MASTERCARD INC
Form S-1/A
May 03, 2006
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As filed with the Securities and Exchange Commission on May 2, 2006.

Registration No. 333-128337

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 5 TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

MASTERCARD INCORPORATED

(Exact name of Registrant as specified in its charter)

Delaware	**7389**	**13-4172551**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

2000 Purchase Street

Purchase, New York 10577

Telephone: (914) 249-2000

(Address, including zip code, and telephone number,

including area code, of Registrant s principal executive offices)

Noah J. Hanft, Esq.

General Counsel

MasterCard Incorporated

2000 Purchase Street

Purchase, New York 10577

Telephone: (914) 249-2000

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

including area code, of agent for service)

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

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

(1) Includes 4,614,077 shares subject to the underwriters option to purchase additional shares.
(2) Estimated solely for the purpose of determining the amount of the registration fee in accordance with Rule 457(a) under the Securities Act of 1933.
(3) $288,365 of which has been previously paid.

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

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

Subject to Completion. Dated May 2, 2006.

61,520,912 Shares

MasterCard Incorporated

Class A Common Stock

This is an initial public offering of shares of Class A common stock of MasterCard Incorporated. MasterCard is offering all of the 61,520,912 shares of Class A common stock to be sold in this offering.

Prior to this offering, there has been no public market for the Class A common stock. It is currently estimated that the initial public offering price per share will be between $40.00 and $43.00. The Class A common stock has been approved for listing on the New York Stock Exchange under the symbol MA.

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

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

See Risk Factors on page 13 to read about factors you should consider before buying shares of Class A common stock.

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

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

To the extent that the underwriters sell more than 61,520,912 shares of Class A common stock, the underwriters have the option to purchase up to an additional 4,614,077 shares of Class A common stock from MasterCard at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2006.

Goldman, Sachs & Co.

Citigroup **Goldman, Sachs & Co.** **HSBC** **JPMorgan**

Bear, Stearns & Co. Inc.	**Cowen & Company**	**Deutsche Bank Securities**
Harris Nesbitt	**KeyBanc Capital Markets**	**Santander Investment**

Prospectus dated , 2006.

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SUMMARY

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

In this prospectus, references to the Company, MasterCard, we, us or our refer to the MasterCard brand generally, and to the business conducted by MasterCard Incorporated and its consolidated subsidiaries, including our principal operating subsidiary, MasterCard International Incorporated. We use the term card to refer to the plastic cards carrying our brands or those of our competitors, together with the underlying credit, charge, deposit or other account.

MasterCard

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

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

Our business has a global reach and has experienced significant growth. Gross dollar volume on cards carrying the MasterCard brand as reported by our customers (GDV) was $1.7 trillion in 2005, a 13% increase in U.S. dollar terms over the GDV reported in 2004. For the first three months of 2006, GDV was $426 billion, a 12% increase in U.S. dollar terms over the GDV reported in the first three months of 2005. In 2005, we processed 13.7 billion transactions (including 2.6 billion PIN-based online debit transactions), a 13% increase over the transactions processed in 2004.

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

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

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

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

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

Competitive Strengths

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

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

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

markets.

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

Worldwide Acceptance. Based on information from our customers, as of March 31, 2006, cards carrying the MasterCard brand were accepted at over 24 million locations around the world, including merchant locations, ATMs and other locations where cash may be obtained. We believe that the extensive global acceptance of cards carrying our brands is unsurpassed by any of our competitors, which is a significant competitive strength that facilitates the use of our cards and contributes to the growth of our business globally.

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

Global Reach of Business. We have offices in 40 countries worldwide and a senior management team with extensive international experience. Through these resources, we have developed substantial knowledge of local customer practices and cardholder behavior in the key markets in which we operate. In addition, we believe that our integrated corporate structure and worldwide presence enables us to provide globally coordinated payment solutions to multinational customers more effectively than our competitors whose businesses are limited in geographic scope or organized principally as separate regional operating companies. As customers continue to consolidate, we believe our structure will enhance our ability to support their differing needs. We also believe that our global operations and worldwide customer base moderate our exposure to the varying economic conditions of different regions.

Business Strategy

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

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

relationships over the long term with our key customers, we believe that we can increase our volume of business with them over time.

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

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

Continued Investment in our Brands. We are committed to maintaining and enhancing our brands and image through advertising and marketing efforts on a global scale. Our approach to marketing activities combines advertising, sponsorships, promotions, interactive media and public relations as part of an integrated package designed to increase MasterCard brand awareness and preference and usage of MasterCard cards. Among numerous other initiatives, we intend to continue our award-winning Priceless® advertising campaign, which has run in 106 countries and 50 languages.

Risks Related to our Business and Industry

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

Increased Legal and Regulatory Scrutiny of Interchange Fees. Interchange fees, which represent a sharing of payment system costs among acquirers and issuers, have been the subject of increased regulatory scrutiny and litigation as they have increased in recent years and as card-based forms of payment have become relatively more important to local economies. Although we establish interchange fees and collect and remit them on behalf of those of our customers entitled to receive them, we do not generally earn revenues in

connection with interchange fees. However, if issuers cannot collect or are forced to reduce interchange fees, this could reduce the number of financial institutions willing to participate in a four-party payment card system such as ours, lower overall transaction volumes, and/or make proprietary end-to-end networks or other forms of payment more attractive. Issuers could also charge higher fees to consumers, thereby making our card programs less desirable and reducing our transaction volumes and profitability, or attempt to decrease the expense of their card programs by seeking a reduction in the fees that we charge.

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

Heightened Competition. Competition and pricing pressure within the global payments industry is increasing, due in part to consolidation within the banking sector. These risks and pressures are heightened by the growing power of merchants within the payments industry.

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

Expected Net Loss for the Second Quarter and Full Year of 2006. At the time of this offering, we intend to donate 13,496,933 newly-issued shares of our Class A common stock and cash to The MasterCard Foundation, a private charitable foundation incorporated in Canada. In connection with this donation we expect to record an expense that is equal to the aggregate value of the cash and shares we are donating, which expense will generally not be deductible for tax purposes. As a result of this expense, we expect to record a significant net loss in the second quarter of 2006 and a net loss for the 2006 fiscal year.

Substantial Portion of Offering Proceeds Unavailable. We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem shares from our existing stockholders, who include affiliates of the underwriters. Accordingly, we will not have those proceeds available to us to invest in and grow our business.

Additional Offering of Class A Common Stock. In the event that the underwriters do not exercise in full their option to purchase additional shares of Class A common stock from us in connection with this offering, our certificate of incorporation will require us, prior to the time of our 2007 annual meeting of stockholders, to issue additional shares of Class A common stock in a public offering and to use the proceeds from such offering to redeem additional shares from our existing stockholders so that, immediately following such subsequent offering and redemption, our existing stockholders own approximately 41% of our equity. This additional issuance may depress the market price of our Class A common stock.

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

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may own only Class B common stock, which has no voting power, and Class M common stock, which is generally non-voting except that it provides the right to elect up to three directors (but not more than one-quarter of all directors) and approve specified significant corporate actions. In addition, with the exception of directors elected by the Class M common stockholders, persons affiliated with our customers will not be permitted to serve as directors of MasterCard. If our members are dissatisfied with these changes to our corporate governance structure, it could have a material adverse effect on our business relationships with them and they may elect to instead do business with a competitor with a different governance structure. In addition, our members ownership in our company will be reduced substantially in connection with this offering, which may reduce their interest in the continued success of our business.

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

The Offering Transactions

Prior to this offering of shares of our newly-authorized Class A common stock, we will reclassify all of our approximately 100 million outstanding shares of common stock, causing each of our existing stockholders to receive 1.35 shares of our Class B common stock for each share of common stock that they held prior to the reclassification and a single share of our Class M common stock. In addition, at the time of this offering, we will issue 13,496,933 shares of our Class A common stock as a donation to The MasterCard Foundation, a private charitable foundation incorporated in Canada that will be controlled by directors who are independent of us and our members. The Class A common stock and the Class B common stock will have the same economic rights, although the Class B common stock will be non-voting (except as may be required by Delaware law). The Class M common stock will have no economic rights. The holders of the Class M common stock will, however, have the right to elect up to three of our directors (but no more than one-quarter of all directors) and approve specified significant corporate transactions. See Description of Capital Stock.

We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters option to purchase additional shares) and to The MasterCard Foundation. Our board of directors has approved this redemption. We intend to use the remaining proceeds to increase our capital, defend ourselves against legal and regulatory challenges, expand our role in targeted geographies and higher growth segments of the global payment industry and for other general corporate purposes. See Use of Proceeds.

Following the reclassification, the issuance of shares of our Class A common stock as a donation to The MasterCard Foundation and in this offering and the subsequent redemption of shares of our Class B common stock from our existing stockholders, which we refer to collectively as the offering transactions, investors in this offering will own 61,520,912 shares of Class A common stock representing 46% of our equity and 82% of our general voting power (or 66,134,989 shares representing 49% of our equity and 83% of our general voting power if the underwriters exercise their option to purchase additional shares in full), The MasterCard Foundation will own 13,496,933 shares of Class A common stock representing 10% of our equity and 18% of our general voting power (or 17% of our general voting power if the underwriters exercise their option to purchase additional shares in full)

and our existing stockholders will own 59,951,485 shares of Class B common stock representing 44% of our equity (or 55,337,408 shares representing 41% of our equity if the underwriters exercise their option to purchase additional shares in full) and shares of Class M common stock that entitle them to elect up to three of our directors and approve specified significant corporate actions but are otherwise non-voting. Commencing on the fourth anniversary of the consummation of this offering, each of the shares of Class B common stock will be convertible for shares of Class A common stock on a one-for-one basis, subject to certain rights of first refusal by the other holders of Class B common stock. In the event that the underwriters do not exercise in full their option to purchase up to an additional 4,614,077 shares of Class A common stock from us in connection with this offering, our certificate of incorporation will require us, subject to applicable law and to the board of directors fiduciary duties, prior to the time of our 2007 annual meeting of stockholders, to issue additional shares of Class A common stock in a public offering and to use the proceeds from such offering to redeem additional shares of Class B common stock so that, immediately following such subsequent offering and redemption, our existing stockholders will own approximately 41% of the aggregate number of shares of Class A common stock and Class B common stock outstanding at that time.

We believe that the new ownership and governance structure that we will achieve through the offering transactions will enhance our business over the long term in various ways. In particular, we believe that perceived conflicts of interest in our business will be addressed by transitioning to a board of directors that includes a majority of directors who are independent of us and of our customers and through the broader diversity of our share ownership. As a result, we believe that we will be competitively advantaged as compared with other four-party payment card systems as customers will view our new structure as a more stable base upon which to build, manage and grow their payments businesses. We also believe that the new structure will benefit our business by providing us with publicly traded equity that we may use as a tool to better align the incentives of our management with those of our stockholders and to attract, retain and motivate our employees and as a currency with which to effect acquisitions, as well as by providing us with enhanced access to the public markets to raise capital. See Business Reasons for Transition to New Ownership and Governance Structure.

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

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The Offering

Class A common stock offered	61,520,912 shares
Class A common stock and Class B common stock outstanding after the offering transactions:	
Class A common stock	75,017,845 shares
Class B common stock	59,951,485 shares
	134,969,330 shares
Common stock	Following this offering, we will have three classes of common stock outstanding: Class A common stock, all of the outstanding shares of which will have been issued in this offering or to The MasterCard Foundation; and Class B common stock and Class M common stock, all of the outstanding shares of which will be held by our existing stockholders.
Voting rights	Each share of Class A common stock will entitle its holder to one vote per share. Except as may be required by Delaware law, holders of Class B common stock will not be entitled to vote and will have no voting power. Although the Class M common stock is generally non-voting, the holders of the Class M common stock will have the right to elect up to three of our directors (but not more than one-quarter of all directors) and approve specified significant corporate actions.
Dividend rights	The Class A common stock and Class B common stock will share equally in any dividends declared by our board of directors, subject to any preferential or other rights of any outstanding preferred stock. Holders of Class M common stock will not be entitled to receive dividends.
Liquidation rights	Upon liquidation, dissolution or winding up, holders of Class A common stock and Class B common stock will be entitled to receive ratably the assets available for distribution to the stockholders after payment of our liabilities and the preferential or other amounts, if any, payable on any outstanding preferred stock. Holders of Class M common stock will not be entitled to receive any assets upon a liquidation, dissolution or winding up.

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

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	In addition, in the event that the number of shares of Class B common stock outstanding is less than 41% of the aggregate number of shares of Class A common stock and Class B common stock outstanding, our members will in certain circumstances be permitted to acquire shares of Class A common stock in the open market or otherwise, which acquired shares would thereupon convert into an equal number of shares of Class B common stock.
	Shares of Class M common stock are not convertible into any other class of our capital stock.
	See Description of Capital Stock.
Use of proceeds	We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital, defend ourselves against legal and regulatory challenges, expand our role in targeted geographies and higher growth segments of the global payments industry and for other general corporate purposes. Approximately 30% of the aggregate redemption price in connection with the redemption of the shares of Class B common stock will be received by affiliates of the underwriters. See Use of Proceeds.
Risk factors	See Risk Factors beginning on page 13 of this prospectus for a discussion of risks you should carefully consider before deciding to invest in shares of our Class A common stock.
New York Stock Exchange symbol	MA
Dividend policy	Following this offering and subject to legally available funds, we currently intend to pay a quarterly cash dividend at an annual rate initially equal to $0.36 per share (or a quarterly rate initially equal to $0.09 per share) of Class A common stock and Class B common stock, commencing in the fourth quarter of 2006. The declaration and payment of any future dividends will be at the sole discretion of our board of directors after taking into account various factors, including our financial condition, settlement guarantees, operating results, available cash and current and anticipated cash needs. See Dividend Policy.

Unless indicated otherwise, the information included in this prospectus gives effect to the reclassification of our outstanding shares of common stock and assumes no exercise by the underwriters of their option to purchase up to an additional 4,614,077 shares from us and that the shares to be sold in this offering are sold at $41.50 per share, which is the mid-point of the price range indicated on the front cover of this prospectus.

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

Summary Consolidated Financial and Other Data

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

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

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

(1) On June 28, 2002, we converted from a membership to a stock company through the creation of MasterCard Incorporated, a new holding company. Also on June 28, 2002, MasterCard Incorporated directly and indirectly acquired all of the outstanding stock of Europay International S.A. (EPI) in a transaction that we refer to as the Integration. On July 16, 2002, EPI was renamed MasterCard Europe S.A. (MasterCard Europe). On September 30, 2002, MasterCard Europe was reorganized in Belgium as MasterCard Europe sprl. Note 21 to our annual consolidated financial statements included in this prospectus more fully describes these transactions.

(2) As more fully described in Summary The Offering Transactions, prior to this offering we will reclassify all of our approximately 100,000 outstanding shares of existing common stock so that our existing stockholders will receive 1.35 shares of our Class B common stock for each share of common stock that they held prior to the reclassification and a single share of our Class M common stock. Accordingly, shares and per share data will be retroactively restated in the financial statements subsequent to the reclassification to reflect the reclassification as if it were effective at the start of the first period being presented in the financial statements.

(3) Pro forma amounts give effect to the reclassification described above as if it were in place for the earliest fiscal year and interim periods presented.

(4) GDV represents the aggregate dollar amount of purchases made and cash disbursements obtained with MasterCard-branded cards and includes the impact of balance transfers and convenience checks. PIN-based online debit transactions and other branded transactions are not included. The data set forth for GDV is derived from information provided by MasterCard members and includes information with respect to MasterCard-branded transactions that are not processed by MasterCard and for which MasterCard does not earn significant revenues. All data is subject to revision and amendment by MasterCard s members subsequent to the date of its release, which revisions and amendments may be material.

(5) The data set forth for processed transactions represents all transactions processed by MasterCard, including PIN-based online debit transactions. Prior to 2005, processed transactions reported by MasterCard included certain MasterCard-branded (excluding Maestro and Cirrus) transactions for which we received transaction details from our customers but which were not processed by our systems. Our management determined that it would be more appropriate to exclude such transactions from the processed transactions calculation. We have also updated our transaction detail in 2006 to remove certain online debit transactions which did not result in a flow of funds, for example balance inquiries or failed transactions. The processed transactions for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 and for the three months ended March 31, 2005 have been restated to be consistent with the calculation of processed transactions in 2006. Revenue has not been impacted by this change.

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RISK FACTORS

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

Risks Related to Our Business

Legal and Regulatory Risks

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

Interchange fees, which represent a sharing of payment system costs among the financial institutions participating in a four-party payment card system such as ours, are generally the largest component of the costs that acquirers charge merchants in connection with the acceptance of payment cards. Typically, interchange fees are paid by the merchant bank (the acquirer) to the cardholder bank (the issuer) in connection with transactions initiated with our payment system s cards. Interchange fees, including MasterCard s default interchange fees (MIFs), are subject to increasingly intense regulatory scrutiny worldwide as they have increased in recent years and as card-based forms of payment have become relatively more important to local economies. Regulators are seeking to reduce these costs through regulatory action. For example:

In the European Union, the European Commission has issued a Statement of Objections challenging MasterCard s cross-border MIF under European Union competition rules and has recently stated that it intends to issue a supplemental statement of objections in the near future. If we do not obtain a favorable ruling, the European Commission could order us to change the manner in which MasterCard calculates its cross-border MIF.

In the United Kingdom the Office of Fair Trading (OFT) issued a decision on September 6, 2005 concluding that MasterCard s U.K. MIFs contravene U.K. and European Union competition law. If this decision is upheld on appeal, it could have a significant adverse impact on the revenues of MasterCard s U.K. members and on MasterCard s competitive position and overall business in the U.K. In addition, the OFT has stated that it will commence a new investigation of MasterCard s current U.K. MIFs and, if it determines that they contravene U.K. and European Union competition law, it will issue a new decision and possibly levy fines accruing from the date of its first decision. This new investigation will examine whether the new methodology for setting U.K. MIFs adopted by MasterCard in November 2004 in connection with which MasterCard withdrew the authority of the U.K. members to set domestic MIFs and related fees and conferred such authority exclusively on MasterCard s President and Chief Executive Officer contravenes applicable law.

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

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

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

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

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

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

In 1998, the U.S. Department of Justice filed suit against MasterCard International, Visa U.S.A., Inc. and Visa International Corp. in the U.S. District Court for the Southern District of New York alleging that certain aspects of the governance of MasterCard and Visa were unlawful, and that MasterCard s Competitive Programs Policy (CPP) and a similar Visa bylaw provision that prohibited financial institutions participating in the respective systems from issuing competing proprietary payment cards (such as American Express or Discover) acted to restrain competition. Although we were successful in defending the relevant aspects of our governance structure at trial, the Second Circuit Court of Appeals affirmed the trial court judge s ruling that our CPP and Visa s bylaw constituted unlawful restraints of trade under the U.S. federal antitrust laws. Based on the final judgment in this matter, our CPP became unenforceable in October 2004 and was subsequently repealed. Thereafter, Discover and American Express each filed suit against us, Visa U.S.A., Inc. and Visa International Services Association alleging that the CPP and Visa s bylaw provision caused each injury by unlawfully restraining trade under the U.S. federal antitrust laws. Discover also alleges that it suffered injury by reason of our rules, which required merchants in the United States to accept our debit cards if they accepted other MasterCard-branded cards, before these rules were modified as part of the U.S. merchant lawsuit described below. The American Express complaint names a number of member banks as co-defendants. In connection with their respective claims, American Express and Discover each requested that the district court give collateral estoppel effect to its findings in its judgment in the Department of Justice litigation. Although the district court has denied that request at this stage in the

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

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

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

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

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

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

There are currently actions against MasterCard International in a number of state courts and the District of Columbia. In a number of these state courts, there are multiple complaints against MasterCard International brought under state unfair competition statutes on behalf of putative classes of consumers. The claims in these actions mirror the allegations made in the U.S. merchant lawsuit, which was brought on behalf of a class of U.S. merchants against MasterCard International and Visa and alleged, among other things, that our Honor All Cards rule (and a similar Visa rule), which required merchants who accept MasterCard cards to accept for payment every validly presented MasterCard card, constituted an illegal tying arrangement in violation of Section 1 of the Sherman Act. The plaintiffs also asserted that we and Visa conspired to monopolize what they characterized as the point-of-sale debit card market. In June 2003, MasterCard International entered into a settlement agreement that resolved the U.S. merchant lawsuit and contract disputes with certain customers. The settlement agreement required, among other things, that we pay $125 million in 2003 and $100 million annually each December from 2004 through 2012. See Business Legal and Regulatory Proceedings U.S. Merchant Opt Out and Consumer Litigations for a description of the settlement agreement. The putative consumer class actions are not covered by the terms of the June 2003 settlement agreement. These actions assert that merchants, faced with excessive merchant discount fees, have passed these overcharges to consumers in the form of higher prices on goods and services sold. In addition to these litigations, we are also being sued in several other state and federal courts under both federal antitrust laws and state common and statutory law in connection with certain of our rules, including those related to chargeback transactions.

Chargebacks refer to the situation where a transaction is returned, or charged back, to an acquirer by an issuer at the request of the cardholder or for some other reason. The claims directed at our chargeback rules allege that MasterCard s chargeback policies and related rules violate Section 1 and Section 2 of the Sherman Act, which prohibits contracts, combinations or conspiracies that unreasonably restrain trade, and monopolization or attempted monopolization, respectively. The claims allege that such rules constitute unlawful agreements and/or monopolization in restraint of trade. In addition, the complaints contain claims under state common law, including breach of contract, tortious interference with contract and breach of covenant of good faith and fair dealing. None of the putative consumer class actions specifies the amount of damages sought and, except for one lawsuit in which the plaintiff seeks $60 million in compensatory damages as well as $180 million in punitive damages, none of the lawsuits relating to chargeback transactions specifies the amount of damages sought. See Business Legal and Regulatory Proceedings. We may also be sued in the future in the United States or in other jurisdictions by our customers, merchants or consumers for substantial damages or injunctive relief in connection with our business practices. If we are unsuccessful in our defense against the consumer class actions, the merchant chargeback litigations, or any other litigation, we may be forced to pay damages and/or change our business practices and pricing structure, any of which could have a material adverse effect on our revenue and profitability.

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

Except with respect to currency conversion litigations, we have not established reserves for any of the legal proceedings in which we are currently involved and we are unable to estimate at this time the amount of charges, if any, that may be required to provide reserves for these matters in the future. We may determine in the future that a charge for all or a portion of any of our legal proceedings is required, including charges related to legal fees. In addition, we may be required to record an additional charge if we incur liabilities in excess of reserves that we have previously recorded. Such

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

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

As a result of antitrust litigation that was brought against us by the U.S. Department of Justice, until October 15, 2006, we are required to permit issuers with which we have entered into business agreements in the United States before October 15, 2004 to terminate those agreements without penalty in order to enter into agreements with American Express or Discover. See Business Legal and Regulatory Proceedings Department of Justice Antitrust Litigation and Related Private Litigation. In addition, as a result of the settlement agreement in connection with the U.S. merchant lawsuit, merchants have the right to reject our debit cards in the United States while still accepting other MasterCard-branded cards, and vice versa. See Business Legal and Regulatory Proceedings U.S. Merchant Opt Out and Consumer Litigations. These limitations and any future limitations on our business resulting from litigation or litigation settlements could reduce the volume of business that we do with our customers, which may materially and adversely affect our revenue and profitability.

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

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

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

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In addition, in 2005 and 2004, a number of regulations were issued implementing the Fair and Accurate Credit Transactions Act which, among other things, makes permanent the preemptive effect of several key provisions of the Fair Credit Reporting Act that could have a material impact on our customers businesses. Additional implementing regulations are anticipated later this year. One such regulation pertaining to risk-based pricing could have a significant impact on the application process for credit cards, resulting in increased costs of issuance and/or a decrease in the flexibility of card issuers to set the price of credit. Regulators and the U.S. Congress have also increased their scrutiny of our customers pricing of credit and their underwriting standards. Any legislative or regulatory restrictions on our customers ability to price credit freely could result in reduced amounts of credit available to consumers, which could materially and adversely affect our transaction volume and revenues.

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

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

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

We and our customers are also subject to regulations related to privacy and data use and security in the jurisdictions in which we do business, and we and our customers could be negatively impacted by these regulations. For example, in the United States, we and our customers are respectively subject to the Federal Trade Commission s and the banking regulators information safeguard rules under the Gramm-Leach-Bliley Act. The rules require that each financial institution (including us) develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution s size and complexity, the nature and scope of the financial institution s activities, and the sensitivity of any customer information at issue. In 2005, there has been a heightened legislative and regulatory focus on data security, including requiring consumer notification in the event of a data breach. In the United States, there are a number of bills pending in Congress and there have been several congressional hearings to address these issues. Congress will likely consider data security/data breach legislation in 2006 which, if implemented, could affect us and our customers. In addition, a number of states have enacted security breach legislation, requiring varying levels of consumer notification in the event of a security breach, and several other states are considering similar legislation.

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

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

Business Risks

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

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

Our strategy is to grow our business by, among other things, focusing on our key customers and entering into customized business agreements with key customers around the globe. We may in the future not be able to enter into such agreements on terms that we consider favorable, and we may be required to modify existing agreements in order to maintain relationships and to compete with others in the industry. Some of our competitors are larger or have greater financial resources than we do. In addition, to the extent that we offer discounts or incentives under such agreements, we will need to further increase transaction volumes or the amount of services provided thereunder in order to benefit incrementally from such agreements and to increase revenue and profit. Furthermore, a number of customers from which we earn substantial revenue are principally aligned with one of our competitors. A significant loss of revenue or transaction volumes from these customers could have a material adverse impact on our business.

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

Over the last several years, the banking industry has undergone rapid consolidation, and we expect this trend to continue in the future. Consolidation represents a competitive threat to us because our strategy contemplates entering into business agreements with our largest customers in exchange

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for significant business commitments. Significant ongoing consolidation in the banking industry may result in a financial institution with a substantial MasterCard portfolio being acquired by an institution that has a strong relationship with a competitor, resulting in the loss of business for MasterCard. For example, in January 2006, Bank of America acquired MBNA Corporation. MBNA Corporation is an issuer with a larger proportion of its card portfolio devoted to MasterCard than Bank of America. In addition, one or more of our customers could seek to merge with, or acquire, one of our competitors, and any such transaction could have a material adverse impact on our business and prospects.

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

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

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

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

In addition, a significant portion of our revenue is concentrated among our five largest customers. In 2005, the net revenues from these customers represented an aggregate of approximately $981 million, or 33%, of total revenue. For the first three months of 2006, the net revenues from these customers represented an aggregate of approximately $252 million, or 34%, of total revenue. One of our large customers, JPMorgan Chase Bank and its affiliates, generated 11% of our consolidated revenue in each of 2005 and the first three months of 2006. JPMorgan Chase Bank also acts as our U.S. settlement bank and has a significant commitment under our revolving credit facility. Loss of business from JPMorgan Chase Bank or any of our other large customers could have a material adverse impact on our business.

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

We rely on merchants and their relationships with our customers to expand the acceptance of our cards. We believe that consolidation in the retail industry is producing a set of larger merchants with increasingly global scope. These merchants are having a significant impact on all participants in the global payments industry, including MasterCard. For instance, as a result of the

settlement agreement in connection with the U.S. merchant lawsuit, merchants have the right to reject our debit cards in the United States while still accepting other MasterCard-branded cards, and vice versa. See Business Legal and Regulatory Proceedings U.S. Merchant Opt Out and Consumer Litigations. In addition, some large merchants are supporting many of the legal and regulatory threats to interchange fees that

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MasterCard is now defending, since interchange fees represent a significant component of the costs that merchants pay to accept payment cards. See Interchange fees are subject to increasingly intense legal and regulatory scrutiny worldwide, which may have a material adverse impact on our revenue, our prospects for future growth and our overall business. The increasing focus of merchants on the costs of accepting cash-based forms of payment may lead to additional litigation and regulatory proceedings. Large merchants are also able to negotiate pricing discounts and other incentives from us and our customers in order to accept our payment cards. As merchants consolidate and become even larger, we may have to increase the amount of incentives that we provide to certain merchants, which could materially and adversely affect our revenues and profitability.

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

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

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

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

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

We are, and will continue to be, significantly dependent on our relationships with our issuers and acquirers and their further relationships with cardholders and merchants to support our programs and services. We do not issue cards, extend credit to cardholders or determine the interest rates (if applicable) or other fees charged to cardholders using cards that carry our brands. Each issuer determines these and most other competitive card features. In addition, we do not solicit merchants to process transactions or establish the discount rate that merchants are charged for card acceptance, which are responsibilities of our acquirers. As a result, our business significantly depends on the continued success and competitiveness of our issuer and acquirer customers. In turn, our customers

success depends on a variety of factors over which we have little or no influence. If our customers become financially unstable, we may lose revenue or we may be exposed to settlement risk as described below.

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

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

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

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

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

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

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

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

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

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

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

We may incur liability in connection with transaction settlements if an issuer or acquirer fails to fund its daily settlement obligations due to technical problems, liquidity shortfall, insolvency or other reasons. If a principal member or affiliate debit licensee is unable to fulfill its settlement obligations to other members, we may bear the loss even if we do not process the transaction. In addition, although we are not contractually obligated to do so, we may elect to keep merchants whole if an acquirer defaults on its merchant payment obligations, in order to maintain the integrity and acceptance of our brands. Our estimated gross legal settlement exposure, which is calculated using the average daily card charges made during the quarter multiplied by the estimated number of days to settle, was approximately $15.0 billion as of March 31, 2006. We have a revolving credit facility in the amount of $2.5 billion to provide liquidity in the event of one or more settlement failures by our members. While we believe that we have sufficient liquidity to cover a settlement failure by any of our largest customers

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on their peak day, concurrent settlement failures of more than one of our largest customers or of several of our smaller customers may exceed our available resources and could materially and adversely affect our business and financial condition. In addition, even if we have sufficient liquidity to cover a settlement failure, we may not be able to recover the cost of such a payment and may therefore be exposed to significant losses, which could materially and adversely affect our results of operations, cash flow and financial condition. For more information on our settlement exposure as of March 31, 2006, see Note 10 to our interim consolidated financial statements included in this prospectus.

Following the offering transactions, we will no longer have the right to impose special assessments upon the members of MasterCard International, which could leave us exposed to significant losses that could materially and adversely affect our results of operations, cash flow and financial condition, or, in certain circumstances, even cause us to become insolvent, and result in a significant reduction in the value, or the complete loss, of your investment.

In connection with this offering, the certificate of incorporation and the bylaws of MasterCard International will be amended to eliminate the right of MasterCard International to impose special assessments upon its members. This special assessment right currently allows MasterCard International to recover from its members all or a portion of its expenses and liabilities arising out of extraordinary events, such as settlements or judgments in major litigations and catastrophic occurrences that may cause significant risk or damage to MasterCard. Therefore, following the offering transactions, we will bear the expenses and liabilities associated with extraordinary events without recourse to our members through a right of assessment. Accordingly, the loss of this special assessment right leaves us exposed to significant risks and losses from these types of extraordinary events, which could materially and adversely affect our results of operations, cash flow and financial condition, or, in certain circumstances, even cause us to become insolvent, and result in a significant reduction in the value, or the complete loss, of your investment.

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

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

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

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

the timely transmission of information across our global data transportation network. If a service provider fails to provide the communications capacity or services we require, as a result of natural disaster, operational disruption, terrorism or any other reason, the failure could interrupt our services, adversely affect the perception of our brands reliability and materially reduce our revenue or profitability.

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

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

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

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

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

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

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

During 2005 and the first three months of 2006, approximately 45% and 47% of our revenue, respectively, was generated from activities outside the United States. Some of the revenue we generate outside the United States is subject to unpredictable and indeterminate fluctuations if the values of other currencies change relative to the U.S. dollar. Resulting exchange gains and losses are included in our net income. Our risk management activities provide protection with respect to adverse changes in the value of only a limited number of currencies. Furthermore, we may become subject to exchange control regulations that might restrict or prohibit the conversion of our other revenue currencies into U.S. dollars. The occurrence of any of these factors could decrease revenues we receive from our international operations and have a material adverse impact on our business.

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Class A Common Stock and This Offering

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

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

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

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

The market price of our Class A common stock could decline as a result of sales of a large number of shares in the market after the offering or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us or you to sell equity securities in the future. Upon completion of this offering, we will have 75,017,845 outstanding shares of Class A common stock (or 79,631,922 shares if the underwriters exercise their option to purchase additional shares in full), of which 61,520,912 shares (or 66,134,989 shares if the underwriters exercise their option to purchase additional shares in full) will have been sold in this offering and may be resold immediately in the public market.

In addition, 13,496,933 shares of our Class A common stock will have been issued as a donation to The MasterCard Foundation and, under the terms of the donation, may be resold by The MasterCard Foundation commencing on the fourth anniversary of the consummation of this offering to the extent necessary to comply with charitable disbursement requirements. Under Canadian tax law, The MasterCard Foundation is generally required each year to disburse at least 3.5% of its assets not used in administration of the Foundation in qualified charitable disbursements. However, we have obtained permission from the Canadian tax authorities for The MasterCard Foundation to defer its annual disbursement requirement for up to ten years and meet its total deferred disbursement obligations at the end of the ten-year period. Despite this permission to defer annual disbursements, The MasterCard Foundation may decide to meet its disbursement obligations on an annual basis or to settle previously accumulated obligations during any given year. In addition, The MasterCard Foundation will be permitted to sell all of the remaining shares held by it starting twenty years and eleven months after the consummation of this offering.

Also, in the event that the underwriters do not exercise in full their option to purchase up to an additional 4,614,077 shares of Class A common stock from us in connection with this offering, our certificate of incorporation will require us, prior to the time of our 2007 annual meeting of stockholders, to issue additional shares of Class A common stock in a public offering and to use the proceeds from such offering to redeem additional shares of Class B common stock so that, immediately following such subsequent offering and redemption, our existing stockholders will own approximately 41% of the aggregate number of shares of Class A common stock and Class B common stock at that time. Accordingly, if the underwriters do not exercise their option to purchase additional shares from us and we neither issue nor repurchase any shares following the offering transactions, we would be required to issue an additional 4,614,077 shares of Class A common stock (and to redeem an equivalent number of shares of Class B common stock) in connection with such subsequent offering.

In addition, immediately following the offering transactions, our existing stockholders will hold 59,951,485 shares of our Class B common stock (or 55,337,408 shares if the underwriters exercise their option to purchase additional shares in full), each of which will, commencing on the fourth anniversary of the consummation of this offering, be convertible for shares of our Class A common stock on a one-for-one basis, subject to certain rights of first refusal by the other holders of Class B common stock. All of the shares of Class A common stock issuable upon conversion of such shares will be freely tradable without restriction or registration under the Securities Act by persons other than our affiliates. These future sales, or the perception that such sales may occur, could depress the market price of our Class A common stock.

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

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

We estimate that our proceeds from this offering (based on an initial public offering price of $41.50 per share), after deducting underwriting discounts and estimated offering expenses, will be approximately $2.4 billion, or $2.6 billion if the underwriters exercise their option to purchase additional shares in full. We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital. We will not have any of the proceeds from this offering that we use to redeem shares of our Class B common stock available to us to invest in and grow our business. See Use of Proceeds.

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

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

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registration statement of which this prospectus forms a part, conflicts may arise with respect to the offering, and, if conflicts do arise, they may be resolved in a manner adverse to investors. An affiliate of Goldman, Sachs & Co. is a lender under our credit facility.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A substantial portion of our voting power will be held by The MasterCard Foundation, which will be restricted from selling shares for an extended period of time and may therefore not have the same incentive to approve a corporate action that may be favorable to the other public stockholders. In addition, the ownership of Class A common stock by The MasterCard Foundation and the restrictions on transfer could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock.

Following completion of this offering, The MasterCard Foundation is expected to own 13,496,933 shares of Class A common stock, representing approximately 10% of our equity and 18% of our general voting power (or 17% of our general voting power if the underwriters exercise their option to purchase additional shares in full). Under the terms of the donation, The MasterCard Foundation may not sell or otherwise transfer its shares of Class A common stock prior to the date which is twenty years and eleven months following the consummation of this offering, except to the extent necessary to satisfy its charitable disbursement requirements starting on the fourth anniversary of the consummation of this offering. The five initial directors of The MasterCard Foundation were selected by a three-member blue ribbon panel subject to certain limited veto rights of the Nominating and Corporate Governance Committee of our new board of directors. The blue ribbon panel was selected by Messrs. Boudreau and Falcones, two of our current directors, and Mr. Selander, our Chief Executive Officer, and was comprised of individuals who satisfy the independence requirements for service on our board of directors. The continuing directors of the Foundation will, in consultation with, but not under the control of, the Nominating and Corporate Governance Committee, select successors to become directors of the Foundation at the end of any director s term of office or to fill any vacancy. The directors of the Foundation will be required to be independent of us and our members.

The ownership of Class A common stock by The MasterCard Foundation, together with the restrictions on transfer, could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock. In addition, because The MasterCard Foundation will be restricted from selling its shares for an extended period of time, it may not have the same interest in short or medium-term movements in our stock price as, or incentive to approve a corporate action that may be favorable to, our other stockholders.

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

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

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

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

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

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

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FORWARD-LOOKING STATEMENTS

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

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USE OF PROCEEDS

We estimate that our net proceeds from this offering of shares of Class A common stock (based on an assumed initial public offering price of $41.50 per share), after deducting underwriting discounts and estimated offering expenses, will be approximately $2.43 billion (or $2.61 billion if the underwriters exercise their option to purchase additional shares in full). We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters option to purchase additional shares) and to The MasterCard Foundation. We intend to use the remaining proceeds to increase our capital, defend ourselves against legal and regulatory challenges, expand our role in targeted geographies and higher growth segments of the global payments industry and for other general corporate purposes. However, we have not determined the amounts of such remaining proceeds that are to be allocated to these purposes. We will determine these amounts in our sole discretion and may also eliminate uses or include additional uses without stockholder approval.

Certain of the underwriters, including J.P. Morgan Securities Inc., Citigroup Global Markets Inc., HSBC Securities (USA) Inc., Harris Nesbitt Corp., Santander Investment Services S.A., KeyBanc Capital Markets, a division of McDonald Investments Inc., Deutsche Bank Securities Inc., Cowen & Co., LLC, ABN AMRO Rothschild LLC, Barclays Capital Inc., Calyon Securities (USA) Inc., Credit Suisse Securities (USA) LLC, ING Financial Markets LLC, Mitsubishi UFJ Securities International plc, Mizuho International plc and Wells Fargo Securities, LLC, are members or affiliates of members of MasterCard International and, based on an initial public offering price per share of $41.50 and assuming no exercise of the underwriters option to purchase additional shares, collectively will receive approximately 30% of the proceeds used for the redemption of Class B common stock described above. In addition, several of the underwriters or their affiliates also perform other services for us. See Underwriting.

DIVIDEND POLICY

Following this offering and subject to legally available funds, we currently intend to pay a quarterly cash dividend at an annual rate initially equal to $0.36 per share (or a quarterly rate initially equal to $0.09 per share) of Class A common stock and Class B common stock, commencing in the fourth quarter of 2006. Based on the approximately 135 million shares of Class A common stock and Class B common stock to be outstanding after the offering transactions, this dividend policy implies a quarterly cash requirement of approximately $12 million. Our cash flows provided by (used in) operating activities, which were $273 million for the year ended December 31, 2005 ($(14 million), $211 million, $151 million and $(75 million) for the quarterly periods ended March 31, June 30, September 30 and December 31, 2005, respectively) and $41 million for the three months ended March 31, 2006, indicate a level of cash flows from operating activities which we believe provides us with a reasonable basis for our assessment that we can support our intended dividend policy. In addition, we had $1.3 billion of cash, cash equivalents and available-for-sale securities as of March 31, 2006. The declaration and payment of any future dividends will be at the sole discretion of our board of directors after taking into account various factors, including our financial condition, settlement guarantees, operating results, available cash and current and anticipated cash needs.

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CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2006:

- on an actual basis; and
- on a pro forma as adjusted basis to give effect to:
  - the reclassification of our existing common stock into Class B common stock and Class M common stock;
  - the issuance and sale by us of 61,520,912 shares of Class A common stock in this offering, at an assumed initial public offering price of $41.50 per share and after deducting estimated underwriting discounts, commissions and offering expenses;
  - the donation by us of 13,496,933 newly-issued shares of Class A common stock to The MasterCard Foundation; and
  - the redemption by us of 75,017,845 shares of Class B common stock, as described in Use of Proceeds.

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

	March 31, 2006	
	Actual	Pro forma as adjusted
	(in thousands)	
Cash and cash equivalents	$ 494,792	$ 1,146,792
Long-term debt	$ 229,551	$ 229,551
Stockholders equity:		
Class A redeemable common stock, $.01 par value	1,000	
Class A common stock, $.0001 par value		8
Class B common stock, $.0001 par value		6
Class M common stock, $.0001 par value		
Additional paid-in capital	973,619	3,281,271
Retained earnings	272,259	(1,382,407)
Accumulated other comprehensive income, net of tax	60,829	60,829

Total stockholders equity	1,307,707	1,959,707
Total Capitalization	$ 1,537,258	$ 2,189,258

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SELECTED CONSOLIDATED FINANCIAL DATA

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

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

(1) On June 28, 2002, we converted from a membership to a stock company through the creation of MasterCard Incorporated, a new holding company. Also on June 28, 2002, MasterCard Incorporated directly and indirectly acquired all of the outstanding stock of Europay International S.A. (EPI) in a transaction that we refer to as the Integration. On July 16, 2002, EPI was renamed MasterCard Europe S.A. (MasterCard Europe). On September 30, 2002, MasterCard Europe was reorganized in Belgium as MasterCard Europe sprl. Note 21 to our annual consolidated financial statements included in this prospectus more fully describes these transactions.

(2)

As more fully described in Summary The Offering Transactions, prior to this offering we will reclassify all of our approximately 100,000 outstanding shares of existing class A redeemable common stock so that our existing stockholders will receive 1.35 shares of our Class B common stock for each share of class A redeemable common stock that they held prior to the reclassification and a single share of our Class M common stock. Accordingly, shares and per share data will be retroactively restated in the financial statements subsequent to the reclassification to reflect the reclassification as if it were effective at the start of the first period being presented in the financial statements.

(3) Pro forma amounts give effect to the reclassification described above as if it were in place for the earliest fiscal year and interim periods presented.

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MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

We are a global payment solutions company that provides a variety of services in support of our customers credit, debit and related payment programs. We manage a family of well-known, widely accepted payment card brands including MasterCard®, MasterCard Electronic, Maestro® and Cirrus®, which we license to our financial institution customers. As part of managing these brands, we also provide our customers with information and transaction processing services and establish and enforce rules and standards surrounding the use of our payment card system by customers and merchants. We generate revenues from the fees that we charge our customers for providing these transaction processing and other payment-related services (operations fees) and by charging assessments to our customers based on the gross dollar volume (GDV) of activity on the cards that carry our brands (assessments). Our pricing for transactions and services is complex. Each category of revenue has numerous fee components depending on the types of transactions or services provided. In addition, standard pricing varies among our regional businesses, and such pricing can be customized further for our customers through incentive and rebate agreements. Operations fees are typically transaction-based and include authorization, settlement and switch, connectivity, currency conversion, warning bulletins, and other fees for a variety of additional services. Assessments are based on GDV for a specific time period and the rates vary depending on the nature of the transactions that generate GDV. GDV includes the aggregated dollar amount of usage (purchases, cash disbursements, balance transfers and convenience checks) on MasterCard-branded cards. Our revenues are based upon transactional information accumulated by our systems or reported by our customers. Our operating expenses are comprised primarily of general and administrative expenses such as personnel, professional fees, data processing, telecommunications, travel and advertising and marketing expenses to promote our brands, including promotions and sponsorships.

We evaluate and monitor our business based on our results from operations, including our percentage of revenue growth and operating expenses as a percentage of total revenue, and our financial position. In addition, we utilize growth in GDV and processed transactions to monitor the strength of our business.

Our liquidity and capital position are strong. We had $1.3 billion in cash, cash equivalents and available-for-sale securities, and $1.3 billion in stockholders equity as of March 31, 2006.

We achieved double-digit revenue growth of 13% in 2005 and 12% in the first three months of 2006 from each of the comparable periods in 2004 and 2005, respectively. Foreign currency fluctuation against the euro minimally impacted revenue growth in 2005 and decreased revenue growth by 2% in the first three months of 2006. The increase in revenues was due to higher gross usage on cards carrying our brands for goods and services, a larger number of transactions processed by MasterCard, higher cross-border travel by cardholders using our cards and certain pricing changes that went into effect on April 1, 2005. The pricing changes, including implementing new fees, increasing existing fees or modifying our fee calculation methodology accounted for approximately 5% of net revenue growth in 2005 and in the first three months of 2006. Significant changes in the methodology for calculating fees primarily related to a component of settlement fees being changed from tiered pricing to a flat rate, a component of authorization fees being changed from monthly pricing to weekly pricing and connectivity fees being expanded to include a charge

for the volume of information being transmitted in addition to the fixed fee initially charged.

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We review our pricing on a regular basis and do not anticipate significant pricing increases in 2006. As a result, we do not expect the same level of revenue growth in 2006 as we experienced in 2005. Rebates and incentives were 23% and 19% of our gross revenues in the three months ended March 31, 2006 and 2005, respectively. In the three months ended March 31, 2006, we provided significant incentives to support the conversion of a large payment card program to MasterCard. The conversion is anticipated to be completed in June 2006 which will have a significant negative impact on our second quarter assessment revenue and, accordingly, a significant negative impact on our second quarter net revenue growth. We expect increasing incentives and rebates under our agreements with our customers and merchants to continue to largely offset gross assessments growth throughout 2006.

Operating expenses excluding the impact of the U.S. merchant lawsuit and other legal settlements increased 11% in 2005. Operating expenses increased 10% in the first three months of 2006 from the comparable period in 2005, which includes a 2% impact of foreign currency fluctuation against the euro. We continued to reduce our operating expenses as a percentage of total revenues to 84% in 2005 from 86% in 2004 and to 75% in the first three months of 2006 from 77% in the first three months of 2005. We expect a significant increase in advertising and market development expenses in the second quarter of 2006 driven by our sponsorship activities in connection with the 2006 FIFA World Cup, which will adversely impact our profitability for the period. We do not expect, however, that this heightened level of marketing expenditure will continue for the remainder of the year.

In June 2002, we acquired Europay International S.A. (now MasterCard Europe). In 2004 we acquired a research firm and a consulting firm, both of which were immaterial to our operations. The results of operations for these acquisitions are included from their respective acquisition dates.

We successfully complied with Sarbanes-Oxley Section 404 testing three years ahead of the U.S. Securities and Exchange Commission s deadline for non-accelerated filers. We concluded, based on our assessment, that our internal controls over financial reporting were effective as of December 31, 2005.

We believe the trend within the global payments industry from paper-based forms of payment such as cash and checks toward electronic forms of payment such as cards creates significant opportunities for the continued growth of our business. Our strategy is to drive growth by further penetrating our existing customer base and by expanding our role in targeted geographies and higher-growth segments of the global payments industry (such as corporate payments, prepaid cards and chip based cards), enhancing our merchant relationships, maintaining unsurpassed acceptance and continuing to invest in our brands. We intend to expand our role in targeted geographies by, among other things, pursuing incremental payment processing opportunities in the European Union in connection with the implementation of the Single European Payment Area initiative and in Latin American and Asia/Pacific countries. We are committed to providing our key customers with coordinated services through integrated, dedicated account teams in a manner that allows us to leverage our expertise in payment programs, brand marketing, product development, technology, processing and consulting services for these customers. By investing in strong customer relationships over the long-term, we believe that we can increase our volume of business with key customers over time, and in support of this strategy, we are continuing to hire additional resources and developing sales and other personnel.

There is increased regulatory scrutiny of interchange fees and other aspects of the payments industry which could have a material adverse impact on our business. In addition, we face exposure to antitrust and other types of litigation. Competition and pricing pressure within the global payments industry is increasing, due in part to consolidation within the banking sector and the growing power of merchants. Regulatory actions, litigation, and pricing pressure may lead us to change our pricing arrangements and could reduce our overall revenues. See Risk Factors.

We are party to a number of currency conversion litigations as discussed in Note 9 to our interim consolidated financial statements included herein. Based upon litigation developments and settlement negotiations in these cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, MasterCard recorded an additional $75 million of legal reserves in 2005. As a result of these additional reserves, we have now established total legal reserves of $89

million in connection with these currency conversion cases. This estimate may be revised based on future developments in these cases.

Impact of Offering Transactions

At the time of this offering, we will issue 13,496,933 shares of our Class A common stock as a donation to The MasterCard Foundation, a private charitable foundation incorporated in Canada that will be controlled by directors who are independent of us and our members. The Foundation will build on MasterCard s existing charitable giving commitments by continuing to support programs and initiatives that help children and youth to access education, understand and utilize technology and develop the skills necessary to succeed in a diverse and global work force. In addition, the Foundation will support organizations that provide microfinance programs and services to financially disadvantaged persons and communities in order to enhance local economies and develop entrepreneurs. We also expect to donate approximately $40 million in cash to the Foundation over a period of up to four years in support of its operating expenses and charitable disbursements for the first four years of its operations, and we may make additional cash contributions to the Foundation during and after this period. Because the Foundation s operations are currently being established, the overall size and timing of our expected initial cash donation have not been finally determined. In connection with the donation of the Class A common stock we expect to record an expense that is equal to the aggregate value of the shares we are donating. The value of the shares of Class A common stock we donate will be determined based on the initial public offering price per share of Class A common stock in this offering less a marketability discount of 25%. This marketability discount and the methodology used to quantify it were determined by management in consultation with independent valuation consultants retained by Mastercard. This discount was calculated based on analyses of prices paid in transactions of restricted stock of publicly held companies and on income based analyses. Based on an initial public offering price per share of $41.50 (the mid-point of the price range set forth on the cover page of this prospectus), we expect to record an expense of $420 million in connection with the donation of the Class A common stock. If the initial public offering price per share is higher than $41.50, the expense we record will be greater. For example, if the initial public offering price per share is $43.00 (the high-point of the price range set forth on the cover page of this prospectus), we would record an expense of $435 million in connection with the donation of the Class A common stock. Conversely, if the initial public offering price per share is $40.00 (the low-point point of the price range set forth on the cover page of this prospectus), we would record an expense of $405 million in connection with the donation of the Class A common stock. As a result of this expense, we expect to record a significant net loss for the three and six months ended June 30, 2006 and a net loss for the 2006 fiscal year. As a result of this difference between the financial statement treatment and tax treatments of the donation, we expect there to be a significant increase to our effective tax rate for the three and six months ended June 30, 2006 and the 2006 fiscal year compared to the same periods in 2005. We also expect to record expense equal to the value of any cash we donate in the period or periods in which such donation or donations are made. The expense of these donations will generally not be deductible to MasterCard for tax purposes. As a result of this difference between financial statement and tax treatments of the donations, we expect there to be a significant increase to our effective tax rate in the periods in which the contributions are made.

We intend to use all but $650 million of our net proceeds from this offering (including any proceeds received pursuant to the underwriters option to purchase additional shares) to redeem a number of shares of Class B common stock from our existing stockholders that is equal to the aggregate number of shares of Class A common stock that we issue to investors in this offering (including any shares sold pursuant to the underwriters option to purchase additional shares) and to the Foundation. We intend to use the remaining proceeds to increase our capital, defend ourselves against legal and regulatory challenges, expand our role in targeted geographies and higher growth segments of the global payments industry and for other general corporate purposes. However, we have not determined the amounts of such remaining proceeds that are to be allocated to these purposes. See Use of Proceeds.

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In addition, in connection with our new ownership and governance structure we are implementing equity based compensation plans. We expect to convert our existing long term incentive cash award plans into an equity based compensation plan. Based on the proposal for this conversion, we may recognize $10 million additional personnel expense in future periods based on vesting within the plans. Our Compensation Committee also approved 2006 awards under the equity based long term incentive plan. The implementation date of these awards has not been determined as the underlying transactions have not been completed. See Management MasterCard Long Term Incentive Plan Incentive Plan Benefits.

As described in Management IPO Date RSU Award to Non-Executive Management Employees, at the time of this offering we also intend to grant a one-time award to non-executive management employees of approximately 440,000 restricted stock units. As a result, based on an assumed initial public offering price of $41.50 per share, we expect to record deferred stock-based compensation equal to the fair value of the RSUs issued of $18 million, which will be amortized over the three-year vesting period. If the initial public offering price per share is higher than $41.50, the deferred stock-based compensation that we record will be greater.

Impact of Foreign Currency Rates

Our operations are impacted by changes in foreign currency exchange rates. Assessment fees are calculated based on local currency volume, after conversion to U.S. dollar volume using average exchange rates for the quarter. As a result, assessment revenues increase or decrease with the devaluation or strengthening, respectively, of the U.S. dollar. In 2005 and 2004, a 13% and 15% increase in GDV on a U.S. dollar converted basis, respectively, exceeded local currency GDV growth of 12% and 11%, respectively, compared to the same periods in the prior year due to a devaluation of the U.S. dollar. In the first three months of 2006, however, a 12% increase in GDV on a U.S. dollar converted basis was below local currency GDV growth of 13% compared to the same period in the prior year due to strengthening of the U.S. dollar.

We are especially impacted by the movements of the euro relative to the U.S. dollar since the functional currency of MasterCard Europe, our principal European operating subsidiary, is the euro. The strengthening or devaluation of the U.S. dollar against the euro impacts the translation of MasterCard Europe s operating results into U.S. dollar amounts are summarized as follows:

	For the Years Ended December 31,			Three Months Ended March 31,	
	2005	2004	2003	2006	2005
Average euro to U.S. dollar average exchange rate	$ 1.2455	$ 1.2383	$ 1.1277	$ 1.2018	$ 1.3083
Strengthening (devaluation) of U.S. dollar to euro	(1)%	(10)%	(14)%	8%	(5)%
Revenue change attributable to translation of MasterCard Europe revenues to U.S. dollars		2%	2%	(2)%	1%
Operating expense change attributable to translation of MasterCard Europe expenses to U.S. dollars		2%	1%	(2)%	1%

Revenues

We earned approximately 66%, 63%, 64%, 67% and 63% of our net revenues from net operations fees and approximately 34%, 37%, 36%, 33% and 37% of our net revenues from net assessments in 2005, 2004 and 2003, and the three months ended March 31, 2006 and 2005

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respectively. Operations fees are typically user fees for facilitating the processing of payment transactions and information management among our customers. MasterCard s system for transaction processing involves four participants in addition to us: issuers (the cardholders banks), acquirers (the merchants banks), merchants and cardholders.

Operations fees are charged to issuers, acquirers or their delegated processors for transaction processing services, specific programs to promote MasterCard-branded card acceptance and additional services to assist our customers in managing their businesses. The significant components of operations fees are as follows:

Authorization occurs when a merchant requests approval for a cardholder s transaction. We charge a fee for routing the authorization for approval to or from the issuer or in certain circumstances, such as when the issuer s systems are unavailable, for approval by us or others on behalf of the issuer in accordance with the issuer s instructions. Our rules, which vary across regions, establish the circumstances under which merchants and acquirers must seek authorization of transactions. These fees are primarily paid by issuers.

Settlement refers to the process in which we determine the amounts due between issuers and acquirers for payment transactions and associated fees. Once quantified we transfer the financial transaction details and relevant funds among issuers, acquirers or their designated third-party processors. We charge a fee for these settlement services. These fees are primarily paid by issuers.

Switch fees are fees for the use of the MasterCard Debit Switch (MDS), our debit processing system. The MDS transmits financial messages between acquirers and issuers and provides transaction and statistical reporting and performs settlement between members and other debit transaction processing networks. These fees are primarily paid by issuers.

Currency conversion fees are volume-based fees charged to issuers for foreign currency conversion. We process transactions denominated in more than 160 currencies. As a result of our global system, cardholders have the ability to pay for transactions in the local currency of a merchant and for the charge to appear on the cardholders statement in their own home currency. Accordingly, currency conversion is used for cross-border transactions to complete the settlement between issuers and acquirers.

Acceptance development fees are charged to issuers based on GDV and support our focus on developing merchant relationships and promoting acceptance at the point of sale. These fees are primarily U.S. based.

Warning bulletin fees are charged to issuers and acquirers for listing invalid or fraudulent accounts either electronically or in paper form and for distributing this listing to merchants.

Connectivity fees are charged to issuers and acquirers for network access, equipment, and the transmission of authorization and settlement messages. The methodology for calculating the transmission fees was changed on April 1, 2005 so that they are based on the volume of information being transmitted through our systems and the number of connections to our systems. Prior to April 1, 2005, these transmission fees were calculated solely based on the number of connections.

Consulting and research fees as well as outsourcing services fees are primarily generated by MasterCard Advisors, our professional advisory services group. We provide a wide range of consulting, information and outsourcing services associated with our customers payment activities and programs. Research includes revenues from subscription-based services, access to research inquiry, and peer networking services generated by our independent financial and payments industry research group. We do not anticipate research becoming a significant percentage of our business. MasterCard

Advisors revenues, of which consulting and research fees are components, are less than 10% of our consolidated revenues.

Other operations fees are primarily user-pay services including the sale of manuals, publications, holograms, information and reports, as well as compliance programs, to assist our customers in managing their businesses. In addition, other operations fees include fees for cardholder services in connection with the benefits provided with MasterCard-branded cards, such as insurance, telecommunications assistance for lost cards or locating automated teller machines.

Generally we process all MasterCard-branded domestic transactions in the U.S. and in a few international markets. We process substantially all cross-border, MasterCard, Maestro and Cirrus transactions. We charge relatively higher operations fee rates for settlement, authorization and switch fees on cross-border transactions and earn currency conversion fees if the transactions require conversion between two different currencies. Offline debit transactions are generally signature-based debit transactions and are processed and priced similar to credit transactions. Operations fees for processing domestic online debit transactions (Maestro and Cirrus transactions) are priced in a similar manner as domestic offline debit and credit transactions, but international offline debit and credit transactions are priced higher than international online debit transactions.

Assessments are calculated based on our customers GDV. Assessment rates vary by region. Most of our assessment rates are tiered and rates decrease when customers meet incremental volume hurdles. These rates also vary by the type of transaction. We generally assess at higher rates for cross-border volumes compared to domestic volumes. We also assess at higher rates for retail purchases versus cash withdrawals. Credit and offline debit transactions are assessed at higher rates than online debit transactions. In addition, from time to time we may introduce assessments for specific purposes such as market development programs. These assessments are often introduced at the request of customers in a particular region or country. Assessments that are based on quarterly GDV are estimated utilizing aggregate transaction information and projected customer performance.

In 2005 and in the three months ended March 31, 2006, gross revenue grew 21% and 17%, respectively, in comparison to the same periods last year. A component of our revenue growth for the year ended December 31, 2005 and the three months ended March 31, 2006 was the result of implementing new fees and changes to existing fees charged to our customers on April 1, 2005. Our overall revenue growth is being moderated by the demand from our customers for better pricing arrangements and greater rebates and incentives. Accordingly, we have entered into business agreements with certain customers and merchants to provide GDV and other performance-based support incentives. Rebates and incentives as a percentage of gross revenues were approximately 22%, 16% and 17% in 2005, 2004 and 2003, respectively. Rebates and incentives as a percentage of gross revenues were approximately 23% and 19% in the three months ended March 31, 2006 and 2005, respectively. These pricing arrangements reflect enhanced competition in the global payments industry and the continued consolidation and globalization of our key customers and merchants. The rebates and incentives are calculated on a monthly basis based upon estimated performance and the terms of the related business agreements. Rebates and incentives are recorded as a reduction of revenue in the same period that performance occurs.

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

The United States remains our largest geographic market based on revenues. However, international revenues grew at a faster rate than U.S. revenues in 2004, 2005 and the first quarter of 2006.

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In 2005 and the first quarter of 2006, the international revenue growth was not specifically related to one region in which we do business. However, in 2004, the growth was particularly in the European region due to new assessment revenue streams and increased transactions. Accordingly, revenue generated in the United States was approximately 55%, 58% and 63% of total revenues in 2005, 2004 and 2003, respectively and approximately 53% and 56% of total revenues in the three months ended March 31, 2006 and 2005, respectively. No individual country, other than the United States, generated more than 10% of total revenues in any period.

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

Results of Operations for the Three Months Ended March 31, 2006 and 2005

	For the three months ended March 31,		Percent Increase (Decrease)
	2006	2005	2006 vs. 2005
	(In millions, except per share, percent and GDV amounts)		
Operations fees	$ 495	$ 412	20.1%
Assessments	244	246	(0.8)%
Net revenue	739	658	12.3%
General and administrative	348	307	13.4%
Advertising and market development	183	172	6.4%
Depreciation and amortization	25	28	(10.7)%
Total operating expenses	556	507	9.7%
Operating income	183	151	21.2%
Total other income (expense)	10	(7)	242.9%
Income before income tax expense	193	144	34.0%
Income tax expense	66	51	29.4%
Net income	$ 127	$ 93	36.6%
Net income per share (basic and diluted)(1)	$ 1.27	$ .93	36.6%
Pro forma net income per share (basic and diluted)(2)	$ .94	$ .69	36.2%
Weighted average shares outstanding (basic and diluted)(1)	100	100	
Pro forma weighted average shares outstanding (basic and diluted)(2)	135	135	
Effective income tax rate	34.3%	35.3%	**
Gross dollar volume (GDV) on a U.S. dollar converted basis (in billions)	426	382	11.5%
Processed transactions(3)	3,521	3,040	15.8%

** Not meaningful

(1) As more fully described in Summary The Offering Transactions, prior to this offering, we will reclassify all of our approximately 100 outstanding shares of existing Class A redeemable common stock so that our existing stockholders will receive 1.35 shares of our Class B common stock for each share of Class A redeemable common stock that they held prior to the reclassification and a single share of our Class M common stock. Accordingly, shares and per share data will be retroactively restated in the financial statements subsequent to the reclassification to reflect the reclassification as if it were effective at the start of the first period being presented in the financial statements.

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(2) Pro forma amounts give effect to the reclassification described above as if it were in place for the periods presented.
(3) The data set forth for processed transactions represents all transactions processed by MasterCard, including PIN-based online debit transactions. Prior to 2005, processed transactions reported by MasterCard included certain MasterCard branded (excluding Maestro and Cirrus) transactions for which we received transaction details from our customers but which were not processed by our systems. Our management determined that it would be more appropriate to exclude such transactions from the processed transactions calculation. We have also updated our transaction detail in 2006 to remove certain online debit transactions which did not result in a flow of funds, for example balance inquiries or failed transactions. The processed transactions for the three months ended March 31, 2005 have been restated to be consistent with the calculation of processed transactions in 2006. Revenue has not been impacted by this change.

Revenues

Operations Fees

	For the three months ended March 31,		Dollar Increase (Decrease)	Percent Increase (Decrease)
	2006	2005	2006 vs. 2005	2006 vs. 2005
	(In millions, except percent)			
Authorization, settlement and switch	$ 265	$ 234	$ 31	13.2%
Currency conversion	78	71	7	9.9%
Acceptance development fees	47	29	18	62.1%
Warning bulletin fees	17	16	1	6.3%
Connectivity	18	8	10	125.0%
Consulting and research fees	17	9	8	88.9%
Other operations fees	102	87	15	17.2%
Gross operations fees	544	454	90	19.8%
Rebates	(49)	(42)	(7)	16.7%
Net operations fees	$ 495	$ 412	$ 83	20.1%

Authorization, settlement and switch revenues increased due to the number of transactions processed through our systems increasing 16% in the three months ended March 31, 2006 from the comparable period in 2005. In 2006, a portion of the revenue increase was due to the pricing of a component of these revenues being restructured on April 1, 2005. In addition, the decreased volatility of exchange rates contributed to a decrease of $6 million in settlement revenue for the three months ended March 31, 2006.

Currency conversion revenues fluctuate with the level of cross-border transactions and our customers need for transactions to be converted into their base currency.

Acceptance development fees in the three months ended March 31, 2006 increased compared to the same period in 2005 primarily due to the implementation of new fees and increases on the pricing of existing fees which occurred on April 1, 2005.

Warning bulletin fees fluctuate with our customer requests for distribution of invalid account information.

Connectivity revenues in the three months ended March 31, 2006 increased compared to the same period in 2005 primarily due to a change in the connectivity fee structure on April 1, 2005.

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Consulting and research fees increased primarily due to new engagements with our customers in the three months ended March 31, 2006 compared to the same period in 2005. Our business agreements with certain customers include consulting services as an incentive. Approximately 60% of the increase in the three months ended March 31, 2006 was generated by new engagements which were provided to customers as a result of incentive agreements. This type of incentive increases consulting fees and reduces assessments.

Other operations fees represent various revenue streams including cardholder services, compliance, holograms, and manuals and publications. The change in any individual revenue component was not material.

Rebates relating to operations fees are primarily based on transactions and volumes and, accordingly, increase as these variables increase. Rebates have been increasing due to agreements with new customers, renewals of existing agreements, ongoing consolidation of our customers and competition. Rebates as a percentage of gross operations fees were 9% in each of the three months ended March 31, 2006 and 2005, respectively.

Assessments

Assessments are revenues that are calculated based on our customers GDV. The components of assessments are as follows:

	For the three months ended March 31,		Dollar Increase (Decrease)	Percent Increase (Decrease)
	2006	2005	2006 vs. 2005	2006 vs. 2005
	(In millions, except percent)			
Gross assessments	$ 411	$ 360	$ 51	14.2%
Rebates and incentives	(167)	(114)	(53)	46.5%
Net Assessments	$ 244	$ 246	$ (2)	(0.8)%

GDV growth was 13% in the three months ended March 31, 2006 when measured in local currency terms, and 12% when measured on a U.S. dollar converted basis. Rebates and incentives provided to customers and merchants reduce assessments growth. Rebates and incentives as a percentage of gross assessments were 41% and 32% in the three months ended March 31, 2006 and 2005, respectively. Rebates and incentives are primarily based on GDV, however they may also contain fixed components for the issuance of new cards, launch of new programs or consulting services. In the three months ended March 31, 2006, we provided significant incentives to support the conversion of a large payment card program to MasterCard. The conversion is anticipated to be completed in June 2006 which will have a significant negative impact on our second quarter assessment revenue. We expect our agreements with our customers and merchants to continue to largely offset gross assessments growth in 2006.

Operating Expenses

Our operating expenses are comprised of general and administrative, advertising and market development, U.S. merchant lawsuit and other legal settlements and depreciation and amortization expenses. In the three months ended March 31, 2006, there was an increase in operating expenses of $49 million or 10% compared to the same period in 2005.

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General and Administrative

General and administrative expenses consist primarily of personnel, professional fees, data processing, telecommunications and travel. In each of the three months ended March 31, 2006 and 2005, these activities accounted for approximately 47% of total revenues, respectively. The major components of general and administrative expenses were as follows:

	For the three months ended March 31,		Dollar Increase (Decrease)	Percent Increase (Decrease)
	2006	2005	2006 vs. 2005	2006 vs. 2005
	(In millions, except percent)			
Personnel	$ 227	$ 197	$ 30	15.2%
Professional fees	32	31	1	3.2%
Telecommunications	17	16	1	6.3%
Data processing	15	16	(1)	(6.3)%
Travel and entertainment	22	19	3	15.8%
Other	35	28	7	25.0%
General and administrative expenses	$ 348	$ 307	$ 41	13.4%

Personnel expense increased in the three months ended March 31, 2006 primarily due to additional staff to support our strategic initiatives. As we continue to expand our customer-focused approach and expand our relationships with merchants, additional personnel are required.

Professional fees increased in the three months ended March 31, 2006 primarily due to consulting services used for implementing our strategic initiatives.

Telecommunications expense consists of expenses to support our global payments system infrastructure as well as our other telecommunication needs.

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

Travel and entertainment expenses are incurred primarily for travel to customer and regional meetings and accordingly have increased with the corresponding increase in our business activity.

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

Advertising and Market Development

Advertising and market development consists of expenses associated with advertising, marketing, promotions and sponsorships, which promote our brand and assist our customers in achieving their goals by raising consumer awareness and usage of cards carrying our brands. In the three months ended March 31, 2006, these activities accounted for approximately 25% of total revenues compared to 26% in the same period in 2005. Advertising and market development expenses increased $11 million or 6% in the three months ended March 31, 2006 versus the comparable period in 2005.

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

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Merchant Lawsuit and Other Legal Settlements

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

We are party to a number of currency conversion litigations which are more fully described in Business Legal and Regulatory Proceedings Currency Conversion Litigations. We may need to revise our $89 million reserve for the currency conversion litigations based on future developments.

Total liabilities for the U.S. merchant lawsuit and other legal settlements changed as follows (in millions):

Balance as of December 31, 2005	$ 605
Interest accretion	10
Balance as of March 31, 2006	$ 615

Depreciation and Amortization

Depreciation and amortization expenses decreased $3 million in the three months ended March 31, 2006 versus the comparable period in 2005. This decrease was primarily related to certain assets becoming fully depreciated and less additions of equipment and software.

Other Income (Expense)

Other income (expense) is comprised primarily of investment income, interest expense and other gains and losses. Investment income increased $11 million in the three months ended March 31, 2006 due to dividends received and an increase in interest income from higher cash balances and interest rates. Interest expense decreased $6 million in the three months ended March 31, 2006 of which $4 million was due to a refund of interest assessed in the audit of the Company s federal income tax return, as well as the reduction of interest reserve requirements related to the Company s tax reserves.

Income Taxes

The effective income tax rate was 34.3% and 35.3% for the three months ended March 31, 2006 and 2005, respectively. The rate in 2006 is lower than 2005 primarily due to favorable developments with respect to foreign tax audits which occurred in the three months ended March 31, 2006. As discussed in more detail in Impact of Offering Transactions , MasterCard expects to record a significant expense equal to the value of Class A common shares and cash we donate to the Foundation. These donations will generally not be deductible to MasterCard for tax purposes. Accordingly, as a result of the difference between financial statement and tax treatments of the donations, we expect there to be a significant increase to our effective income tax rate in the periods in which the contributions are made.

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Results of Operations for the Years Ended December 31, 2005, 2004 and 2003

	For the Years Ended December 31,			Percent Increase (Decrease)	
	2005	2004	2003	2005 vs. 2004	2004 vs. 2003
	(In millions, except per share, percent and GDV amounts)				
Operations fees	$ 1,941	$ 1,637	$ 1,431	18.6%	14.4%
Assessments	997	956	800	4.3%	19.5%
Net revenue	2,938	2,593	2,231	13.3%	16.2%
General and administrative	1,352	1,186	1,099	14.0%	7.9%
Advertising and market development	1,008	916	851	10.0%	7.6%
U.S. merchant lawsuit and other legal settlements	75	22	763	240.9%	(97.1)%
Depreciation and amortization	110	122	120	(9.8)%	1.7%
Total operating expenses	2,545	2,246	2,833	13.3%	(20.7)%
Operating income (loss)	393	347	(602)	13.3%	157.6%
Total other income (expense)	14	(23)	(10)	160.9%	(130.0)%
Income (loss) before income tax expense (benefit) and cumulative effect of accounting change	407	324	(612)	25.6%	152.9%
Income tax expense (benefit)	140	86	(221)	62.8%	138.9%
Cumulative effect of accounting change, net of tax			5		(100.0)%
Net income (loss)	$ 267	$ 238	$ (386)	12.2%	161.7%
Net income (loss) per share (basic and diluted)(1)	$ 2.67	$ 2.38	$ (3.86)	12.2%	161.7%
Pro forma net income (loss) per share (basic and diluted)(2)	$ 1.98	$ 1.76	$ (2.86)	12.5%	161.5%
Weighted average shares outstanding (basic and diluted)(1)	100	100	100		
Pro forma weighted average shares outstanding (basic and diluted)(2)	135	135	135		
Effective income tax (benefit) rate	34.5%	26.5%	(36.1)%	**	**
Gross dollar volume (GDV) on a US dollar converted basis (in billions)	1,660.8	1,466.9	1,281.4	13.2%	14.5%
Processed transactions(3)	13,733	12,152	9,943	13.0%	22.2%

** Not meaningful

(1) As more fully described in Summary The Offering Transactions, prior to this offering, we will reclassify all of our 100 outstanding shares of existing class A redeemable common stock so that our existing stockholders will receive 1.35 shares of our Class B common stock for each share of class A redeemable common stock that they held prior to the reclassification and a single share of our Class M common stock. Accordingly, shares and per share data will be retroactively restated in the financial statements subsequent to the reclassification to reflect the reclassification as if it were effective at the start of the first period being presented in the financial statements.

(2) Pro forma amounts give effect to the reclassification described above as if it were in place for the periods presented.

(3)

The data for the years ended December 31, 2004 and 2003 has been restated to conform with the methodology utilized in calculating processed transactions in 2005. Prior to 2005, processed transactions reported by MasterCard included certain MasterCard-branded (excluding Maestro and Cirrus) transactions for which we received transaction details from our customers but which were not processed by our systems. Our management determined that it would be more appropriate to exclude such transactions from the processed transactions calculation. We have also updated our transaction detail in 2006 to remove certain online debit transactions which did not result in a flow of funds, for example balance inquiries or failed transactions. The processed transactions for the years ended December 31, 2004 and 2003 have been restated to be consistent with the calculation of processed transactions in 2006. Revenue has not been impacted by this change.

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Revenues

Operations Fees

The significant components in operations fees are as follows:

	For the Years Ended December 31,			Dollar Increase (Decrease)		Percent Increase (Decrease)	
	2005	2004	2003	2005 vs. 2004	2004 vs. 2003	2005 vs. 2004	2004 vs. 2003
	(In millions, except percent)						
Authorization, settlement and switch	$ 1,055	$ 913	$ 785	$ 142	$ 128	15.6%	16.3%
Currency conversion	317	281	234	36	47	12.8%	20.1%
Acceptance development fees	171	85	84	86	1	101.2%	1.2%
Warning bulletin fees	70	66	70	4	(4)	6.1%	(5.7)%
Connectivity	63	35	34	28	1	80.0%	2.9%
Consulting and research fees	63	38	12	25	26	65.8%	216.7%
Other operations fees	378	337	304	41	33	12.2%	10.9%
Gross operations fees	2,117	1,755	1,523	362	232	20.6%	15.2%
Rebates	(176)	(118)	(92)	(58)	(26)	49.2%	28.3%
Net operations fees	$ 1,941	$ 1,637	$ 1,431	$ 304	$ 206	18.6%	14.4%

Authorization, settlement and switch revenues increased due to the number of transactions processed through our systems increasing 13% and 22% in 2005 and 2004, respectively. In 2005, a portion of the revenue increase was due to the pricing of a component of these revenues being restructured on April 1, 2005. In the third quarter of 2003, MasterCard began processing transactions related to the Switch brand, a domestic U.K. debit brand, which significantly impacted processed transactions growth and accordingly contributed to the increase in revenues. Excluding Switch transactions, processed transaction growth would have been 13% in 2004. The volatility of exchange rates contributed to decreased settlement trading revenue of $2 million in 2005 and increased settlement revenue of $16 million and $33 million in 2004 and 2003, respectively.

Currency conversion revenues fluctuate with the level of cross-border transactions and our customers need for transactions to be converted into their base currency. While the conflict in Iraq, threat of terrorism and outbreak of SARS negatively impacted cross-border travel in the beginning of 2003, cross-border travel increased significantly in the latter part of 2003, and continued to grow in 2004 and in 2005.

Connectivity revenues in 2005 increased primarily due to a change in the connectivity fee structure on April 1, 2005.

Acceptance development fees increased in 2005 primarily due to the implementation of new fees and increases on the pricing of existing fees which occurred on April 1, 2005.

Consulting and research fees increased primarily due to new engagements with our customers in 2005 and 2004 and the acquisition of a research firm in the first quarter of 2004.

Warning bulletin fees fluctuate with our customer requests for distribution of invalid account information.

Other operations fees represent various revenue streams including cardholder services, compliance, holograms, and manuals and publications. The change in any individual revenue line was not material.

Rebates relating to operations fees are primarily based on transactions and volumes and, accordingly, increase as these variables increase. Rebates have been increasing due to agreements with new customers, renewals of existing agreements, ongoing consolidation of our customers and competition. Rebates as a percentage of gross operations fees were 8%, 7%, and 6% in 2005, 2004 and 2003, respectively.

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Assessments

Assessments are revenues that are calculated based on our customers GDV. The components of assessments are as follows:

	For the Years Ended December 31,			Dollar Increase (Decrease)		Percent Increase (Decrease)	
	2005	2004	2003	2005 vs. 2004	2004 vs. 2003	2005 vs. 2004	2004 vs. 2003
	(In millions, except percent)						
Gross assessments	$ 1,631	$ 1,341	$ 1,156	$ 290	$ 185	21.6%	16.0%
Rebates and incentives	(634)	(385)	(356)	(249)	(29)	64.7%	8.1%
Net assessments	$ 997	$ 956	$ 800	$ 41	$ 156	4.3%	19.5%

GDV growth was 12% and 11% in 2005 and 2004, respectively, when measured in local currency terms, and 13% and 15%, respectively, when measured on a U.S. dollar converted basis. In addition to the increase in GDV, assessments grew due to the following factors:

- Assessments for marketing programs and other specific purposes increased in 2005, 2004 and 2003. We introduced new or increased assessments for market development programs in specific countries or regions within Europe and Latin America. In 2005, offsetting a portion of the increase in assessments was the elimination of an assessment for the promotion of soccer in the European region, which became a component of the core assessment rates in 2005.

- Assessment rates vary based on the nature of the transactions that generate the GDV. In 2005 and 2004, there was stronger growth in international volumes and purchase volumes, which are generally assessed at higher rates than domestic volumes and cash volumes, respectively.

- Acquirer volumes were greater in 2005 and are generally assessed at higher rates than issuer volumes; accordingly, acquirer assessments increased during 2005. In addition, new acquirer assessments were implemented in Canada.

Rebates and incentives provided to customers and merchants relating to assessments reduce revenue, moderate assessments growth and are generally based on GDV, as well as a fixed component for the issuance of new cards or the launch of new programs. Rebates and incentives as a percentage of gross assessments were 39%, 29% and 31% in 2005, 2004 and 2003, respectively. The increase in the percentage of rebates and incentives compared to gross assessments was the result of new or revised pricing arrangements with certain large customers and merchants in 2005 and 2004. We expect our agreements with our customers and merchants to continue to moderate net revenue growth in 2006 and subsequent years.

Operating Expenses

Our operating expenses are comprised of general and administrative, advertising and market development, U.S. merchant lawsuit and other legal settlements and depreciation and amortization expenses. We reduced our operating expenses, excluding the impact of the U.S. merchant lawsuit and other legal settlements, as a percentage of total revenues to 84% in 2005 from 86% in 2004 and 93% in 2003. Operating expenses increased $299 million or 13% in 2005 compared to a decrease of $587 million or 21% in 2004. Excluding the charges to earnings related to the U.S. merchant lawsuit and other legal settlements, there would have been an increase in operating expenses of $246 million, or 11%, in 2005 and $154 million, or 7%, in 2004. Operating expenses increased in 2004 by $31 million in connection with the acquisition of a research firm and a consulting firm.

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General and Administrative

General and administrative expenses consist primarily of personnel, professional fees, data processing, telecommunications and travel. In 2005, 2004 and 2003, these activities accounted for approximately 46%, 46% and 49% of total net revenues, respectively. General and administrative expenses increased primarily due to increases in personnel expenses. The major components of general and administrative expenses were as follows:

	For the years ended December 31,			Dollar Increase (Decrease)		Percent Increase (Decrease)	
	2005	2004	2003	2005 vs. 2004	2004 vs. 2003	2005 v.s. 2004	2004 vs. 2003
	(In millions, except percent)						
Personnel	$ 890	$ 741	$ 689	$ 149	$ 52	20.1%	7.5%
Professional fees	135	130	100	5	30	3.8%	30.0%
Telecommunications	71	74	87	(3)	(13)	(4.1)%	(14.9)%
Data processing	62	59	54	3	5	5.1%	9.3%
Travel	84	66	61	18	5	27.3%	8.2%
Other	110	116	108	(6)	8	(5.2)%	7.4%
General and administrative expenses	$ 1,352	$ 1,186	$ 1,099	$ 166	$ 87	14.0%	7.9%

Personnel expense increased for the following reasons:

- We hired additional staff to support our strategic initiatives. As we continue to expand our customer-focused approach and expand our relationships with merchants, additional personnel may be required.
- We changed our methodology of recognizing the cost of executive incentive cash award plans in 2005, as more fully described in Note 11 to our annual consolidated financial statements included in this prospectus, which resulted in a catch-up adjustment of $19 million in 2005.
- We updated the assumptions for our severance plan accrual which resulted in higher severance costs of $20 million in 2005 compared to 2004. This increase was offset by an $8 million reduction in the expense for actual severed employees in 2005.
- We awarded higher performance awards and merit increases in 2005 and 2004, which resulted from better than anticipated performance against company objectives.
- We acquired a research and a consulting firm in 2004.

Professional fees increased in 2005 and 2004 primarily due to legal fees and consulting services used to develop and implement our strategic initiatives. Consulting services and audit fees also increased in 2005 and 2004 relating to compliance with the Sarbanes-Oxley Act.

Telecommunications expense decreased in 2005 and 2004 as a result of our ongoing evaluation of telecommunication needs, including renegotiation of certain contracts with service providers.

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

Travel expenses are incurred primarily for travel to customer and regional meetings and accordingly have increased with the corresponding increase in our business activity.

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

Advertising and Market Development

Advertising and market development consists of expenses associated with advertising, marketing, promotions and sponsorships, which promote our brands and assist our customers in achieving their goals by raising consumer awareness and usage of cards carrying our brands. In 2005, 2004 and 2003 these activities accounted for approximately 34%, 35% and 38% of total net revenues, respectively. Advertising and market development expenses increased $92 million, or 10%, in 2005 and $65 million, or 8%, in 2004.

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

Merchant Lawsuit and Other Legal Settlements

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

We are party to a number of currency conversion litigations which are more fully described in Business Legal and Regulatory Proceedings Currency Conversion Litigations. Based upon litigation developments and settlement negotiations in these currency conversion cases and pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies , we recorded a $14 million reserve in 2004 and an additional $75 million reserve in 2005. This estimate may need to be revised based on future developments.

Total liabilities for the U.S. merchant lawsuit and other legal settlements changed as follows (in millions):

Balance as of December 31, 2003	$ 672
Currency conversion court award of plaintiff attorney s fees	14
Other legal settlements and revisions of U.S. merchant lawsuit opt-out estimate	10
Interest accretion	51
Payments	(149)
Balance as of December 31, 2004	598
Legal settlement accrual for currency conversion litigations	75
Interest accretion	47
Payments	(115)

Balance as of December 31, 2005	$ 605

Depreciation and Amortization

Depreciation and amortization expenses decreased $12 million in 2005 and increased $2 million in 2004. The decrease is primarily related to the maturity of certain capital leases and certain assets becoming fully depreciated. Our business is dependent on the technology that we use to process

transactions. This technology is continuously updated and improved. During 2004, we completed a five year upgrade of all of MasterCard s core systems to improve productivity and lower overall processing costs.

In addition, in 2003, our co-processing technology center was moved from Lake Success, New York to Kansas City, Missouri. Our Lake Success co-processing facility would have required a significant investment to rehabilitate its aging infrastructure and improve security. Kansas City, Missouri was selected as the new location for the co-processing facility due to its relative proximity to our other processing facility in St. Louis, Missouri. The cost of the new facility and equipment was $36 million.

Other Income and Expense

Other income (expense) is comprised primarily of investment income, interest expense and other gains and losses. Investment income increased $12 million in 2005 and decreased $8 million in 2004. The increase in 2005 is primarily due to an increase in interest income from higher cash balances and interest rates. The decrease in 2004 resulted from a decline in the market value of our trading securities portfolio. Interest expense was the same in 2005 and 2004 and increased $7 million in 2004 from 2003 primarily due to interest expense related to imputed interest on the U.S. merchant lawsuit settlement. In 2005, we recognized $17 million in other gains relating to a settlement of a dispute of a customer business agreement and $9 million in gains relating the sale of two affiliated investments.

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Income Taxes

The effective income tax expense (benefit) rate for years ended December 31, 2005, 2004 and 2003 was 34.5%, 26.5% and (36.1)%, respectively. The rate in 2005 was higher than 2004 primarily attributable to the settlement and reassessment, during 2004, of various tax audit issues discussed below. The decrease in the effective tax rate in 2004 as compared to 2003 is attributable to the reassessment, during 2004, of tax issues under examination in the U.S. Internal Revenue Service (IRS) audit for the years 1998 through 2000 and issues under examination in Japan for the years 2000 through 2003. In the course of the IRS audit, affirmative refund claims were filed and the related tax benefits were recognized. In addition, MasterCard favorably settled a foreign tax audit in India for the years 1996 through 2001. The 2003 tax benefit was primarily driven by the U.S. merchant lawsuit settlement. The amount of the litigation settlement and its impact on pretax income was such that the permanent differences for 2003, which are shown in the table below, did not significantly affect the tax rate, resulting in a tax benefit at the highest marginal tax rate. The components impacting the effective tax rate are:

	For the Years Ended December 31,					
	2005		2004		2003	
	Dollar Amount	Percent	Dollar Amount	Percent	Dollar Amount	Percent
	(In millions, except percent)					
Income (loss) before income tax expense (benefit) and cumulative effect of accounting change	$ 407		$ 324		$ (612)	
Federal statutory tax (benefit)	$ 143	35.0%	$ 113	35.0%	$ (214)	(35.0)%
State tax effect, net of Federal benefit	4	0.9%	4	1.3%	2	0.3%
Foreign tax effect, net of Federal benefit	5	1.1%	4	1.2%	(4)	(0.6)%
Non-deductible expenses and other differences	(2)	(0.3)%	4	1.0%	2	0.3%
Tax exempt income	(8)	(2.0)%	(7)	(2.1)%	(7)	(1.1)%
Adjustment to deferred tax for change in tax rate:						
United States state			(8)	(2.6)%		
Foreign						
Refund claims and settlement of audit matters:						
United States	1	0.3%	(11)	(3.4)%		
Foreign	(2)	(0.5)%	(13)	(3.9)%		
Income tax expense (benefit)	$ 141	34.5%	$ 86	26.5%	$ (221)	(36.1)%

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Liquidity

We need capital resources and liquidity to fund our global development, to provide for credit and settlement risk, to finance capital expenditures and any future acquisitions and to service the payments of principal and interest on our outstanding debt and the settlement of the U.S. merchant lawsuit. At March 31, 2006, December 31, 2005 and 2004, we had $1.3 billion, $1.3 billion and $1.1 billion, respectively, of cash, cash equivalents and available-for-sale securities with which to manage operations. We expect that the cash generated from operations and our borrowing capacity will be sufficient to meet our operating, working capital and capital needs in 2006. However, our liquidity could be negatively impacted by the adverse outcome of any of the legal or regulatory proceedings to which we are a party. See Risk Factors Legal and Regulatory Risks.

			Percent Increase (Decrease)		Three Months Ended March 31,		Percent Change Increase (Decrease)
2005	**2004**	**2003**	**2005 vs. 2004**	**2004 vs. 2003**	**2006**	**2005**	