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PRESENTATION
Welcome to Visa Incorporated's fiscal first quarter 2010 earnings conference call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time. 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

Thank you very much. Good afternoon, and welcome to Visa Inc's fiscal first quarter 2010 earnings conference call. And again, our sincerest apologies for what was a pretty large technical difficulty.

Today with us are Joe Saunders, Visa’s Chairman and Chief Executive Officer; and Byron Pollitt, Visa’s Chief Financial Officer. This call is currently being webcast over the internet and can be accessed on the Investor Relations section of our website at investor.visa.com. A replay of the webcast will also be archived on our site for 30 days. A PowerPoint deck containing highlights of today’s commentary was posted to our website prior to this call.

Let me also remind you that this presentation may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. By their nature, forward-looking statements are not guarantees of future performance, and as a result of variety of factors, actual results could differ materially from such statements. Additional information concerning those factors is available on the company’s filings with the SEC, which can be accessed through the SEC’s website and in the Investor Relations section of the Visa website. For historical non-GAAP or pro forma related financial information disclosed in this call, the related GAAP measures and other information required by Regulation G of the SEC are available in the financial and statistical summary accompanying our fiscal first quarter press release. This release can also be accessed through the Investor Relations section of our website.

With that, I'll turn the call over to Joe.

Joe Saunders  
Visa Inc. - Chairman & CEO

Thank you, Jack. As we begin our new fiscal year, I'm pleased to report that our first quarter results were indicative of both the continuing secular shift to electronic payments, especially debit, as well as some encouraging signs in spending domestically and internationally. That being said, and consistent with our guidance expectations, it remains difficult to foresee how global economies will perform in the coming year, so we maintain cautious optimism about Visa's results over the balance of 2010.

Earnings for our first fiscal quarter on a GAAP basis were $1.02 per diluted share, a 28% or 38% increase over the first quarter of 2009. Net income on a GAAP basis was $763 million, a 33% increase over the year-ago period. Recall that we will no longer be providing an adjusted basis for these metrics, but will adhere to the GAAP reported numbers going forward.

Net operating revenues in the quarter were just under $2 billion, a 13% increase over the year-ago period, and in line with our guidance as a result of solid payment value and [cross-quarter] volume growth as well as strong processed transaction growth. For the first time in our quarterly reporting, we are providing global payment volume growth in our operational performance data pack for the quarter just ended. These results, which will still be recognized on a lag basis and reflected in fiscal second quarter service revenue, show encouraging improvement over the fiscal first quarter. Process transactions continue to grow from the mid to high single-digit levels we saw over the course of fiscal 2009, ending the first quarter at 10.9 billion transactions, a 12% growth rate over the prior-year period and up 9% from the growth reported for the fiscal fourth quarter.

I'm pleased that we are executing well against our business plan. As we expand our payments network — growing issuers and acceptance locations, expanding our processing capabilities, and driving transactions with effective marketing programs — we
are able to make full advantage of the secular trend to digital currency and grow our business. As a result, even in this difficult economic environment, we are generating solid earnings and returning excess cash flow to our shareholders. During the first quarter, we repurchased $432 million of our Class A shares under our previously announced $1 billion buyback plan at an average price of just under $79 a share. We will continue to execute on this buyback as conditions warrant.

We also recently announced the unlocking of an additional 56 million shares of our class C stock, which will allow class C shareholders, primarily our international financial institution owners, the ability to further monetize their Visa investment ahead of the scheduled March 2011 unlock. This program has no dilutive effect on our earnings per share and is similar to the prior program we executed in July of last year. With that, let me turn the call over to Byron, who will take you through the details of our financial results, and I'll be back to share our views on the economic environment and our upcoming March investor day.

Byron Pollitt - Visa Inc. - CFO

Thank you, Joe. As is customary, let me begin with the financial highlights for our first fiscal quarter, and then comment on the global payment volume trends for the current quarter, followed by transaction results for January. As Joe already mentioned, it was a solid quarter with slightly higher than anticipated revenue growth, and earnings growth in line with our guidance. As noted earlier, we began providing real time payment volume statistics this quarter. However, it is important to keep in mind that for the time being, we will continue to recognize current quarter service revenues on prior-quarter payment volume. While it is our ultimate intent to recognize the associated revenue on a currency basis as well, that is still in the future.

Global payment volume growth for the September quarter, in constant dollars, rose from a positive 2% in the June quarter to 3%. In the US, payment volume growth was a negative 1% in the September quarter, up from a negative 3% in the June quarter. Debit again proved both its resiliency as a product and its secular appeal by delivering a positive 7% growth compared to 5% growth in the June quarter. Credit, while still challenged, improved to a negative 9% in the September period from a negative 10% in the June period. On a constant dollar basis, rest of world payment volume grew at 8% in the September quarter, holding steady with the 8% rate delivered in the June quarter. These results reflect continued secular growth and a strong and healthy diversified country base outside of the US.

Global cross-border volume growth improved in the September quarter, posting a negative 5% growth rate on a constant dollar basis from the negative 8% rate in the June period. Transactions processed over Visa’s network totaled $10.9 billion in the fiscal first quarter, an increase of 12% over the similar period a year ago and up from 9% we saw in the September quarter.

Turning to the income statement, in our first fiscal quarter, gross revenues of $2.3 billion were up 16% from the similar period in 2009. Volume and support incentives as a percentage of gross revenues came in at 16%, up from the prior year’s depressed level of 13%, and more indicative of what we can expect over the course of fiscal 2010 as payment volume growth improves versus the prior year. Net operating revenues in the quarter were almost $2 billion, a 13% increase over the operating revenues reported for the first fiscal quarter of 2009. This was in line with our revenue guidance, though slightly ahead of the low end of an 11% to 15% range provided to you last quarter. The drivers were better than anticipated processed transaction growth and cross-border volume, as well as the continuing effective of previously disclosed pricing actions.

Moving to the individual revenue line items for the quarter, service revenue was $827 million, up 4% over the prior year period, and reflective of still relatively anemic payment volume growth in the quarter ending September. Data processing revenue was $765 million, up 38% over the prior year, based on strong processed transaction growth of 12% and the continuing effect of previously enacted pricing actions. International transaction revenues were up a solid 9% to $552 million, primarily due to an improvement in cross-border volumes during the periods. The foreign exchange impact on revenue in the fiscal first quarter was neutral, due to the impact of our hedging activity. At this point in the fiscal calendar, the balance of year revenue forecast is substantially hedged.
Our operating margin was 62%, but benefited from a onetime reversal of $41 million in litigation reserves, and from favorable timing in marketing spend. The $41 million contraexpense in the quarter is related to the previously announced prepayment of the retailers’ litigation settlement, which, by itself, represents 2 full percentage points of margin and contributed a nonrecurring $0.03 to the quarter’s earnings per share.

Total operating expenses for the first quarter were $743 million, a decline of $30 million or 4% year-over-year. These results benefited from the gain related to the retailers’ litigation settlement mentioned earlier and $28 million in restructuring costs incurred in the prior year. Our expectation continues to be that expenses on a full-year basis will be relatively flat to the 2009 level on a GAAP basis.

On a sequential quarter basis, we saw lower expenses in several line items, including personnel, marketing, and professional fees. The lower personnel spending was primarily due to lower restructuring expenses and incentive accruals that the current quarter. This quarter, we also reclassified certain contractor expenses to the personnel line that heretofore were characterized under professional and consulting fees. This reclassification was applied to each of the four quarters of fiscal 2009 and the full year 2008. We have included a pro forma reconciliation of this with our press release financials to assist you in your modeling efforts.

Marketing costs were sequentially lower. For context, we intentionally curtailed some media spend in the first quarter, while absorbing Winter Olympic production expenses in 2009’s fiscal fourth quarter. Media spend will increase in the second and third quarters around the Olympics and the FIFA World Cup event, both of which are major Visa sponsorships. Even with these investments aimed at activating our global sponsorship, we continue to see full-year marketing expense below $1 billion. Professional and consulting fees declined sequentially as a result of higher spending in the prior quarter as we brought our new East Coast data center fully online. Capital expenditures were $37 million in the quarter, representing ongoing investment in technology and our newer initiatives. For fiscal 2010, we now expect capital expenditures to be around $200 million.

Moving on to the balance sheet, we ended the first quarter in strong shape, with negligible debt and cash, cash and cash equivalents, restricted cash, and available-for-sale investments of $6 billion. Of this total, $1.6 billion is restricted cash, which represents amounts sufficient to fully pay out the American Express settlement, with $1 billion that is currently uncommitted. As we previously announced in a press release two weeks ago and as Joe mentioned earlier, we will be unlocking 50% of the remaining outstanding class B shareholders, representing 56 million shares, which will further alleviate the class C overhang as we approach the ultimate unlock date of March 25th, 2011.

Now let me comment on December’s payment volume data, and our early read on January. Then I’ll cover our updated financial expectations for the balance of the year. Global payment volume growth for the December quarter in constant dollars rose from a positive 3% in September to 8%. We experienced meaningful growth in all of our global regions.

In the US, payment volume growth was a positive 7% in the December quarter, up from a negative 1% in the September quarter. Debit continued to prove its resiliency as a product and its secular appeal by delivering a positive 15% growth compared to 7% growth in the September quarter. Debit currently accounts for 54% of total US payment volume. Credit, while still challenged, rebounded to a negative 1% in the December quarter from a negative 9% rate in the September period. Looking to January, through the 28th of the month, US payment volume growth of 10% is above the fiscal fourth quarter rate of 7% and on par with December’s month end — December’s 10% growth. On a constant dollar basis, rest of world payment volumes grew at 10% in the December quarter, up from an 8% rate in the September quarter. These results recognized continued secular growth and a strong and healthy diversified country base outside of the US.

Global cross-border volume growth rebounded considerably in the December quarter, posting a 2% growth rate on a constant dollar basis from the negative 5% rate in the September period. Growth in the month of December was an unexpectedly strong 4%. Whether it is representative of a broader cyclical trend or just pent-up demand remains to be determined. Having said that, January cross-border volume growth on a constant basis showed further resiliency, posting a 9% rate of growth through the
28th of the month, up from the 4% rate for the month of December. Processed transactions through the 28th of January grew 13% over the prior-year period, up slightly from the 12% growth posted for the fiscal first quarter.

Now let me comment on our expectations over the coming fiscal year for operating performance and the resulting impact on our full-year guidance. Based on an encouraging first quarter, we are recasting our net revenue growth target for the year to be in the range of 11% to 15%, rather than at the low end of that range. Holding to our target range recognizes that our fiscal year is just underway, and global economic performance is still difficult to foresee. We continue to target better than 20% earnings per share growth in 2010 on a GAAP basis, excluding the VisaNet Brazil gain, and a 2011 earnings per share growth goal of better than 20%.

We are raising our expectation for our full-year 2010 operating margin to the mid-to high 50s, up slightly from the mid-50s we initially targeted for this year. As mentioned earlier, increased marketing and advertising expenses in the next two quarters as well as further investments in our fewer initiatives will exert a downward bias on our margin for the balance of the year.

Based on a better understanding of our tax outlook, we now expect our full-year 2010 tax rate to be in the range of 36.5% to 38.5%, rather than the 38% to 39% range with which we began the year. Capital expenditures are now expected to be around $200 million, at the low of our initial range of $200 million to $250 million, and our projection for free cash flow for the year remains north of $2 billion, which is net of the $682 million prepayment we made in the quarter on the previously settled retailers' litigation.

That concludes my comments, so I'll turn the call back over to Joe.

Joe Saunders - Visa Inc. - Chairman & CEO

Thanks Byron, at this point I'm sure you are sensing an underlying theme of appropriate cautiousness in our comments, and you should. While there is no question that we feel positive about Visa's position in light of what is still a challenging economic picture, it's difficult to predict when a sustained recovery will be underway. As the ongoing secular shift to electronic payment continues, a significant portion of our marketing and advertising activities are squarely aimed at positively influencing that shift to Visa products. We saw strong growth in debit with positive comparables in certain categories of spend like fuel and reoccurring bill pay adding to that growth. We saw better than anticipated international and cross-border volumes, but we're not clear if those are improving volumes representing a rebound, or simply pent-up demand as Byron mentioned. We believe any recovery will take time and will likely have a few bumps along the way. A complete turnaround in the US will arguably take even longer. Things like continuing high unemployment and underemployment, high levels of consumer debt that restrain consumer confidence will keep a lid on overall spending and payments growth, especially credit for the foreseeable future.

So at this point in time we are continuing to focus on the initiatives that allowed us to get through this recession up to now in good shape. Focusing on costs, efficiencies, and making the right investments for the future will allow us to fully take advantage of our business models as economies around the world gain ground. More importantly, it will set the stage for success over the longer term as the payments industry continues to evolve globally. At our upcoming investor day in March, we will be providing you greater insights into our long term growth strategy. Specifically, we will explore the six key elements to this strategy, including our local market focus, products and services, processing, brand, clients, and acceptance. And we'll discuss how the investment decisions we are making today will help us achieve our longer-term growth objectives. As part of investor day, various members of our Management team will present on their respective areas of expertise to illustrate how the elements of our strategy tie together. We're looking forward to engaging in the strategic discussion with you. And of course, we welcome your input on the agenda for the investor day and encourage you to reach out to our Investor Relations team on any specific areas of interest or concern you would like to see covered. With that, we're ready to take questions. Operator?
QUESTIONS AND ANSWERS

Operator
(Operator Instructions). One moment, please, for the first question. Our first question comes from Adam Frisch from Morgan Stanley. Your line is open.

Adam Frisch - Morgan Stanley - Analyst
Hi, guys. Good afternoon.

Joe Saunders - Visa Inc. - Chairman & CEO
Good afternoon.

Adam Frisch - Morgan Stanley - Analyst
Professional and consulting expense, Byron, you explained why it was a little bit lower year-over-year, but it is actually the one line item we would like to see increase a lot, given that’s where the bulk of the product and R&D spend is. So what is the trend there in terms of the investment in product and R&D? And would you consider breaking out those investments in a separate line item going forward, so investors can get a better feel for resource allocation?

Byron Pollitt - Visa Inc. - CFO
Once we normalize out the professional consulting expense associated with getting the new data center open, which is now fully operational and live, we should be managing that up as we continue to invest in expanding our infrastructure and capabilities as well as new product investments. With regards to breaking that out to give more visibility to the type of expense that’s going against future growth, great question. We have that under consideration, and will seriously consider that, perhaps later in the year.

Joe Saunders - Visa Inc. - Chairman & CEO
You should remember that that line item includes all of our legal expenses for litigation, and we had a lot of that last year.

Operator
Our next question comes from Jason Kupferberg from UBS. Your line is open.

Jason Kupferberg - UBS - Analyst
Thanks, I had a quick question and a clarification if I could. My question is just to what extent are you seeing issuers reengage and start promoting credit products more actively, and how much of that activity might be directed towards the affluent end of the market? We’re also hearing more about increased mailings appearing over the last two months of 2009, and my clarification is can you give a split on your US payment volume for January between credit and debit within that, plus 10%?
Joe Saunders - Visa Inc. - Chairman & CEO

Well, it -- to answer the first part of your question, and I'll let Byron answer the second part of it -- I think that there is considerable interest in the higher end of the retail market. I don't think there's any question about that. And there is some evidence that there's a little bit more activity on the solicitation front, but I would say it's way to early to say things have turned around, and we're back to something that's close to where we were maybe a 1.5 to two years ago.

Byron Pollitt - Visa Inc. - CFO

Let me give you a little color upon US debit and credit, and give you a little bit of historical trending by month, and then end of January, so you can see the progress. If we were to go back to October, credit grew in the US at minus 4%, November minus 2%, and then December actually turned positive 2%. January month to date through the 28th, positive 1%. If we were to do the same chronology for debit, October debit payment volume growth for the US was positive 12%, moved to positive 15% in November, positive 19% in December, and is holding at positive 19% January month to date.

Operator

Our next question comes from Julio Quinteros from Goldman Sachs. Your line is open.

Julio Quinteros - Goldman Sachs - Analyst

Great. Can you just characterize a little bit on what you are seeing in terms of the impact of the Card Act, and what they that might be doing relative to your pricing strategies or anything that you guys might be feeling as a result of the legislation at this point?

Joe Saunders - Visa Inc. - Chairman & CEO

Well, I think as we have said before, the Card Act has an indirect effect on us, but not a direct effect, and you are asking a question that is difficult for me to answer. I think it would be more appropriately answered by our financial institution customers. I mean, having said that, Byron just went over the gross statistics on the credit card business compared to the debit card business, and I think it's clear that it's not -- it's not growing at anything close to the rates that it historically has. And obviously some of that -- a lot of that has to do with the economy, and a lot of it has to do with the rules and regulations that they operate in.

Operator

Next question comes from Craig Maurer at CLSA. Your line is open.

Craig Maurer - CLSA Limited - Analyst

Good afternoon. Question about -- you had mentioned growth in recurring bill pay. I was wondering if you had any progress in terms of getting utilities to sign on for that product?

Joe Saunders - Visa Inc. - Chairman & CEO

I think we have had pretty consistent growth in that category over the last several years. I can't tell you exactly what percent of that category it is. It's something that you might want to follow up with Jack on.
Okay. Thanks.

Sanjay Sakhrani - Keefe, Bruyette & Woods - Analyst
Thank you. Byron, I was wondering if you could just quantify the seasonality of the marketing step in year in terms of magnitude. And just the tax rate, should we assume that we would build off of that in terms of migrating lower in 2011? Thanks.

Byron Pollitt - Visa Inc. - CFO
On the marketing side, the way we have tried to be helpful here is that the one -- the first quarter is low spending for the year. We will increase marketing in the second fiscal quarter, marketing spending. Think of that as Winter Olympics driven. Then third quarter we'll be increasing marketing spend relative to the first quarter. Think of that as FIFA World Cup. So this -- the marketing spend, which is under $1 billion was the guidance for the year, is much more oriented to the middle two fiscal quarters, with the first quarter probably being the lightest.

If you switch to the tax rate -- so we have reguided the tax rate into a range of 36.5% to 38.5%, so that follows the trajectory that we outlined during our IPO presentation of ultimately aiming to be in the 35% to 36% range, so we consider that a journey. We have yet to process what the administration's recent tax proposals are, and of course that guidance was not enlightened by those tax proposals, so I would say stay tuned on what 2011, 2012, and beyond will ultimately yield, but we remain on the trajectory of getting in to that 35% to 36% range that we talked about from inception.

Rod Bourgeois - Sanford C. Bernstein & Company, Inc. - Analyst
Yes, guys, you just posted 13% revenue growth, very strong volume growth, and also improving revenue yield, and we're at the beginning of what seems to be an upturn in the economy, and so your current revenue growth run rate is at the midpoint of your new revenue growth guidance. I was wondering if you could just handicap or talk to us about what would have to happen for your revenue growth to come in at the low end of your revenue range? And then what would have to happen to be at the high end or above the upper end of your range? Because it seems if the cyclical trends continue just to run on their current pace, you might actually be able to exceed your latest revenue guidance range, or maybe I'm looking at that the wrong way? So I'm wondering if you could handicap that for us?

Joe Saunders - Visa Inc. - Chairman & CEO
Well, I mean I think that we said on a number of occasions that we're comfortable with our guidance, and we're maintaining cautious optimism. We think that we did better in the first quarter than we thought we were going to do. We don't know whether that level of activity is sustainable, and I'm a little bit conservative in that I'm not ready to predict where the economy is going,
and so it's hard for me to answer that question. What I can answer is given the environment that we're operating in today, we're comfortable with the guidance that we have given.

Operator

Next question comes from Bruce Harting from Barclays Capital. Your line is open.

Bruce Harting - Barclays Capital - Analyst

Can you just compare and contrast the credit trends in US versus rest of world in terms of the growth rates that you are seeing? And then to the degree that we can give any outlook to next -- 2011 on the expense line? Ordinarily companies with the kind of growth you're having are matching that off with some kind of expense growth, but you're able to hold the line on expense and marketing this year. And still as a last question, alluded to -- give the appearance, at least through first quarter that you're well ahead of your targets. So if you could just comment on those? Thanks.

Byron Pollitt - Visa Inc. - CFO

Let me start with the credit trends. So using rest of world as the proxy for what you are asking about, the rest of world considered on a constant dollar basis, the growth trends in credit, credit alone -- so this would exclude debit -- credit alone, never turned negative. It did drop from high double-digit growth in to mid-single-digit growth, which is where, I would say -- that's what we're looking at for the quarter just ended. It -- in December, and on a slight upward trend for rest of world. But we're still in that mid-to upper single-digit credit growth. If you look at all products, credit plus debit, then you are right around 10% growth for the quarter just ended -- that would be the quarter just ended in December.

Operator

Next question comes from Tien-Tsin Huang from JPMorgan.

Tien-Tsin Huang - JPMorgan Chase & Co. - Analyst

Thanks. I wanted to ask about debit, which accelerated more than we expected, both in the US and overseas. I guess a couple of questions there. Was there anything unusual to consider, like new wins cycling through? I'm just trying to get a better sense of same-store growth. And secondly, I was curious if you were seeing any signs of debit cannibalizing credit?

Joe Saunders - Visa Inc. - Chairman & CEO

Well, I don't know how you would define whether debit cannibalizes credit or not. I mean, obviously debit is growing more quickly than credit, and I think that's the nature of the economic environment that we're living in. I think that the question is to what extent will the credit volume accelerate as the economy improves? And I think until that happens, it's going to be hard to measure the balance between the two of them. I mean, we obviously remain very encouraged about our debit growth, but we're frankly also encouraged with what is going on with the credit product in the world outside of the United States particularly, but we're not particularly discouraged about what is going on in the US. Was there another part of the question? Did I answer your question?

Jack Carsky - Visa Inc. - Head of Global IR

Next question, please, operator?
Operator

Your next question comes from Dan Perlin from RBC Capital. Your line is open.

Dan Perlin - RBC Capital Markets - Analyst

Thanks. Good evening. I was wondering if you would give us some update as it pertains to the enhanced checkout services you guys had been talking about in the past, and then the other EC initiatives, e-commerce initiatives that you have been spending a fair bit of money on? Thanks.

Joe Saunders - Visa Inc. - Chairman & CEO

Well, I think the enhanced checkout is something that we're pretty excited about, and we intend to roll that out in a very big in about six weeks. So I think I'll leave that until investor day presentation. But I will -- I will tease you by telling you we're extremely excited about it, and we think it will be a big deal. And we continue to invest in that, and other electronic payment improvements, whether they are in the internet space or the mobile space or anyone of a number of other things. Byron mentioned that probably beginning in our March investor day, we'll break out what we're spending on what a little bit more clearly than we have up to now, but I will remind you that we have committed to spending $150 million to $200 million on new product development this year, and I think that we'll get there.

Operator

Our next question comes from Jim Kissane from Banc of America. Your line is open.

Jim Kissane - BAS-ML - Analyst

Thanks. Joe, can you comment on the competitive environment and your recent loss of a debit portfolio? Thanks. And maybe just a follow-up, an update on the conversion of the WaMu portfolio, and the timing of the SunTrust roll-off? Thanks.

Joe Saunders - Visa Inc. - Chairman & CEO

Well, I think that we've said for a long time on a lot of these calls that you should expect that sooner or later, we're going to lose a customer, and that's exactly what happened. We like to believe that we're disciplined as it relates to what we're willing to do, and how far we're willing to go, and I think that this is a case in point. So I'm unhappy that we lost a customer. We don't lose very many. We have gained a lot more than we have lost, but that being said, it's a tough competitive environment, and as I have also said on a number of occasions, MasterCard is a good company, and they are -- just consistently get beat on every deal that there is.

As it relates to the WaMu portfolio, I think we're just beginning to see -- we're only at the very early stages of beginning to see any volume. The conversion is going on. I think it's pretty de minimis in the numbers that you are looking at for this quarter, particularly since the service revenues are lag. I would say as it relates to SunTrust that I don't know what their conversion schedule is, but I believe it will take a reasonable amount of time to fully divest themselves.

Operator

Our next question comes from Tom McCrohan from Janney. Your line is open.
Tom McCrohan - Janney Montgomery Scott - Analyst

Hi, good afternoon. Joe, can you prioritize your strategic initiatives beyond this year, as far as how you are going to generate long-term revenue growth outside of the secular shift from cash and check to electronic payments, one of those initiatives obviously being trying to position Visa as best possible for growth outside the United States. Just wondering how you are thinking about that? Because given that everyone keeps talking about the secular shift, secular shift -- that is going to slow at some point. And it seems like there are a lot more powerful trends outside of the US. Just want to see how you're thinking about that, thanks.

Joe Saunders - Visa Inc. - Chairman & CEO

We would ride the secular shift for quite a while if we did it appropriately. But you are right, there is a lot more to it than that. I don't think I could even begin to answer that question, and do it justice in the amount of time we have. But once again, I would encourage you and everybody else to attend our investor conference, because I do intend, and we do intend to expand a great deal on this subject. And it's -- it's worth listening to, and it will take a little time, but I can assure you if you come, the trip will be worthwhile.

Operator

Our next question comes from David Parker from Lazard. Your line is open.

David Parker - Lazard Capital Markets - Analyst

Yes, good afternoon. I was hoping you could update us on the Canadian market. And specifically the Finance Minister up there has established some current voluntary code of conduct that you and others have responded to. But is that -- any sense for the outcome of that and has that changed your strategy or your timing for entering that market more aggressively?

Joe Saunders - Visa Inc. - Chairman & CEO

I think that we're in a period of -- well, I'll call it a period of reflection right now, and I don't think it will move quite as aggressively as we might have hoped. But having said that, these rules in general are quite acceptable to us, and I think that the one or two sticking points that will be resolved and I think that we'll proceed in to the market, but I can't give you specifics, or specific timing as it relates to that. I guess I'll just have to leave you with the thought that we're still sure that we will be in the debit market in Canada at some time in the not terribly distant future.

Operator

Our next question comes from Tim Willi from Wells Fargo. Your line is open.

Tim Willi - Wells Fargo Securities - Analyst

Good afternoon. A question around debit or Q parts. Number 1 were there any portfolio conversions in 1Q that helped to drive such strong growth and cards issued? It looks like there probably was. And second, just within the debit business, and the strong growth and what appears to be accelerating growth, is there any -- are there any strategic or product driven initiatives within Visa or the large issuers that you are aware of that could be setting the stage for more than just a cyclical rebound, but maybe a lot more life in the debit market than maybe was previously thought?
Joe Saunders - Visa Inc. - Chairman & CEO

Well, okay. So to answer the first part of the question, we have looked at this quite carefully, and there is no effect of adding other portfolios in our numbers in this quarter. All right. The growth is real growth, not growth because we added a customer.

To answer the second part of your question, it seems to me that when I look at retail services, and financial institutions, that there is a more holistic customer experience type of movement that’s going on. I think it’s a share of wallet movement. I think it is an effort by financial institutions to embrace individual customers over a wide array of products, and making sure that these things complement each other. And so I think you’ll see things begin to happen that are a little bit different than I think you’ll see -- I believe that you’ll see some focus on encouraging transactions and encouraging consolidation within a financial institution. But I am not a financial institution, and I cannot speak for them. And there is a lot going on in every major financial institution in this country as a result of the economy we find ourselves in, and the rules and regulations that they live by. So I would encourage you to continue to ask them the same questions, and see what they say.

Operator

Our next question comes from Roger Smith from Macquarie. Your line is open.

Roger Smith - Macquarie Securities - Analyst

Thanks very much. I just know that there’s a number of licensing fees in the other line, and I was just wondering is there something unique going on there that quarter? And then the second part I guess is that you did give us the trends in the US, but was there anything specific that happened in those businesses that did cause you to increase your guidance? I mean, relative to what you guys had been expecting, what is changing?

Joe Saunders - Visa Inc. - Chairman & CEO

Well, I think that there’s a little bit more pickup than we anticipated. There’s clearly more pickup in the cross-border volume than what we had anticipated. So we’re pleasantly surprised in that regard, and as relates to your first question --

Byron Pollitt - Visa Inc. - CFO

Let me take -- you’re referring to the other revenue. We -- there are a couple of drivers there that are worth putting out. The first one is, we have an arrangement with many of our clients where we handle their rewards redemptions, and we refer to these as pass-through revenues or expenses. And so there has been a pickup in our redemptions over the past year. That was true for this quarter, and that pickup is the single largest driver of the growth rate in other revenue, and that comes with an equal -- roughly an equal offset in expense. There is some licensing -- some new licensing revenue in this category, and this comes from arrangements that we have entered into with the entity we referred to as VisaNet Brazil. And at the time they went public -- up to the time they went public, they would pay us regular dividends. And so the dividends stopped because our share ownership was sold, but instead we are now receiving licensing fees, and they -- those licensing fees occur -- appear in other revenue. The dividends that we used to receive were appearing in other income. And those are the two principal drivers for that growth.

Operator

Our next question comes from Robert Dodd from Morgan Keegan. Your line is open.
Robert Dodd - Morgan Keegan & Co., Inc. - Analyst

Hi, guys just on the pricing that you put forward. If I remember right, you took a price increase in the September quarter in data processing. So seeing that, should we be expecting basically lapping of that in the fourth fiscal quarter this year the slowdown in revenue? Or do you have other material pricing initiatives underway to offer that lapping effect?

Joe Saunders - Visa Inc. - Chairman & CEO

Well, the one that you are talking about, we would lap in the fourth quarter. We have given guidance on [we'll] expect pricing increases to generate this year in our current guidance that -- I don't think that that would cover the shortfall. We have always pointed that out. As it relates to anything else at the point in time that we make any decision as it relates to that pricing, and whether or not it will affect our guidance, we'll disclose that immediately.

Jack Carsky - Visa Inc. - Head of Global IR

Operator, at this time we probably have time for one more call or one more question.

Operator

Our last question comes from Bob Napoli from Piper Jaffray. Your line is open.

Bob Napoli - Piper Jaffray & Co. - Analyst

Thank you. Another question on debit. We look at some banks that put our their debit spending numbers, and your spending numbers are much higher than -- on debit are much higher than the banks. And so I'm wondering is -- where are you seeing that? Are you seeing new customers and community banks picking up market share? Is prepaid having a significant effect on debit? And also your international debit, I mean, are there there been some breakthroughs in international?

Joe Saunders - Visa Inc. - Chairman & CEO

That's a difficult question for me to answer, Bob. I mean, I -- we can't grow any faster than our customers. I mean, whatever they grow, we grow. We don't have any volume outside of that. We have a prepaid business that's doing quite well, but it is not -- I mean it -- I mean there's nothing about it that would shock you in our numbers right now. I think that outside the United States, it's the secular shift in our continued success in being able to make electronic payments (inaudible) in a number of geographies, and other than that, I think it's the things that financial institutions are doing to encourage the usage of debit cards in the United States. And of course, I shouldn't diminish the effect that we're having on moving things to electronic payments through our promotions and our advertising in our market.

Jack Carsky - Visa Inc. - Head of Global IR

All right. That about wraps it up. Thank you, all, very much, for joining us today, and apologize again for the technical glitch. If anybody has any follow-up questions, feel free to call Investor Relations. Thanks.

Operator

Thank you for participating in today's conference call. You may disconnect at this time.