

FINAL TRANSCRIPT

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V - Visa Inc. Conference Call to discuss Acquisition of CyberSource

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CORPORATE PARTICIPANTS

Jack Carsky

Visa Inc. - Head of Global IR

Joe Saunders

Visa Inc. - Chairman, CEO

Michael Walsh

CyberSource Corporation - President, CEO

Byron Pollitt

Visa Inc. - CFO

Oliver Jenkyn

Visa Inc. - Global Head of Strategy & Corporate Development

CONFERENCE CALL PARTICIPANTS

Julio Quinteros

Goldman Sachs - Analyst

Adam Frisch

Morgan Stanley - Analyst

Jason Kupferberg

UBS - Analyst

Glenn Greene

Oppenheimer & Co. - Analyst

Tom McCrohan

Janney Montgomery Scott - Analyst

Gil Luria

Wedbush Securities - Analyst

Craig Maurer

CLSA - Analyst

Robert Dodd

Morgan Keegan - Analyst

Meredith Whitney

Meredith Whitney Advisory Group - Analyst

PRESENTATION

Operator

Good morning. At this time I would like to welcome everyone to the Visa conference call. All participants are in a listen-only mode until the question-and-answer session. I would now like to turn the conference over to your host, Mr. Jack Carsky, Head of Global Investor Relations. Mr. Carsky, you may begin.

Jack Carsky - *Visa Inc. - Head of Global IR*

Thanks, Jose. Good morning, everyone, and thanks for joining us today, especially given the early hour.

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I am joined today by Joe Saunders, Visa's Chairman and Chief Executive Officer; Byron Pollitt, Visa's Chief Financial Officer; and Michael Walsh, CyberSource's President and Chief Executive Officer. Oliver Jenkyn, Visa's Global Head of Strategy and Corporate Development, is also here and will be available for our Q&A session.

We are delighted to be here today to discuss the acquisition of CyberSource Corporation by Visa. We have provided a presentation for today's call on both Visa's and CyberSource's investor relations websites, which you can download anytime.

We have allocated approximately 30 minutes for this call, during which Joe will provide an overview of the transaction as well as the strategic rationale behind it. Mike will provide you with an overview of CyberSource's business, and Byron will cover the financial aspects of the transaction. We will then take time to address any questions you may have.

I would also like to remind you that we do not intend to address our fiscal second-quarter earnings results nor any guidance on the conference call. We will cover these topics next Wednesday during our scheduled earnings call.

Before we begin, let me please remind you that this presentation contains forward-looking statements based on current expectations or beliefs, as well as a number of assumptions about future events; and these statements are subject to factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The audience is cautioned not to put undue reliance on these forward-looking statements, which are not a guarantee of future performance and are subject to a number of uncertainties and other factors, many of which are outside the control of Visa and CyberSource.

The forward-looking statements in this presentation address a variety of subjects including, for example, the expected date of closing of the acquisition and the potential benefits of the merger. The following factors, among others, could cause actual results to differ materially from those described in these forward-looking statements.

The risk that CyberSource's business will not successfully integrate with Visa's business; costs associated with the merger; matters arising in connection with the parties' efforts to comply with and satisfy applicable regulatory approvals and closing conditions related to the transaction; and other events that could negatively impact the completion of the transaction, including industry or economic conditions outside of our control. In addition, actual results are subject to other risks and uncertainties that relate more broadly to Visa Inc.'s overall business, including those more fully described in Visa Inc.'s filings with the SEC including its annual report on Form 10-K for the fiscal year ended September 30, 2009, and its quarterly report filed on Form 10-Q for the first quarter of 2010.

And with that I will turn the call over to Joe Saunders, Visa's Chairman and Chief Executive Officer. Joe?

Joe Saunders - *Visa Inc. - Chairman, CEO*

Thanks, Jack; and thank you all Visa and CyberSource employees, clients, and shareholders for joining us. I am very pleased to announce Visa's intention to acquire all of CyberSource's outstanding equity for \$26 a share. This is an all-cash transaction to be paid from cash on hand.

The transaction is about long-term growth. It will strengthen Visa's leadership in global eCommerce by expanding online payment, fraud, and security management capability in a very high-growth area. Visa's excess cash position remains strong even with this transaction, giving us latitude to continue to return excess cash to our shareholders.

We expect the transaction to close in the third calendar quarter of 2010, Visa's fiscal fourth quarter. It will be subject to customary closing conditions including approval by CyberSource stockholders and required regulatory approvals. The transaction has been approved by the Visa and CyberSource Boards of Directors and does not require a Visa shareholder vote.



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CyberSource has a very strong management team. I am pleased that CyberSource President and CEO Michael Walsh will continue to oversee their operations. CyberSource's Executive Chairman and founder, William McKiernan, will also join Visa.

With that management team in place, we intend for CyberSource to operate as a wholly-owned subsidiary. As soon as the deal closes, we intend to begin to capitalize on the revenue synergies that make this transaction compelling from a growth and strategic point of view, including investing in its sales force and product development.

Beyond immediate investment in their global sales force, we have no plans to make any substantive changes to CyberSource's operations. We will do what is required from a policy and process standpoint to integrate these two public companies.

I want to note that while a portion of CyberSource's business is in acquiring, Visa intends to change that model and add additional value to financial institution acquirers by providing them new business referrals from eCommerce merchants.

Also worth noting, CyberSource today operates globally, including in Europe. We are finalizing an agreement with Visa Europe that will enable CyberSource to continue to operate there, also referring business opportunity to European acquirers and their merchant customers.

But before I go any further, and considering that a large number of the analysts and investors that follow Visa may not be as familiar with CyberSource, we thought it would be valuable to provide an overview of the company. To do that is Mike Walsh, President and CEO of CyberSource. So I will turn the call over to him. Mike?

Michael Walsh - *CyberSource Corporation - President, CEO*

Thanks a lot, Joe. Thank you all for joining us this morning. Over the last 15 years, CyberSource has built a reputation as a leader in the eCommerce payment space. Together with our merchants and partners we have led an evolution from simply providing connectivity to the payment networks to delivering a platform and payment management system. We think of this term as payment management as really innovative in creating an opportunity for the merchant and financial institution communities to achieve new heights in the payment space.

Our business really distills down into three major categories -- global payment processing, fraud management, and payment security management. We are a global company based in Mountain View, California, and we've got meaningful operations in the UK, Tokyo, and in Singapore.

We've got a blue-chip customer and partner base; got approximately 295,000 customers globally; roughly 50% of the Dow Jones Industrial companies use CyberSource services; and we've got a robust and active channel partner community of about 4,700 different partners.

Last year in 2009, CyberSource processed about \$120 billion through our system. And that is about one out of every four dollars spent online in the United States.

The business model is highly leveraged, as evidenced by a 56% non-GAAP gross margin in Q4 of 2009. And our revenue is highly recurring in nature; more than 90% of our revenue is recurring.

We have built a great reputation for reliability, strong security, and world-class support and customer satisfaction.

The picture in the slide conveying the CyberSource payment platform gives you a sense for the ecosystem in which we play and the role that we play in that eCommerce payment world. At the bottom we are representing the merchant and some of the considerations that a merchant or an eCommerce solution provider needs to think about when they look at solutions and functional needs in their marketplace.

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At the top we are illustrating the global opportunity that this combination can address. In the middle we are representing the connective tissue that the CyberSource platform brings to the merchant and financial institution communities.

We're very excited about the combination and the opportunity to leverage the Visa brand globally to enhance this platform and improve the merchant experience as well as the financial institution experience in the eCommerce space. With that, I'll turn it back to Joe.

Joe Saunders - Visa Inc. - Chairman, CEO

Thanks, Mike. As we presented at our Investor Day in March, in order to maintain our long-term growth guidance we are focused on six strategic aspirations for 2015. The acquisition of CyberSource is entirely consistent with each one of these aspirations and is completely in line with our strategic direction. So let me briefly remind you and talk through each.

The first is to accelerate electronification. CyberSource's connectivity and functionality will accelerate eCommerce growth, benefiting Visa and electronic payments broadly.

Diversified geographically. CyberSource's key market opportunities are international, specifically Asia and Latin America. This will be a significant focus and effective immediately.

Embedded processing. As we said in March, Visa must touch as much of each transaction as possible in order to enable a long-term differentiated value proposition. This acquisition fulfills this aspiration head-on.

On the next two aspirations -- new business innovation and differentiating value propositions -- the industry-leading functionality and merchant relationships that CyberSource brings will enable meaningful innovation of Visa's eCommerce products, which will drive merchant and cardholder value.

Of course, finally, maximize shareholder value. This is a crucial investment in one of our fastest growing channels and was made to ensure long-term growth in the segment. As Byron will discuss in a moment, this will drive strong, long-term revenue growth for our shareholders.

You can see how this transaction is a natural fit with our strategic priorities. Now let me discuss for a moment why we believe this particular acquisition will enable us to deliver significant value and growth for Visa.

The acquisition of CyberSource will further strengthen Visa's leadership position in global eCommerce. Together, our assets and expertise represent a compelling combination that we believe will drive long-term eCommerce growth and therefore Visa value, by accelerating the growth of the eCommerce category, increasing the usage of Visa debit, prepaid, and credit products for online purchases.

Driving international expansion of eCommerce adoption through CyberSource by drawing on Visa's financial institution relationships and global presence. Today, the majority of CyberSource's revenues are generated in the United States, leaving a tremendous opportunity for global growth.

Expanding the adoption and enhancing the functionality of other Visa eCommerce solutions through tighter integration at the point-of-sale. By combining our assets, we can improve the shopping experience for both merchants and consumers by enhancing security, increasing convenience, and reducing friction at the checkout, leading to more eCommerce transactions.

Strategically, it also significantly enhances our ability to grow Visa offerings, including Rightcliq, real-time offers, and loyalty programs. The combination of all of these will increase payment volume and fee revenue.

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Delivering best-in-class fraud management services to merchants to accelerate the adoption of CyberSource solutions, and increasing Visa fee income through the adoption of CyberSource's secure payment data hosting solutions.

With that in mind, I will turn the conversation over to our CFO, Visa's CFO, Byron Pollitt, to discuss financial considerations.

Byron Pollitt - Visa Inc. - CFO

Thank you, Joe. The financial considerations of this transaction are relatively straightforward. As Joe mentioned earlier, this is an all-cash deal for CyberSource. The transaction will be financed from available cash balances.

As a reminder, Visa has significant cash balances and will generate well over \$2 billion in free cash flow in fiscal year 2010; and we anticipate that level of free cash flow in 2011 as well.

The premium being paid is approximately 34% over CyberSource's closing price of April 20 and is very consistent with premiums paid for high-growth technology companies.

More importantly, we expect the revenue synergies from this strategic investment in our eCommerce business to drive attractive returns to shareholders. As you expect, this transaction will create significant goodwill and intangibles requiring amortization.

As to the immediate impact on earnings, for Q4 fiscal year 2010 we expect about \$0.04 to \$0.05 dilution. And for fiscal year 2011 the transaction should be slightly dilutive. Our investment pro forma is conservatively neutral regarding fiscal years 2013 and '14, although management fully expects it to be accretive sooner.

The anticipated revenue impact will initially focus on gateway fraud and hosting fees, as we drive adoption and usage in the eCommerce space. Further out, we anticipate accelerated revenue contributions based on the compelling combination of synergies for both consumers and merchants that Joe referenced earlier on the call.

Our revenue projections also assume that the current acquiring business will evolve to a referral model consistent with Visa's business-to-business focus, and Visa Europe will work with CyberSource as a service provider through a reseller agreement.

At this time I think we are ready for Q&A. Jack?

Jack Carsky - Visa Inc. - Head of Global IR

Thanks, Byron. Jose, at this time we are ready to start the Q&A. In the interest of time and to allow as many of you as possible to ask questions, we would ask you to limit yourself to only one question. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Julio Quinteros, Goldman Sachs.

Julio Quinteros - Goldman Sachs - Analyst

Great, guys. Good morning. Real quickly, on the positioning of the combined business with CyberSource here. We cover the other one on the other side, so just curious in terms of how this helps enhance your position relative to PayPal. Because it seems

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to me like that -- from a longer-term strategic perspective, that that is something that has been in the back of your minds in terms of positioning.

And I guess relative to that, any potential issues around Hart-Scott-Rodino and getting approval here as we move forward? Thanks.

Joe Saunders - Visa Inc. - Chairman, CEO

Well, let's see. The answer to the first question is, of course we're paying attention to what PayPal as well as other companies are getting into the eCommerce space; and we are obviously concerned that that would have an effect on our market share over a moderate or a longer-term period of time.

So while this is somewhat in reaction to it, it also happens to be consistent with what we think our long-term strategies ought to be, to grow Visa. So that answers that question defensively, but it also happens -- that defense happens to fit in with what we believe is the right direction for Visa to go in.

I don't believe that there will be a Hart-Scott-Rodino issue in this transaction. So we're pretty excited about it in its entirety.

Operator

Adam Frisch, Morgan Stanley.

Adam Frisch - Morgan Stanley - Analyst

Thanks, good morning, guys, and thanks for hosting the call this morning. I don't want to talk about the obvious opportunity in eCommerce. I think that is fairly straightforward.

But what I wanted to ask you, Joe and Mike also, and anyone else who is in the room from the Visa product side, is -- this platform is also applicable to other channels, whether it be mobile and especially in emerging markets. So when I saw this I thought about eCommerce but I also thought about, Joe, what you are doing or plan to do in emerging markets; what this could mean to mobile acceptance at some point going forward; and how this ties in to everything else you are doing, whether it is Rightcliq or prepaid and all those kinds of things.

So could you just tell us how this piece fits into that larger puzzle?

Joe Saunders - Visa Inc. - Chairman, CEO

Yes, sure. I'm going to turn a lot of this over to Oliver, who is in charge of strategy. But I will say that we prominently mentioned the mobile connection in our press release. I didn't mention it in our comments, but it's an extremely important aspect of the whole transaction.

I mean we see more and more activity going to eCommerce. But it is also a way to fulfill the opportunity in emerging markets as it relates to mobile. Do you want to pick up on that, Oliver?

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Oliver Jenkyn - Visa Inc. - Global Head of Strategy & Corporate Development

Yes, sure. A couple points on mobile, Adam. The first, as mobile eCommerce continues to grow with the mobile phone as an access vehicle to the Internet, I think the role for gateway and fraud service will continue to proliferate. Being in the mix in this crucial intersection, eCommerce and mobile, is exciting for us so that we can continue to evolve with it.

In terms of emerging markets, the range of potential roles for mobile as a payment instrument and a point-of-sale device is significant and still evolving, as you all know. However, in almost all scenarios a gateway in this platform is going to be required in some form.

So again, having CyberSource's capabilities to help evolve with and help shape in emerging market payments is something that is very exciting to us. So it is absolutely part of what we were thinking about when we got into this. I think there is a lot of directions that this can go, and we're just happy to be having this capability and functionality that can shape and evolve with the market.

Adam Frisch - Morgan Stanley - Analyst

How integratable, if that is such a word, is the technology from CyberSource into VisaNet and everything else you are doing?

Joe Saunders - Visa Inc. - Chairman, CEO

Well, very. And as you mentioned earlier in your question, it will allow us to fulfill the potential of Rightcliq, of redemptions at the point of sale, at loyalty programs. There's a number of things that we have developed over a lengthy period of time that we're counting on to accelerate our growth in eCommerce.

And having this connection, both the physical connection and the sales connection through to the merchants, I think is extremely important in allowing these things that Visa has been working on and Visa has developed to reach their full potential.

Not to mention CyberSource, the same for their products and services on the other side. You put them together, I think it's an exponentially much stronger business proposition.

Oliver Jenkyn - Visa Inc. - Global Head of Strategy & Corporate Development

I would just add one thing to Joe there, Adam. I think this gateway capability is a piece of a broader eCommerce strategy that we have been working on for a long time, and we have been looking at CyberSource for quite a while.

This -- not only Rightcliq but also loyalty, real-time couponing, aliasing capability. This gives us a lot of stuff that we are really excited about in the eCommerce space.

So it plays into a broader strategy that we are excited to be continuing to execute against.

Adam Frisch - Morgan Stanley - Analyst

Okay, great. Nice job, guys. Congratulations.

Operator

Jason Kupferberg, UBS.

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Jason Kupferberg - UBS - Analyst

Thanks and good morning, guys. Just wanted to follow up on the comment about how you're going to handle the acquiring business of CyberSource going forward. I understand you are going to evolve the model to more of a referral basis model.

I think acquiring was roughly about 30-ish-% of revenue last year for CyberSource. So just wanted to get a rough sense of how we should think about that piece of the revenue base as you go into the out-years here, given that you're going to alter the model there.

And then just a quick follow-up on the back of that. Can you comment on whether this was a competitive bidding situation for CyberSource? Thanks.

Joe Saunders - Visa Inc. - Chairman, CEO

Well, okay. So to begin with, we are going to change the model. We are a B-to-B business. Financial institutions are our primary customers, and we're not looking to interfere with that.

We have looked at this acquisition with that in mind. We have taken it totally into consideration as it relates to the financials and the justification for doing the transaction.

And we are very, very comfortable with where we are winding up. But I'm going to let Byron answer that a little more.

Byron Pollitt - Visa Inc. - CFO

The investment pro forma that we assembled for this transaction does embody a much more modest role for acquiring in line with the referral model. So it's important for you all to realize that going forward, as we give future guidance on this transaction, it will have a much more modest role for acquiring in the revenue projections that we will be looking to deliver to drive the returns.

Joe Saunders - Visa Inc. - Chairman, CEO

You know, it's important to note, though, this isn't just -- this just isn't a referral. We think that there is a business model where we with CyberSource can act collaboratively with financial institutions to create the bundled services for merchants that will be very compelling. So it will serve both of our needs.

Operator

Glenn Greene, Oppenheimer.

Glenn Greene - Oppenheimer & Co. - Analyst

Thank you. Good morning and congratulations. I guess the one question I might have would be the build-versus-buy decision.

Was this sort of a situation of CyberSource had the connections, had the customer base? I am just trying to understand your rationale of the expenditure of the \$2 billion in cash as opposed to building it yourself. Or would it just have taken too long?



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Joe Saunders - Visa Inc. - Chairman, CEO

I think you answered the question when you asked it. But you know, of course we looked at -- we took a long look at this. We spent a year, over a year, thinking about this type of a transaction or this business, and how we would get into it, and what we would do.

And, frankly, I mean to be totally transparent and upfront, we didn't see any other business that we were interested in acquiring other than CyberSource in this space. Looking at CyberSource, looking at their business, their volume, their history, their connections -- for us to have done that on our own, the ramp-up would have taken, in our opinion, way too long.

Operator

Tom McCrohan, Janney.

Tom McCrohan - Janney Montgomery Scott - Analyst

Hi, thanks for taking the question. I had a question I guess for Michael and/or Oliver. On the fraud and security side, where CyberSource has such a great legacy, reputation, and credibility on protecting merchants, what does the combination with Visa specifically provide as far as the value you can provide now on security and fraud?

And how are you thinking about that? And how does that layer into pricing going forward? Thanks.

Oliver Jenkyn - Visa Inc. - Global Head of Strategy & Corporate Development

This is Oliver. What we are excited about in terms of the combined fraud capabilities is being able to combine the detailed, deep, merchant-specific information that CyberSource would have with the network-wide information that Visa has. So we've actually had a partner relationship for a long time between CyberSource and Visa to enhance fraud capabilities and the power of the algorithms.

But what we want to be able to do now is integrate this much more closely, make it much more real-time. And our internal estimates of the predictive power of what we will be able to do with fraud is pretty impressive.

How we actually monetize that and capture value is something we will work on. But a lot of what we did in diligence is getting very confident and comfortable with the added predictive power from the combined assets of a deep-merchant view with a cross-network view.

So very excited about that. And again, it was one of our key synergy calculations when we looked at this.

Operator

Gil Luria, Wedbush Securities.

Gil Luria - Wedbush Securities - Analyst

Yes, thank you for taking my question. Mike, in addition to a lot of the things you talked about, you had the huge ramp for growth, you have the definitive IP on fraud reduction, 300,000 loyal customers, a stellar management team. To me it looks like Visa's shareholders are getting pretty good deal at \$26. Was this a competitive process?

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Michael Walsh - *CyberSource Corporation - President, CEO*

Well, I think I will let Oliver and Joe speak to the competitive process question. But thank you for the compliment, Gil. There were some smiling faces in the room here.

As you said, look, we think we have built a great platform capability over the years; and we are very, very excited about being able to take this to the next level. The Visa global brand is unparalleled in the payment space. And for all the reasons that have been discussed we're very excited about what we can now do with our platform.

Joe Saunders - *Visa Inc. - Chairman, CEO*

Yes, I would reiterate what Mike said. I think that this is a unique combination of two companies with very special attributes. I don't think that, as I said just a moment earlier, I don't think there was any other company in this space that we were particularly interested in acquiring. I think from their point of view, they also looked at us as being the right partner.

Having said that, we paid a fair but competitive price for CyberSource. I am not embarrassed about what we are paying to acquire the company; and I am sure they are not embarrassed -- or I don't believe that they are embarrassed about what they are getting. So I think this is one of those transactions where everybody is very satisfied that the best result was achieved.

Michael Walsh - *CyberSource Corporation - President, CEO*

Agreed.

Operator

Craig Maurer, CLSA.

Craig Maurer - *CLSA - Analyst*

Yes, good morning. A quick question for Mike. When you look at how you compete in or how you implement your services in emerging markets, Brazil comes to mind, where you have significant and already established merchant acquiring businesses. I understand that you are going to be moving away from the acquiring side.

But just a quick clarification on how you either compete or partner with a business like that in a market like Brazil.

Joe Saunders - *Visa Inc. - Chairman, CEO*

Well, I can let Oliver expand on it, but let me begin by telling you our business model is different in different parts of the world, depending on the particular country or economy or region or culture. So I don't think that one-size-fits-all would be appropriate.

As time marches on in the near future, when we have further conversations, I think we'll be able to expand and embellish on just exactly how we will use this in different geographies. But obviously, you hit on an excellent point, that being that we do have connections to merchant businesses in other parts of the world, depending on the point that that particular economy is in.

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Oliver Jenkyn - Visa Inc. - Global Head of Strategy & Corporate Development

Hi, this Oliver. I would just add a couple thoughts. I think during the transition and the integration we will spend a lot of time, Mike and myself and other folks on the leadership team, to look market by market at what Visa's assets and relationships are in the market, what CyberSource's are, and then thinking of the best route market to market.

So this won't be a cookie-cutter approach, based on market dynamics, based on CyberSource and Visa's capabilities, and we will figure that out over the transition period ahead.

Operator

Robert Dodd, Morgan Keegan.

Robert Dodd - Morgan Keegan - Analyst

Hi, guys. Just a quick question from the regulatory viewpoint. I don't think there is a lot of overlap between your two businesses from a Hart-Scott-Rodino point of view. But do you expect to have to make commitments to the regulators about keeping systems open to obviously other card brands, or making some of your products -- like Rightcliq for example -- compatible with some of those other brands, given CyberSource's substantial share in eCommerce?

Joe Saunders - Visa Inc. - Chairman, CEO

Well, I mean just by the nature of CyberSource's business it is open to all brands. Getting into this business is not particularly difficult in that regard from what MasterCard does with MIGS, as an example.

As it relates to Rightcliq, Rightcliq has an open wallet. You can enable a MasterCard or an American Express card or a Discover card in the Rightcliq wallet.

So I mean we understand what open payment systems should look like and are. I don't think that what we are involved in right now is a regulatory issue.

You know, look, we increase our share and our market by growing a particular part of the market and making sure that that embraces electronic payments. In some cases, that benefits other brands. But given our success, we do things that generally help us more than anyone else.

But we will continue to do that. Competition is here to stay. It is part of the fabric of this industry. We are not ignoring it; we are embracing it and dealing with it in an appropriate way.

Jack Carsky - Visa Inc. - Head of Global IR

Jose, we probably have time for one more question.

Operator

Meredith Whitney, Meredith Whitney Advisors.

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Meredith Whitney - *Meredith Whitney Advisory Group - Analyst*

Hi, sorry; I have been toggling through different conference calls. I just wanted to understand. I totally get the strategic merit of the deal. Could you just get to the boring basics of the revenue mechanics in terms of how CyberSource makes money and how you leverage those synergies?

Like is it a fee-based business? Is it a commission-based business? Who pays CyberSource?

Michael Walsh - *CyberSource Corporation - President, CEO*

Sure. This is Mike. The bulk of our business is transaction-based. So we charge per-transaction fees for the suite of services that we provide.

There are various flavors of that. In the acquiring business it tends to be more of a percentage of the sale, a transaction fee. In the gateway business it is more of a fixed pennies per transaction.

Jack Carsky - *Visa Inc. - Head of Global IR*

Okay. Well, thank you all for joining us today. If anybody has any follow-up questions, please feel free to call investor relations.

Operator

Thank you for your participation in today's conference call. The call has concluded. You may go ahead and disconnect at this time.

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