MASTERCARD INC
Form 10-Q
October 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2015
Or

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

For the transition period from to
Commission file number: 001-32877
MasterCard Incorporated
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-4172551 (IRS Employer Identification Number)
2000 Purchase Street Purchase, NY (Address of principal executive offices)	10577 (Zip Code)

(914) 249-2000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x
As of October 22, 2015, there were 1,100,233,562 shares outstanding of the registrant’s Class A common stock, par value $0.0001 per share; and 22,535,195 shares outstanding of the registrant’s Class B common stock, par value $0.0001 per share.

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In this Report on Form 10-Q (“Report”), references to the “Company,” “MasterCard,” “we,” “us” or “our” refer to the MasterC brand generally, and to the business conducted by MasterCard Incorporated and its consolidated subsidiaries, including our operating subsidiary, MasterCard International Incorporated.

Forward-Looking Statements

This Report contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements. When used in this Report, the words “believe”, “expect”, “could”, “may”, “would”, “will”, “trend” and similar wor intended to identify forward-looking statements. These forward-looking statements relate to the Company’s future prospects, developments and business strategies and include, without limitation, statements relating to:

- our focus on growing, diversifying and building our business and providing value to our strategic partners;
- our management of the impact on our business of legal and regulatory challenges;
- the stability of economies around the globe;
- our advertising and marketing strategy;
- our belief that our existing cash, cash equivalents and investment securities balances, its cash flow generating capabilities, its borrowing capacity and our access to capital resources are sufficient to satisfy our future operating cash needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations and potential obligations; and
- the manner and amount of purchases pursuant to our share repurchase program, dependent upon price and market conditions.

Many factors and uncertainties relating to our operations and business environment, all of which are difficult to predict and many of which are outside of our control, influence whether any forward-looking statements can or will be achieved. Any one of those factors could cause our actual results to differ materially from those expressed or implied in writing in any forward-looking statements made by MasterCard or on its behalf. We believe there are certain risk factors that are important to our business, and these could cause actual results to differ from our expectations. Such risk factors include:

- payments system-related regulation, legislation and litigation (including interchange fees and surcharging);
- regulation related to our participation in the payments industry;
- existing regulation leading to new regulation in other jurisdictions or of other products;
- preferential or protective government actions;
- potential or incurred liability and limitations on business resulting from litigation;
- potential changes in tax laws;
- competition in the global payments industry;
- banking industry consolidation;
- loss of substantial business from significant customers;
- impact of our relationships with merchants, issuers, acquirers and governments;
- competitor relationships with our customers;
- brand perception and reputation;
- the overall business environment, including global economic and political events and conditions;
- declines in cross-border activity;
- exposure to loss or illiquidity due to guarantees of settlement and certain other third-party obligations;
- impact of information security failures, disruptions to our transaction processing systems, account data breaches and increases in fraudulent activity;
- the challenges resulting from rapid technological developments in the payments industry;
- the effect of adverse currency fluctuation;
- issues related to acquisition integration and entry into new businesses; and

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- issues related to our Class A common stock and corporate governance structure.

Please see a complete discussion of these risk factors in Part I, Item 1A - Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. We caution you that the important factors referenced above may not contain all of the factors that are important to you. Our forward-looking statements speak only as of the date of this Report or as of the date they are made, and we undertake no obligation to update our forward-looking statements.

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PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

MASTERCARD INCORPORATED
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	September 30, 2015	December 31, 2014
	(in millions, except share data)	
ASSETS		
Cash and cash equivalents	$3,877	$5,137
Restricted cash for litigation settlement	541	540
Investments	1,232	1,238
Accounts receivable	1,081	1,109
Settlement due from customers	912	1,052
Restricted security deposits held for customers	871	950
Prepaid expenses and other current assets	843	671
Deferred income taxes	268	300
Total Current Assets	9,625	10,997
Property, plant and equipment, net of accumulated depreciation of $484 and $437, respectively	641	615
Deferred income taxes	22	96
Goodwill	1,907	1,522
Other intangible assets, net of accumulated amortization of $786 and $663, respectively	820	714
Other assets	1,619	1,385
Total Assets	$14,634	$15,329
LIABILITIES AND EQUITY		
Accounts payable	$381	$419
Settlement due to customers	883	1,142
Restricted security deposits held for customers	871	950
Accrued litigation	711	771
Accrued expenses	2,512	2,439
Other current liabilities	585	501
Total Current Liabilities	5,943	6,222
Long-term debt	1,495	1,494
Deferred income taxes	95	115
Other liabilities	803	674
Total Liabilities	8,336	8,505
Commitments and Contingencies (Note 12)		
Stockholders’ Equity		
Class A common stock, $0.0001 par value; authorized 3,000,000,000 shares, 1,368,854,797 and 1,352,378,383 shares issued and 1,101,756,990 and 1,115,369,640 outstanding, respectively	—	—
Class B common stock, $0.0001 par value; authorized 1,200,000,000 shares, 22,556,445 and 37,192,165 issued and outstanding, respectively	—	—

Additional paid-in-capital	3,973	3,876
Class A treasury stock, at cost, 267,097,807 and 237,008,743 shares, respectively	(12,713)	(9,995)
Retained earnings	15,543	13,169
Accumulated other comprehensive income (loss)	(536)	(260)
Total Stockholders’ Equity	6,267	6,790
Non-controlling interests	31	34
Total Equity	6,298	6,824
Total Liabilities and Equity	$14,634	$15,329

The accompanying notes are an integral part of these consolidated financial statements.

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MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions, except per share data)			
Net Revenue	$2,530	$2,490	$7,150	$7,030
Operating Expenses				
General and administrative	883	784	2,343	2,180
Advertising and marketing	184	203	502	525
Depreciation and amortization	94	83	273	237
Provision for litigation settlement	—	—	61	—
Total operating expenses	1,161	1,070	3,179	2,942
Operating income	1,369	1,420	3,971	4,088
Other Income (Expense)				
Investment income	5	8	20	21
Interest expense	(15)	(11)	(49)	(32)
Other income (expense), net	(7)	1	(9)	(5)
Total other income (expense)	(17)	(2)	(38)	(16)
Income before income taxes	1,352	1,418	3,933	4,072
Income tax expense	375	403	1,015	1,256
Net Income	$977	$1,015	$2,918	$2,816
Basic Earnings per Share	$0.86	$0.88	$2.57	$2.41
Basic Weighted-Average Shares Outstanding	1,130	1,157	1,136	1,169
Diluted Earnings per Share	$0.86	$0.87	$2.56	$2.40
Diluted Weighted-Average Shares Outstanding	1,133	1,160	1,139	1,172

The accompanying notes are an integral part of these consolidated financial statements.

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Net Income	$977	$1,015	$2,918	$2,816
Other comprehensive income (loss):				
Foreign currency translation adjustments	(66)	(274)	(300)	(262)
Defined benefit pension and other postretirement plans	40	—	53	2
Income tax effect	(15)	—	(19)	—
Defined benefit pension and other postretirement plans, net of income tax effect	25	—	34	2
Investment securities available-for-sale	(3)	(8)	(10)	(14)
Income tax effect	—	2	—	4
Investment securities available-for-sale, net of income tax effect	(3)	(6)	(10)	(10)
Other comprehensive income (loss), net of tax	(44)	(280)	(276)	(270)
Comprehensive Income	$933	$735	$2,642	$2,546

The accompanying notes are an integral part of these consolidated financial statements.

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

	Total	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock		Additional Paid-In Capital	Class A Treasury Stock	Non-Controlling Interests
				Class A	Class B			
	(in millions, except per share data)							
Balance at December 31, 2014	$6,824	$13,169	$ (260)	$—	$—	$ 3,876	$(9,995)	$ 34
Net income	2,918	2,918	—	—	—	—	—	—
Activity related to non-controlling interests	(3)	—	—	—	—	—	—	(3)
Other comprehensive income (loss), net of tax	(276)	—	(276)	—	—	—	—	—
Cash dividends declared on Class A and Class B common stock, $0.48 per share	(544)	(544)	—	—	—	—	—	—
Purchases of treasury stock	(2,724)	—	—	—	—	—	(2,724)	—
Share-based payments	103	—	—	—	—	97	6	—

Balance at September 30, 2015	$6,298	$15,543	$ (536)	$—	$—	$ 3,973	$(12,713)	$ 31

The accompanying notes are an integral part of these consolidated financial statements.

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MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2015	2014
	(in millions)	
Operating Activities		
Net income	$2,918	$2,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of customer and merchant incentives	560	513
Depreciation and amortization	273	237
Share-based payments	1	(43)
Deferred income taxes	18	(80)
Other	33	24
Changes in operating assets and liabilities:		
Accounts receivable	(27)	(96)
Income taxes receivable	(83)	(12)
Settlement due from customers	78	86
Prepaid expenses	(704)	(610)
Accrued litigation and legal settlements	(60)	(97)
Accounts payable	(31)	(39)
Settlement due to customers	(192)	(124)
Accrued expenses	1	60
Net change in other assets and liabilities	219	47
Net cash provided by operating activities	3,004	2,682
Investing Activities		
Purchases of investment securities available-for-sale	(862)	(1,977)
Purchases of other short-term investments held-to-maturity	(868)	—
Acquisition of businesses, net of cash acquired	(584)	(336)
Purchases of property, plant and equipment	(125)	(97)
Capitalized software	(124)	(75)
Proceeds from sales of investment securities available-for-sale	666	1,444
Proceeds from maturities of investment securities available-for-sale	476	1,322
(Increase) decrease in restricted cash for litigation settlement	(1)	184
Proceeds from maturities of investment securities held-to-maturity	576	—
Other investing activities	(7)	(17)
Net cash (used in) provided by investing activities	(853)	448
Financing Activities		
Purchases of treasury stock	(2,725)	(3,231)
Proceeds from debt	—	1,487
Dividends paid	(548)	(388)
Tax benefit for share-based payments	40	53
Cash proceeds from exercise of stock options	25	23
Other financing activities	(8)	(39)
Net cash used in financing activities	(3,216)	(2,095)
Effect of exchange rate changes on cash and cash equivalents	(195)	(172)
Net (decrease) increase in cash and cash equivalents	(1,260)	863

Cash and cash equivalents - beginning of period	5,137	3,599
Cash and cash equivalents - end of period	$3,877	$4,462
Non-Cash Investing and Financing Activities		
Fair value of assets acquired, net of cash acquired	$625	$574
Fair value of liabilities assumed related to acquisitions	$41	$134

The accompanying notes are an integral part of these consolidated financial statements.

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MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Summary of Significant Accounting Policies

Organization

MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International Incorporated ("MasterCard International" and together with MasterCard Incorporated, "MasterCard" or the "Company"), is a technology company in the global payments industry that connects consumers, financial institutions, merchants, governments and businesses worldwide, enabling them to use electronic forms of payment instead of cash and checks. The Company facilitates the processing of payment transactions including authorization, clearing and settlement, and delivers related products and services. The Company makes payments easier and more efficient by creating a wide range of payment solutions and services through a family of well-known brands, including MasterCard®, Maestro® and Cirrus®. The Company also provides value-added offerings such as loyalty and reward programs, information services and consulting. The Company's network is designed to ensure safety and security for the global payments system. A typical transaction on the Company's network involves four participants in addition to the Company: cardholder, merchant, issuer (the cardholder's financial institution) and acquirer (the merchant's financial institution). The Company's customers encompass a vast array of entities, including financial institutions and other entities that act as "issuers" and "acquirers", as well as merchants, governments, telecommunication companies and other businesses. The Company does not issue cards, extend credit, determine or receive revenue from interest rates or other fees charged to cardholders by issuers, or establish the rates charged by acquirers in connection with merchants' acceptance of the Company's branded cards.

Consolidation and basis of presentation

The consolidated financial statements include the accounts of MasterCard and its majority-owned and controlled entities, including any variable interest entities ("VIEs") for which the Company is the primary beneficiary. As of September 30, 2015 and December 31, 2014, there were no significant VIEs which required consolidation. Intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the 2015 presentation. In addition, for the three and nine months ended September 30, 2014, contra-revenue and general and administrative expenses were revised to correctly classify $13 million and $27 million, respectively, of customer incentive expenses as contra revenue instead of general and administrative expenses. This revision had no impact on net income. The Company follows accounting principles generally accepted in the United States of America ("GAAP").

The balance sheet as of December 31, 2014 was derived from the audited consolidated financial statements as of December 31, 2014. The consolidated financial statements for the three and nine months ended September 30, 2015 and 2014 and as of September 30, 2015 are unaudited, and in the opinion of management, include all normal recurring adjustments that are necessary to present fairly the results for interim periods. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited consolidated financial statements are presented in accordance with the U.S. Securities and Exchange Commission requirements for Quarterly Reports on Form 10-Q and, consequently, do not include all of the disclosures required by GAAP. Reference should be made to the MasterCard Incorporated Annual Report on Form 10-K for the year ended December 31, 2014 for additional disclosures, including a summary of the Company's significant accounting policies.

Non-controlling interest amounts are included in the consolidated statement of operations within other income (expense). For the three and nine months ended September 30, 2015 and 2014 activity from non-controlling interests was insignificant.

Recent accounting pronouncements

Fair Value Measurements - In May 2015, the Financial Accounting Standards Board ("FASB") issued accounting guidance that removes the requirement to make disclosures for certain investments that are measured at net asset value per share (or its equivalent). This standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. The Company will early adopt the accounting guidance in the fourth quarter of 2015 and does

not anticipate any impact on its consolidated financial statements, however, benefit plan disclosures will be impacted.
Debt Issuance Costs - In April 2015, the FASB issued accounting guidance that will change the current presentation of debt issuance costs on the balance sheet. This new guidance will move debt issuance costs from the assets section of the balance sheet to the liabilities section as a direct deduction from the carrying amount of the debt issued. The Company will adopt the accounting guidance effective January 1, 2016 and does not anticipate that they will have a material impact on its consolidated financial statements.

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MASTERCARD INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Revenue Recognition - In May 2014, the FASB issued accounting guidance that provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes most of the existing revenue recognition requirements. Under this guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued accounting guidance that delayed the effective date of this standard by one year, making the guidance effective for fiscal years beginning after December 15, 2017. Early application is permitted as of the original effective date, December 31, 2016. The Company is in the process of evaluating the potential effects of this guidance.

Note 2. Acquisitions

In the nine months ended September 30, 2015, the Company acquired two businesses for $609 million in cash. For these businesses acquired, the Company recorded $465 million as goodwill representing the preliminary estimates of the aggregate excess of the purchase consideration over the fair value of net assets acquired.

The Company acquired eight businesses in 2014, five of which were acquired in the nine months ended September 30, 2014. In 2014, two of the business combinations were achieved in stages, with non-controlling interests acquired in previous years. One of the business combinations was a transaction for less than 100 percent of the equity interest. The total consideration transferred was $575 million, primarily paid in cash, of which $389 million was related to the acquisitions in the nine months ended September 30, 2014. Through September 30, 2015, the Company recorded $507 million as goodwill for businesses acquired in 2014 representing the final and preliminary estimates of the aggregate excess of the purchase consideration over the fair value of net assets acquired. A portion of the goodwill is expected to be deductible for local tax purposes.

The consolidated financial statements include the operating results of the acquired businesses from the dates of their respective acquisition. Pro forma information related to acquisitions was not included because the impact on the Company's consolidated results of operations was not considered to be material.

Note 3. Earnings Per Share

The components of basic and diluted earnings per share ("EPS") for common stock were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions, except per share data)			
Numerator:				
Net income	$977	$1,015	$2,918	$2,816
Denominator:				
Basic weighted-average shares outstanding	1,130	1,157	1,136	1,169
Dilutive stock options and stock units	3	3	3	3
Diluted weighted-average shares outstanding [1]	1,133	1,160	1,139	1,172
Earnings per Share:				
Basic	$0.86	$0.88	$2.57	$2.41
Diluted	$0.86	$0.87	$2.56	$2.40

[1] For the periods presented, the calculation of diluted EPS excluded a minimal amount of anti-dilutive share-based payment awards.

Note 4. Fair Value and Investment Securities

Financial Instruments – Recurring Measurements

The Company classifies its fair value measurements of financial instruments into a three-level hierarchy (the "Valuation Hierarchy"). Except for the reclassification of U.S. government securities from Level 2 to Level 1, there were no transfers made among the three levels in the Valuation Hierarchy during the three and nine months ended September 30, 2015.

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MASTERCARD INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

The distribution of the Company's financial instruments which are measured at fair value on a recurring basis within the Valuation Hierarchy was as follows:

	September 30, 2015			
	Quoted Prices in Active Markets (Level 1) [1]	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in millions)			
Municipal securities	$—	$56	$—	$56
U.S. government and agency securities [2]	22	45	—	67
Corporate securities	—	648	—	648
Asset-backed securities	—	60	—	60
Other	3	71	—	74
Total	$25	$880	$—	$905

	December 31, 2014			
	Quoted Prices in Active Markets (Level 1) [1]	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(in millions)			
Municipal securities	$—	$135	$—	$135
U.S. government and agency securities [2]	85	114	—	199
Corporate securities	—	618	—	618
Asset-backed securities	—	178	—	178
Other	13	56	—	69
Total	$98	$1,101	$—	$1,199

[1] During 2015, U.S. government securities were reclassified from Level 2 to Level 1 due to a reassessment of the availability of quoted prices. Prior period amounts have been revised to conform to the 2015 presentation.
[2] Excludes amounts held in escrow related to the U.S. merchant class litigation settlement of $541 million and $540 million at September 30, 2015 and December 31, 2014, which would be included in Level 1 of the Valuation Hierarchy. See Note 6 (Accrued Expenses and Accrued Litigation) and Note 11 (Legal and Regulatory Proceedings) for further details.

The fair value of the Company's available-for-sale municipal securities, U.S. government agency securities, corporate securities, asset-backed securities and other fixed income securities included in the Other category are based on quoted prices for similar assets in active markets and are therefore included in Level 2 of the Valuation Hierarchy. The Company's foreign currency derivative contracts have also been classified within Level 2 in the Other category of the Valuation Hierarchy, as the fair value is based on broker quotes for the same or similar derivative instruments. See Note 13 (Foreign Exchange Risk Management) for further details. The Company's U.S. government securities and marketable equity securities are classified within Level 1 of the Valuation Hierarchy as the fair values are based on unadjusted quoted prices for identical assets in active markets.

Financial Instruments - Non-Recurring Measurements

Certain financial instruments are carried on the consolidated balance sheet at cost, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, restricted cash, time deposits, accounts receivable, settlement due from customers, restricted security deposits held for customers, prepaid expenses, accounts payable, settlement due to customers and accrued expenses. In addition, nonmarketable equity investments are measured at fair value on a nonrecurring basis for purposes of initial recognition and impairment testing.
Investments on the Consolidated Balance Sheet include both available-for-sale and held-to-maturity securities. Available-for-sale securities are measured at fair value on a recurring basis and are included in the Valuation Hierarchy table above. Held-to-maturity securities are made up of time deposits with maturities of greater than three months and less than one year and are classified as Level 2 of the Valuation Hierarchy, but are not included in the table above due to their non-recurring nature. At September 30,

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2015 and December 31, 2014, the cost, which approximates fair value, of the Company’s held-to-maturity securities was $364 million and $70 million, respectively.

Debt

The Company estimates the fair value of its long-term debt using the market pricing approach which applies market assumptions for relevant though not directly comparable undertakings. Long-term debt is classified as Level 2 of the Valuation Hierarchy. At September 30, 2015 and December 31, 2014, the carrying value and fair value of long-term debt was $1.5 billion.

Settlement and Other Guarantee Liabilities

The Company estimates the fair value of its settlement and other guarantees using the market pricing approach which applies market assumptions for relevant though not directly comparable undertakings, as the latter are not observable in the market given the proprietary nature of such guarantees. At September 30, 2015 and December 31, 2014, the carrying value and fair value of settlement and other guarantee liabilities were not material. Settlement and other guarantee liabilities are classified as Level 3 of the Valuation Hierarchy as their valuation requires substantial judgment and estimation of factors that are not currently observable in the market. For additional information regarding the Company’s settlement and other guarantee liabilities, see Note 12 (Settlement and Other Risk Management).

Non-Financial Instruments

Certain assets are measured at fair value on a nonrecurring basis for purposes of initial recognition and impairment testing. The Company’s non-financial assets measured at fair value on a nonrecurring basis include property, plant and equipment, goodwill and other intangible assets. These assets are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

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MASTERCARD INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Amortized Costs and Fair Values – Available-for-Sale Investment Securities
The major classes of the Company's available-for-sale investment securities, for which unrealized gains and losses are recorded as a separate component of other comprehensive income on the consolidated statement of comprehensive income, and their respective amortized cost basis and fair values as of September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions)			
Municipal securities	$56	$—	$—	$56
U.S. government and agency securities	67	—	—	67
Corporate securities	650	—	(2)	648
Asset-backed securities	60	—	—	60
Other	50	2	(15)	37
Total	$883	$2	$(17)	$868

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in millions)			
Municipal securities	$135	$—	$—	$135
U.S. government and agency securities	199	—	—	199
Corporate securities	619	—	(1)	618
Asset-backed securities	178	—	—	178
Other	41	1	(4)	38
Total	$1,172	$1	$(5)	$1,168

The municipal securities are primarily comprised of tax-exempt bonds and are diversified across states and sectors. The U.S. government and agency securities are primarily invested in U.S. government bonds and U.S. government sponsored agency bonds. Corporate securities are comprised of commercial paper and corporate bonds. The asset-backed securities are investments in bonds which are collateralized primarily by automobile loan receivables.
Investment Maturities
The maturity distribution based on the contractual terms of the Company's investment securities at September 30, 2015 was as follows:

	Available-For-Sale	
	Amortized Cost	Fair Value
	(in millions)	
Due within 1 year	$264	$264
Due after 1 year through 5 years	596	594
Due after 5 years through 10 years	—	—
Due after 10 years	7	7
No contractual maturity [1]	16	3

Total	$883	$868

[1] Equity securities have been included in the No contractual maturity category, as these securities do not have stated maturity dates.

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MASTERCARD INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) – (Continued)

Gross realized gains and losses

Gross realized gains and losses are recorded within investment income on the Company’s consolidated statement of operations. The gross realized gains and losses from the sales of available-for-sale securities for the nine months ended September 30, 2015 and 2014 were not significant.

Note 5. Prepaid Expenses and Other Assets

Prepaid expenses and other current assets consisted of the following:

	September 30, 2015	December 31, 2014
	(in millions)	
Customer and merchant incentives	$347	$260