flow of funds, for example balance inquiries or failed transactions. The processed transactions for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 and for the three months ended March 31, 2005 have been restated to be consistent with the calculation of processed transactions in 2006. Revenue has not been impacted by this change.

Table of Contents

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 acquirers charge merchants in connection with the acceptance of payment cards. Typically, interchange fees are paid by the merchant bank (the acquirer) to the cardholder bank (the issuer) in connection with transactions initiated with our payment system's cards. Interchange fees, including MasterCard's default interchange fees (MIFs), are subject to increasingly intense regulatory scrutiny worldwide as they have increased in recent years and as card-based forms of payment have become relatively more important to local economies. 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 and has recently stated that it intends to issue a supplemental statement of objections in the near future. 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. This new investigation will examine whether the new methodology for setting U.K. MIFs adopted by MasterCard in November 2004 in connection with which MasterCard withdrew the authority of the U.K. members to set domestic MIFs and related fees and conferred such authority exclusively on MasterCard's President and Chief Executive Officer contravenes applicable law.

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, Norway, Sweden, Brazil, Hungary and Spain. We believe that regulators are increasingly adopting a coordinated approach to interchange matters and, as a result, developments in any one jurisdiction may influence regulators' approach to interchange in other jurisdictions. In the United States, interchange fees have also been the topic of increased congressional and regulatory interest. In particular, the U.S. House of Representatives has passed a

Table of Contents

bill that would commission a study by the Federal Trade Commission of the role of interchange in alleged price gouging at gas stations. In February 2006, the Energy and Commerce Committee of the U.S. House of Representatives held a hearing on interchange fees. Also, the general topic of interchange fees has been raised in hearings and other forums, including conferences held by various Federal Reserve banks. Individual state legislatures in the United States are also reviewing interchange fees. For instance, legislators in the states of Washington, Tennessee and Kentucky have proposed bills that would limit or cap interchange fees. Finally, the Merchants Payment Coalition, a coalition of trade associations representing businesses that accept credit and debit cards, is mounting a challenge to interchange fees in the United States by seeking legislative and regulatory intervention.

In addition, merchants are seeking to reduce interchange fees through litigation. In the United States, merchants have filed over forty class-action suits alleging that our interchange fees violate federal antitrust laws. These suits allege, among other things, that MasterCard's purported setting of interchange fees constitutes horizontal price-fixing between and among MasterCard, Visa and their member banks in violation of Section 1 of the Sherman Act, which prohibits contracts, combinations or conspiracies that unreasonably restrain trade. The suits seek treble damages in an unspecified amount, attorney's fees and injunctive relief. See Business Legal and Regulatory Proceedings Global Interchange Proceedings. We are devoting substantial management and financial resources to the defense of MIFs and to the other legal and regulatory challenges we face.

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 substantial 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 were successful in defending 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, our CPP became unenforceable in October 2004 and was subsequently repealed. 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 complaint names a number of member banks as co-defendants. In connection with their respective claims, American Express and Discover each requested that the district court give collateral estoppel effect to its findings in its judgment in the Department of Justice litigation. Although the district court has denied that request at this stage in the

Table of Contents

litigation, the court indicated that American Express and Discover may refile a motion for collateral estoppel after further proceedings. If the court were to give effect to collateral estoppel on one or more issues in the future, then significant elements of plaintiffs' claims would be established, thereby making it more likely that we would be found liable and making the possibility of an award of damages that much more likely. In the event all issues are subsequently decided against MasterCard in dispositive motions during the course of the litigation then there is the possibility that the sole issue remaining will be whether a damage award is appropriate and, if so, what the amount of damages should be.

Neither American Express nor Discover has specified the amount of damages sought and, due to the considerable uncertainty associated with these proceedings, it is currently not reasonably possible to estimate the amount or range of any potential liability. Each of American Express and Discover has conveyed their belief that these damages are substantial. Moreover, because these actions have been brought under the U.S. federal antitrust laws, any actual damages will be trebled and we may be subject to joint and several liability among the defendants if liability is established, which could significantly magnify the adverse effect upon us of any adverse judgment. If we are unsuccessful in defending against either or both of these lawsuits, the ultimate liability for MasterCard could have a material adverse effect on our results of operations, financial position and cash flows in the quarterly and annual period when such losses are recognized, could have a material adverse effect on our overall financial position, or, in certain circumstances, even cause us to become insolvent, and result in the significant reduction in the value, or the complete loss, of your investment. Similarly, if we decide to settle either or both lawsuits or if we establish provisions in connection with them (which will depend on our continuing reconsideration of the progress of the litigation), such a settlement or the establishment of such provisions could also have such a material adverse effect or result. See **Risk Factors** **Risks Related to Our Business** **Legal and Regulatory Risks**. 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 and **Business** **Legal and Regulatory Proceedings**.

If we are ultimately unsuccessful in any of our various lawsuits relating to our currency conversion practices, our business may be materially and adversely affected.

We generate significant revenue from processing cross-border 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 and Regulatory 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.

Based upon litigation developments, certain of which were favorable to MasterCard, and progress in ongoing settlement discussions in these currency conversion cases and pursuant to Statement of Financial Accounting Standards No. 5, **Accounting for Contingencies**, MasterCard recorded an additional \$75 million of legal reserves in 2005. As a result of this additional reserve, we have now established total legal reserves of \$89 million in connection with these currency conversion cases. Based on future developments, this estimate may be revised. The amount of damages sought has not been specified in any of these cases.

Table of Contents

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 on behalf of a class of U.S. merchants against MasterCard International and Visa and alleged, among other things, that our Honor All Cards rule (and a similar Visa rule), which required merchants who accept MasterCard cards to accept for payment every validly presented MasterCard card, constituted an illegal tying arrangement in violation of Section 1 of the Sherman Act. The plaintiffs 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. The settlement agreement required, among other things, that we pay \$125 million in 2003 and \$100 million annually each December from 2004 through 2012. See Business Legal and Regulatory 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 under both federal antitrust laws and state common and statutory law in connection with certain of our rules, including those related to chargeback transactions.

Chargebacks refer to the situation where a transaction is returned, or charged back, to an acquirer by an issuer at the request of the cardholder or for some other reason. The claims directed at our chargeback rules allege that MasterCard's chargeback policies and related rules violate Section 1 and Section 2 of the Sherman Act, which prohibits contracts, combinations or conspiracies that unreasonably restrain trade, and monopolization or attempted monopolization, respectively. The claims allege that such rules constitute unlawful agreements and/or monopolization in restraint of trade. In addition, the complaints contain claims under state common law, including breach of contract, tortious interference with contract and breach of covenant of good faith and fair dealing. None of the putative consumer class actions specifies the amount of damages sought and, except for one lawsuit in which the plaintiff seeks \$60 million in compensatory damages as well as \$180 million in punitive damages, none of the lawsuits relating to chargeback transactions specifies the amount of damages sought. See Business Legal and Regulatory 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 and \$0.5 million of legal reserves recorded in connection with one of the chargeback 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

Table of Contents

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 an antitrust claim entitling the plaintiff to treble damages or under which we were jointly and severally liable, could be significant and could materially and adversely affect our results of operations, cash flow and financial condition, or, in certain circumstances, even cause us to become insolvent, and result in a significant reduction in the value, or the complete loss, of your investment. A plaintiff in one of our antitrust litigations has asserted in a written communication that the damages it believes it is likely to recover in its lawsuit will exceed our capital and ability to pay and that the damages in such lawsuit and in our other pending litigations are likely to be in the billions of dollars before trebling. See Business Legal and Regulatory Proceedings.

Limitations on our business and other penalties resulting from litigation or litigation settlements may materially and adversely affect our revenue and profitability.

As a result of antitrust litigation that was brought against us by the U.S. Department of Justice, 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. See Business Legal and Regulatory Proceedings Department of Justice Antitrust Litigation and Related Private Litigation. In addition, 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 and Regulatory Proceedings U.S. Merchant Opt Out and Consumer Litigations. These limitations and any future limitations on our business resulting from litigation or litigation settlements could reduce the volume of business that we do with our customers, which may materially and adversely affect our revenue and profitability.

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.

We are also subject to regulations imposed by the U.S. Treasury Office of Foreign Assets Control (OFAC). While MasterCard has no business operations, subsidiaries or affiliated entities in Syria, Iran, Sudan, North Korea, Cuba or Libya, a limited number of financial institutions are licensed by MasterCard to issue cards or acquire merchant transactions in certain of these countries, which have each been identified by the U.S. State Department as terrorist-sponsoring states and are subject to OFAC restrictions. Our reputation may suffer due to our association with these countries, which in turn could have a material adverse effect on the valuation of our stock. Further, certain U.S. states have recently enacted legislation regarding investments by pension funds and other retirement systems in companies that have business activities or contacts with countries that have been identified as terrorist-sponsoring states and similar legislation may be pending in other states. As a result, pension funds and other retirement systems may be subject to reporting requirements with respect to investments in companies such as ours or may be subject to limits or prohibitions with respect to those investments that may materially and adversely affect our stock price.

Table of Contents

In addition, in 2005 and 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 the U.S. Congress have also increased their scrutiny of 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, which could materially and adversely affect 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 interchange fees, 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 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, in part due to increased scrutiny of our customers' underwriting standards. The implementation of recently enacted bankruptcy reform legislation in the United States may also directly affect our customers' business models for their payment cards business. The U.S. Congress has also examined the practices of credit card issuers in general, which could lead to significant legislative restrictions. These new requirements and developments may affect 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.

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 respectively subject to the Federal Trade Commission's and the banking regulators' information safeguard rules under the Gramm-Leach-Bliley Act. The rules require 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 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.

Table of Contents

In Europe, the European Parliament and Council have passed the European Directive 95/46/EC (the Directive) 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. 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 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.

Edgar Filing: MASTERCARD INC - Form S-1/A

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

Table of Contents

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. For example, in January 2006, Bank of America acquired MBNA Corporation. MBNA Corporation is an issuer with a larger proportion of its card portfolio devoted to MasterCard than Bank of America. 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 and Regulatory Proceedings Department of Justice Antitrust Litigation and Related Private Litigation. 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 2005, the net revenues from these customers represented an aggregate of approximately \$981 million, or 33%, of total revenue. For the first three months of 2006, the net revenues from these customers represented an aggregate of approximately \$252 million, or 34%, of total revenue. One of our large customers, JPMorgan Chase Bank and its affiliates, generated 11% of our consolidated revenue in each of 2005 and the first three months of 2006. 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.

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

Edgar Filing: MASTERCARD INC - Form S-1/A

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 and Regulatory 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

Table of Contents

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, our CPP, which prohibited financial institutions participating in our system from issuing competing proprietary payment cards, became unenforceable and was subsequently repealed. See Business Legal and Regulatory 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 Bank of America, Citibank, HSBC, USAA and GE Finance, have begun to issue or have announced that they will issue American Express or Discover-branded cards. Accordingly, the repeal of the CPP may have a material adverse effect on our business, revenue and profitability.

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

Table of Contents

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.

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 and Regulatory 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.

Table of Contents

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, economic and other conditions, including the threat of terrorism and outbreak of diseases such as SARS and avian flu. 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.

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, which is calculated using the average daily card charges made during the quarter multiplied by the estimated number of days to settle, was approximately \$15.0 billion as of March 31, 2006. We have a revolving credit facility in the amount of \$2.5 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

Table of Contents

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 as of March 31, 2006, see Note 10 to our interim consolidated financial statements included in this prospectus.

Following the offering transactions, 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, in certain circumstances, even cause us to become insolvent, and result in a significant reduction in the value, or the complete loss, of your investment.

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 currently allows MasterCard International to recover from its members 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. Therefore, following the offering transactions, we will bear the expenses and liabilities associated with extraordinary events without recourse to our members through a right of assessment. Accordingly, the loss of this special assessment right leaves us exposed to significant risks and losses from these types of extraordinary events, which could materially and adversely affect our results of operations, cash flow and financial condition, or, in certain circumstances, even cause us to become insolvent, and result in a significant reduction in the value, or the complete loss, of your investment.

Standard and Poor's Rating Services has announced that they will downgrade our credit rating upon completion of this offering, which will result in an increase of our interest expense for borrowings under our credit facility. Further downgradings of our credit ratings could materially and adversely affect our future ability to obtain funding or materially increase the cost of any additional funding.

Due to the loss of MasterCard International's right to impose special assessments upon its members in connection with this offering, Standard & Poor's Rating Services expects to lower our counterparty credit ratings from A-/A-2 with negative outlook to BBB+/A-2 with stable outlook and our subordinated debt rating from BBB+ with negative outlook to BBB with stable outlook. Until the completion of this offering, our existing ratings will remain on credit watch with negative outlook. The expected downgrading will result in an increase of our interest expense if borrowings were necessary under our credit facility. In addition, further downgrading of our credit ratings by Standard & Poor's Rating Services or by any other rating agency 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

Table of Contents

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 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 merchants and acquirers was subject to a security breach in connection with card and 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 claiming unspecified damages 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, or increase our costs by leading to additional regulatory burdens being imposed upon us.

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 or increase our compliance costs, and thereby 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.

Table of Contents

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

During 2005 and the first three months of 2006, approximately 45% and 47% 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.

Competing dynamic currency conversion services could reduce the volume of foreign currency transactions we process or force us to change our pricing or practices, which may materially and adversely affect our business.

Some of our members and competitors provide currency conversion services at the point of sale, known as dynamic currency conversion. Dynamic currency conversion services could, if significant numbers of cardholders choose to use them, replace our own currency conversion processing services or could force us to change our pricing or practices for these services. If we process fewer transactions or are forced to change our pricing or practices for our currency conversion processing because of competing dynamic currency conversion services or otherwise, our revenue may be materially and adversely affected.

Our assessment revenues that are based on quarterly GDV are recorded utilizing an estimate of our customers performance. Material changes in our customers performance compared to estimates could have a material adverse impact on our results of operations and stock price.

Our assessment revenues that are based on quarterly GDV are recorded utilizing an estimate of our customers performance. Such estimates are subsequently validated against actual performance as reported by our customers, and differences are ordinarily adjusted in the period in which the customer reports actual results. Rebates and incentives, which are recorded as contra-revenue, are also estimated based on customer performance. Material changes in our customers performance compared to estimates, or revisions to performance information subsequently reported by our customers in accordance with the MasterCard rules could have a material adverse impact on our results of operations and on the price of our Class A common stock.

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. If so, 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.

Table of Contents

We expect to record a significant net loss for the second quarter and full year of 2006 as a result of the donation of shares of our Class A common stock and cash to The MasterCard Foundation, and we may make additional cash donations to The MasterCard Foundation to allow it to make charitable disbursements during the first four years of its operations.

At the time of this offering, we intend to donate 13,496,933 newly-issued shares of the new Class A common stock, representing approximately 10% of our equity, to The MasterCard Foundation, a private charitable foundation incorporated in Canada. We also expect to donate an estimated \$40 million in cash to the Foundation in support of its operating expenses and charitable disbursements for the first four years of its operations, and we may make additional cash contributions to the Foundation during and after this period. Because the Foundation's operations are currently being established, the overall size and timing of our expected initial cash donation have not been finally determined.

In connection with the donation of the shares of the Class A common stock, we expect to record an expense that is equal to the value of the shares we are donating. 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 25%. This marketability discount and the methodology used to quantify it were determined by management in consultation with independent valuation consultants retained by MasterCard. This discount was calculated based on analyses of prices paid in transactions of restricted stock of publicly held companies and income based analyses. Based on an initial public offering price per share of \$41.50 (the mid-point of the price range set forth on the cover page of this prospectus), we expect to record an expense of \$420 million in connection with the donation of the Class A common stock. If the initial public offering price per share is higher than \$41.50, the expense we record will be greater. For example, if the initial public offering price per share is \$43.00 (the high-point of the price range set forth on the cover page of this prospectus), we would record an expense of \$435 million in connection with the donation of the Class A common stock. Conversely, if the initial public offering price per share is \$40.00 (the low-point of the price range set forth on the cover page of this prospectus), we would record an expense of \$405 million in connection with the donation of the Class A common stock. As a result of this expense, we expect to record a significant net loss for the three and six months ended June 30, 2006 and a net loss for the 2006 fiscal year. We also expect to record an expense equal to the value of any cash we donate in the period or periods in which such donation or donations are made. The expense of these donations will generally not be deductible to MasterCard for tax purposes. As a result of this difference between financial statement and tax treatments of the donations, we expect there to be a significant increase to our effective tax rate in the periods in which the contributions are made. See Management's Discussion and Analysis of Financial Condition and Results of Operations Impact of Offering Transactions.

Changes in the regulatory environment may adversely affect our benefit plans.

We provide certain retirement benefits to our U.S. employees through the MasterCard Accumulation Plan (MAP), a cash qualified balance benefit plan. In 2003, a U.S. federal district court ruled that International Business Machines Corporation's cash balance pension plan violated the age discrimination provisions of ERISA. If this decision is upheld on appeal and applied to cash balance plans generally, we may be required to amend the MAP and, like other U.S. companies with cash balance plans, may be exposed to claims from plan participants. These developments could have a material adverse impact on our results of operations.

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.

Edgar Filing: MASTERCARD INC - Form S-1/A

Prior to this offering, there has been no public trading market for shares of our Class A common stock. Although our Class A common stock has been approved for listing on the NYSE, it is possible that,

Table of Contents

after this offering, an active trading market will not develop or continue. The initial public offering price 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 75,017,845 outstanding shares of Class A common stock (or 79,631,922 shares if the underwriters exercise their option to purchase additional shares in full), of which 61,520,912 shares (or 66,134,989 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.

In addition, 13,496,933 shares of our Class A common stock 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 disbursement requirements. Under Canadian tax law, The MasterCard Foundation is generally required each year to disburse at least 3.5% of its assets not used in administration of the Foundation in qualified charitable disbursements. However, we have obtained permission from the Canadian tax authorities for The MasterCard Foundation to defer its annual disbursement requirement for up to ten years and meet its total deferred disbursement obligations at the end of the ten-year period. Despite this permission to defer annual disbursements, The MasterCard Foundation may decide to meet its disbursement obligations on an annual basis or to settle previously accumulated obligations during any given year. 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 4,614,077 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. Accordingly, if the underwriters do not exercise their option to purchase additional shares from us and we neither issue nor repurchase any shares following the offering transactions, we would be required to issue an additional 4,614,077 shares of Class A common stock (and to redeem an equivalent number of shares of Class B common stock) in connection with such subsequent offering.

In addition, immediately following the offering transactions, our existing stockholders will hold 59,951,485 shares of our Class B common stock (or 55,337,408 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.

Table of Contents

We and our directors and executive officers 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 \$41.50 per share), after deducting underwriting discounts and estimated offering expenses, will be approximately \$2.4 billion, or \$2.6 billion 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. 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.

A potential conflict of interest may exist with respect to some of the underwriters for this offering.

Several of the underwriters for this offering are members or affiliates of members of MasterCard International and, based on an initial public offering price per share of \$41.50 and assuming no exercise of the underwriters' option to purchase additional shares, collectively will receive approximately 30% of the proceeds used for the redemption of the Class B common stock, as described under Underwriting. Those underwriters include J.P. Morgan Securities Inc., Citigroup Global Markets Inc., HSBC Securities (USA) Inc., Harris Nesbitt Corp., Santander Investment, S.A., KeyBanc Capital Markets, a division of McDonald Investments Inc., Deutsche Bank Securities Inc., Cowen and Company, LLC, ABN AMRO Rothschild LLC, Barclays Capital Inc., Calyon Securities (USA) Inc., Credit Suisse Securities (USA) LLC, ING Bank N.V., London Branch, Mitsubishi UFJ Securities International plc, Mizuho International plc and Wells Fargo Securities, LLC. Moreover, under the formula that determines the redemption price per share of Class B common stock that we will pay to our existing stockholders, the proportion of the aggregate redemption price that will be paid to our existing stockholders in the United States (and, accordingly, the proportion of the proceeds used for the redemption of the Class B common stock that will be paid to the underwriters or their affiliates) increases as aggregate cash proceeds that we receive in this offering increases. Accordingly, those underwriters may have interests beyond receiving customary underwriting discounts and commissions. In particular, there may be a conflict of interest between their interests as recipients of the proceeds from the redemption (i.e., maximizing the value of their investment) and their interests as underwriters (i.e., in negotiating the initial public offering price). Several of the underwriters or their affiliates also perform other services for us. Pursuant to NASD Conduct Rule 2720, the shares of Class A common stock will be offered at a price no higher than that recommended by Goldman, Sachs & Co., which is acting as a qualified independent underwriter. Although the qualified independent underwriter has performed due diligence investigations and reviewed and participated in the preparation of the registration statement of which this prospectus forms a part, conflicts may arise with respect to the offering, and, if conflicts do arise, they may be resolved in a manner adverse to investors. An affiliate of Goldman, Sachs & Co. is a lender under our credit facility.

Table of Contents

The trading market for our Class A common stock could be adversely affected because provisions of our certificate of incorporation will make it in many cases difficult for broker-dealers that are members or affiliates of members of MasterCard International to make a market in our Class A common stock.

Following this offering, our amended and restated certificate of incorporation will provide that no person who is a member or affiliated with a member of MasterCard International, including J.P. Morgan Securities Inc., Citigroup Global Markets Inc., HSBC Securities (USA) Inc., Harris Nesbitt Corp., Santander Investment, S.A., KeyBanc Capital Markets, a division of McDonald Investments Inc., Deutsche Bank Securities Inc., Cowen and Company, LLC, ABN AMRO Rothschild LLC, Barclays Capital Inc., Calyon Securities (USA) Inc., Credit Suisse Securities (USA) LLC, ING Bank N.V., London Branch, Mitsubishi UFJ Securities International plc, Mizuho International plc and Wells Fargo Securities, LLC, which we refer to collectively as member affiliates, as well as the broker-dealer affiliates of such members, will be permitted to beneficially own any shares of Class A common stock or certain other voting stock (or securities convertible or exchangeable into such stock) at any time, subject to a limited number of exceptions. Those exceptions include (1) an underwriter participating in an offering of such securities may beneficially own such securities, but only to the extent necessary to facilitate that offering and (2) such a person may beneficially own such securities if those securities are held for the benefit of third parties or in customer or fiduciary accounts in the ordinary course of such person's business and are held by such person without the purpose or effect of changing or influencing control of MasterCard. Accordingly, once the offering has been completed, no member affiliate will be able to trade as a principal in our Class A common stock and will be restricted in its ability to act as a market-maker in our Class A common stock, although member affiliates will be able to execute trades as agents for third parties. Other members of the underwriting syndicate that are not member affiliates may continue to engage in market-making activities. However, they are under no obligation to do so, and may cease those activities at any time. These restrictions on the ability of the member affiliates to engage in market-making may adversely affect the trading market for the Class A common stock.

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;

Edgar Filing: MASTERCARD INC - Form S-1/A

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

Table of Contents

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

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.

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 and may therefore not have the same incentive to approve a corporate action that may be favorable to the other public stockholders. In addition, the ownership of Class A common stock by The MasterCard Foundation and the restrictions on transfer could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock.

Following completion of this offering, The MasterCard Foundation is expected to own 13,496,933 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 satisfy its charitable disbursement requirements starting on the fourth anniversary of the consummation of this offering. The five initial directors of The MasterCard Foundation were selected by a three-member blue ribbon panel subject to certain limited veto rights of the Nominating and Corporate Governance Committee of our new board of directors. The blue ribbon panel was selected by Messrs. Boudreau and Falcones, two of our current directors, and Mr. Selander, our Chief Executive