

INTUIT INC
Form 10-Q
December 06, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended October 31, 2010

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission File Number 0-21180

INTUIT INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

77-0034661

(IRS employer identification no.)

2700 Coast Avenue, Mountain View, CA 94043

(Address of principal executive offices)

(650) 944-6000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 310,610,837 shares of Common Stock, \$0.01 par value, were outstanding at November 30, 2010.

**INTUIT INC.
FORM 10-Q
INDEX**

**Page
Number**

PART I FINANCIAL INFORMATION

ITEM 1: Financial Statements

Condensed Consolidated Statements of Operations for the three months ended October 31, 2010 and October 31, 2009 3

Condensed Consolidated Balance Sheets at October 31, 2010 and July 31, 2010 4

Condensed Consolidated Statements of Stockholders' Equity for the three months ended October 31, 2010 and October 31, 2009 5

Condensed Consolidated Statements of Cash Flows for the three months ended October 31, 2010 and October 31, 2009 6

Notes to Condensed Consolidated Financial Statements 7

ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations 19

ITEM 3: Quantitative and Qualitative Disclosures about Market Risk 32

ITEM 4: Controls and Procedures 34

PART II OTHER INFORMATION

ITEM 1: Legal Proceedings 35

ITEM 1A: Risk Factors 36

ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds 45

ITEM 6: Exhibits 46

Signatures 47

EX-10.01

EX-10.02

EX-31.01

EX-31.02

EX-32.01

EX-32.02

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

Intuit, the Intuit logo, QuickBooks, TurboTax, ProSeries, Lacerte, Quicken and Mint, among others, are registered trademarks and/or registered service marks of Intuit Inc., or one of its subsidiaries, in the United States and other countries. Other parties' marks are the property of their respective owners.

Table of Contents**PART I
ITEM 1
FINANCIAL STATEMENTS****INTUIT INC.**
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended	
	October 31, 2010	October 31, 2009
<i>(In millions, except per share amounts)</i>		
Net revenue:		
Product	\$ 216	\$ 205
Service and other	316	269
Total net revenue	532	474
Costs and expenses:		
Cost of revenue:		
Cost of product revenue	32	35
Cost of service and other revenue	123	109
Amortization of acquired technology	4	22
Selling and marketing	220	180
Research and development	156	141
General and administrative	90	77
Amortization of other acquired intangible assets	11	10
Total costs and expenses	636	574
Operating loss from continuing operations	(104)	(100)
Interest expense	(15)	(16)
Interest and other income, net	8	5
Loss from continuing operations before income taxes	(111)	(111)
Income tax benefit	(41)	(42)
Net loss from continuing operations	(70)	(69)
Net income from discontinued operations		1
Net loss	\$ (70)	\$ (68)
Basic and diluted net loss per share from continuing operations	\$ (0.22)	\$ (0.21)
Basic and diluted net income per share from discontinued operations		
Basic and diluted net loss per share	\$ (0.22)	\$ (0.21)
Shares used in basic and diluted per share calculations	316	320

See accompanying notes.

3

Table of Contents**INTUIT INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**
(Unaudited)

<i>(In millions)</i>	October 31, 2010	July 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 112	\$ 214
Investments	1,062	1,408
Accounts receivable, net	147	135
Income taxes receivable	141	27
Deferred income taxes	108	117
Prepaid expenses and other current assets	77	57
Current assets before funds held for customers	1,647	1,958
Funds held for customers	363	337
Total current assets	2,010	2,295
Long-term investments	89	91
Property and equipment, net	547	510
Goodwill	1,911	1,914
Acquired intangible assets, net	242	256
Long-term deferred income taxes	45	41
Other assets	99	91
Total assets	\$ 4,943	\$ 5,198
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 158	\$ 143
Accrued compensation and related liabilities	124	206
Deferred revenue	360	387
Income taxes payable	1	14
Other current liabilities	130	134
Current liabilities before customer fund deposits	773	884
Customer fund deposits	363	337
Total current liabilities	1,136	1,221
Long-term debt	998	998
Other long-term obligations	194	158
Total liabilities	2,328	2,377

Commitments and contingencies

Stockholders' equity:

Preferred stock		
Common stock and additional paid-in capital	2,762	2,728
Treasury stock, at cost	(3,486)	(3,315)
Accumulated other comprehensive income	12	11
Retained earnings	3,327	3,397
Total stockholders' equity	2,615	2,821
Total liabilities and stockholders' equity	\$ 4,943	\$ 5,198

See accompanying notes.

4

Table of Contents**INTUIT INC.****CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**
(Unaudited)

<i>(In millions, except shares in thousands)</i>	Shares of Common Stock	Common Stock and	Treasury Stock	Accumulated		Total Stockholders Equity
		Additional Paid-In Capital		Other Comprehensive Income	Retained Earnings	
Balance at July 31, 2010	313,861	\$ 2,728	\$ (3,315)	\$ 11	\$ 3,397	\$ 2,821
Components of comprehensive net loss:						
Net loss					(70)	(70)
Other comprehensive income, net of tax				1		1
Comprehensive net loss						(69)
Issuance of common stock under employee stock plans	5,782	24	130			154
Restricted stock units released, net of taxes	1,267	(57)	29			(28)
Stock repurchases under stock repurchase programs	(7,308)		(330)			(330)
Tax benefit from share-based compensation plans		32				32
Share-based compensation		35				35
Balance at October 31, 2010	313,602	\$ 2,762	\$ (3,486)	\$ 12	\$ 3,327	\$ 2,615

<i>(In millions, except shares in thousands)</i>	Shares of Common Stock	Common Stock and	Treasury Stock	Accumulated		Total Stockholders Equity
		Additional Paid-In Capital		Other Comprehensive Income	Retained Earnings	
Balance at July 31, 2009	322,766	\$ 2,547	\$ (2,846)	\$ 7	\$ 2,849	\$ 2,557
Components of comprehensive net loss:						
Net loss					(68)	(68)

Other comprehensive income,
net of tax

Comprehensive net loss							(68)
Issuance of common stock under employee stock plans	3,056		67		(2)		65
Restricted stock units released, net of taxes	954	(15)	20		(20)		(15)
Stock repurchases under stock repurchase programs	(10,565)		(300)				(300)
Tax benefit from share-based compensation plans		6					6
Share-based compensation		27					27
Balance at October 31, 2009	316,211	\$ 2,565	\$ (3,059)	\$ 7	\$ 2,759	\$ 2,272	

Table of Contents**INTUIT INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)

	Three Months Ended	
	October 31, 2010	October 31, 2009
<i>(In millions)</i>		
Cash flows from operating activities:		
Net loss	\$ (70)	\$ (68)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	37	39
Amortization of acquired intangible assets	19	36
Share-based compensation	35	27
Deferred income taxes	25	(24)
Tax benefit from share-based compensation plans	32	6
Excess tax benefit from share-based compensation plans	(27)	(3)
Other	5	4
Total adjustments	126	85
Changes in operating assets and liabilities:		
Accounts receivable	(12)	(13)
Prepaid expenses, income taxes receivable and other assets	(134)	(56)
Accounts payable	5	9
Accrued compensation and related liabilities	(82)	(57)
Deferred revenue	(29)	(24)
Income taxes payable	(13)	
Other liabilities	(2)	(16)
Total changes in operating assets and liabilities	(267)	(157)
Net cash used in operating activities	(211)	(140)
Cash flows from investing activities:		
Purchases of available-for-sale debt securities	(428)	(388)
Sales of available-for-sale debt securities	638	322
Maturities of available-for-sale debt securities	134	36
Investment of funds held for customers as cash equivalents in available-for-sale debt securities		87
Net change in funds held for customers as cash equivalents	(26)	(21)
Net change in customer fund deposits	26	21
Purchases of property and equipment	(51)	(32)
Acquisitions of intangible assets	(3)	
Other	(5)	(3)
Net cash provided by investing activities	285	22

Cash flows from financing activities:

Net proceeds from issuance of common stock under stock plans	154	65
Tax payments related to issuance of restricted stock units	(28)	(15)
Purchases of treasury stock	(330)	(300)
Excess tax benefit from share-based compensation plans	27	3
Other		(1)
Net cash used in financing activities	(177)	(248)
Effect of exchange rates on cash and cash equivalents	1	
Net decrease in cash and cash equivalents	(102)	(366)
Cash and cash equivalents at beginning of period	214	679
Cash and cash equivalents at end of period	\$ 112	\$ 313

See accompanying notes.

6

Table of Contents

INTUIT INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Intuit Inc. provides business and financial management solutions for small and medium-sized businesses, consumers, accounting professionals and financial institutions. Our flagship products and services, including QuickBooks, Quicken and TurboTax, simplify small business management and payroll processing, personal finance, and tax preparation and filing. ProSeries and Lacerte are Intuit's tax preparation offerings for professional accountants. Our Financial Services business provides online banking solutions and services to banks and credit unions. Incorporated in 1984 and headquartered in Mountain View, California, we sell our products and services primarily in the United States.

Basis of Presentation

These condensed consolidated financial statements include the financial statements of Intuit and its wholly owned subsidiaries. We have eliminated all significant intercompany balances and transactions in consolidation. In November 2009 we acquired Mint Software Inc. for total consideration of approximately \$170 million and in May 2010 we acquired Medfusion, Inc. for total consideration of approximately \$89 million. We have included the results of operations for Mint and Medfusion in our consolidated results of operations from their respective dates of acquisition. In January 2010 we sold our Intuit Real Estate Solutions (IRES) business. We have reclassified our financial statements for all periods prior to the sale to reflect IRES as discontinued operations. Unless noted otherwise, discussions in these notes pertain to our continuing operations.

We have included all adjustments, consisting only of normal recurring items, which we considered necessary for a fair presentation of our financial results for the interim periods presented. These unaudited condensed consolidated financial statements and accompanying notes should be read together with the audited consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2010. Results for the three months ended October 31, 2010 do not necessarily indicate the results we expect for the fiscal year ending July 31, 2011 or any other future period.

We have reclassified certain amounts previously reported in our financial statements to conform to the current presentation, including amounts related to reportable segments and discontinued operations.

Seasonality

Our QuickBooks, Consumer Tax and Accounting Professionals businesses are highly seasonal. Revenue from our QuickBooks software products tends to be highest during our second and third fiscal quarters. Sales of income tax preparation products and services are heavily concentrated in the period from November through April. Seasonal patterns mean that our total net revenue is usually highest during our second quarter ending January 31 and third quarter ending April 30. We typically report losses in our first quarter ending October 31 and fourth quarter ending July 31, when revenue from our tax businesses is minimal while operating expenses continue at relatively consistent levels.

Significant Accounting Policies

We describe our significant accounting policies in Note 1 to the financial statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2010. As discussed below, on August 1, 2010 we adopted authoritative guidance on multiple-deliverable revenue arrangements. There have been no other changes to our significant accounting policies during fiscal 2011.

Multiple-Deliverable Revenue Arrangements

In October 2009 the Financial Accounting Standards Board (FASB) amended the accounting standards applicable to revenue recognition for multiple-deliverable revenue arrangements that are outside the scope of industry-specific software revenue recognition guidance. This new guidance amends the criteria for allocating consideration in

Table of Contents

multiple-deliverable revenue arrangements by establishing a selling price hierarchy. The selling price used for each deliverable will be based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. The guidance also eliminates the use of the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method.

We adopted this guidance on a prospective basis on August 1, 2010, and therefore applied it to relevant revenue arrangements originating or materially modified on or after that date.

VSOE generally exists when we sell the deliverable separately and we are normally able to establish VSOE for all deliverables in these multiple-element arrangements; however, in certain limited instances VSOE cannot be established. This may be because we infrequently sell each element separately, do not price products within a narrow range, or have a limited sales history, such as in the case of our emerging market offerings. When VSOE cannot be established, we attempt to establish selling price for each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately.

When we are unable to establish selling price using VSOE or TPE, we use ESP in our allocation of arrangement consideration. We determine ESP for a product or service by considering multiple factors, including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives, and pricing practices.

Our adoption of this new accounting guidance did not have a significant impact on the timing and pattern of revenue recognition when applied to multiple-element arrangements because our multiple-element offerings are predominantly software or software-related and VSOE exists for most of these offerings.

Computation of Net Income (Loss) Per Share

We compute basic net income or loss per share using the weighted average number of common shares outstanding during the period. We compute diluted net income per share using the weighted average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares include shares issuable upon the exercise of stock options and upon the vesting of restricted stock units (RSUs) under the treasury stock method.

We include stock options with combined exercise prices, unrecognized compensation expense and tax benefits that are less than the average market price for our common stock, and RSUs with unrecognized compensation expense and tax benefits that are less than the average market price for our common stock, in the calculation of diluted net income per share. We exclude stock options with combined exercise prices, unrecognized compensation expense and tax benefits that are greater than the average market price for our common stock, and RSUs with unrecognized compensation expense and tax benefits that are greater than the average market price for our common stock, from the calculation of diluted net income per share because their effect is anti-dilutive. Under the treasury stock method, the amount that must be paid to exercise stock options, the amount of compensation expense for future service that we have not yet recognized for stock options and RSUs, and the amount of tax benefits that will be recorded in additional paid-in capital when the awards become deductible are assumed to be used to repurchase shares.

In loss periods, basic net loss per share and diluted net loss per share are the same since the effect of potential common shares is anti-dilutive and therefore excluded.

Table of Contents

The following table presents the composition of shares used in the computation of basic and diluted net loss per share for the periods indicated.

	Three Months Ended	
	October 31, 2010	October 31, 2009
<i>(In millions, except per share amounts)</i>		
Numerator:		
Net loss from continuing operations	\$ (70)	\$ (69)
Net income from discontinued operations		1
Net loss	\$ (70)	\$ (68)
Denominator:		
Shares used in basic and diluted per share amounts:		
Weighted average common shares outstanding	316	320
Basic and diluted net loss per share:		
Basic and diluted net loss per share from continuing operations	\$ (0.22)	\$ (0.21)
Basic and diluted net income per share from discontinued operations		
Basic and diluted net loss per share	\$ (0.22)	\$ (0.21)
Shares excluded from computation of diluted net loss per share:		
Weighted average stock options and restricted stock units that would have been included in the computation of dilutive common equivalent shares outstanding if net income had been reported in the period	33	27
Weighted average stock options and restricted stock units excluded from calculation due to anti-dilutive effect	5	26

Concentration of Credit Risk and Significant Customers

No customer accounted for 10% or more of total net revenue in the three months ended October 31, 2010 or October 31, 2009. No customer accounted for 10% or more of total accounts receivable at October 31, 2010 or July 31, 2010.

2. Fair Value Measurements

The authoritative guidance defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. When determining fair value, we consider the principal or most advantageous market for an asset or liability and assumptions that market participants would use when pricing the asset or liability. In addition, we consider and use all valuation methods that are appropriate in estimating the fair value of an asset or liability.

The authoritative guidance establishes a fair value hierarchy that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities. In general, the authoritative guidance requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset or liability s

categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of its fair value. The three levels of input defined by the authoritative guidance are as follows:

Level 1 uses unadjusted quoted prices that are available in active markets for identical assets or liabilities.

Level 2 uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices in active markets for similar

Table of Contents

assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data for substantially the full term of the assets or liabilities.

Level 3 uses one or more significant inputs that are supported by little or no market activity and that are significant to the determination of fair value. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques and significant management judgment or estimation.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes financial assets and financial liabilities that we measured at fair value on a recurring basis at the dates indicated, classified in accordance with the fair value hierarchy described above.

<i>(In millions)</i>	October 31, 2010			Total Fair Value	July 31, 2010			Total Fair Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Assets:								
Cash equivalents, primarily money market funds	\$ 266	\$	\$	\$ 266	\$ 330	\$	\$	\$ 330
Available-for-sale debt securities:								
Municipal bonds		741		741		1,050		1,050
Municipal auction rate securities			85	85			87	87
Corporate notes		307		307		334		334
U.S. agency securities		164		164		174		174
Total available-for-sale debt securities		1,212	85	1,297		1,558	87	1,645
Total assets measured at fair value on a recurring basis	\$ 266	\$ 1,212	\$ 85	\$ 1,563	\$ 330	\$ 1,558	\$ 87	\$ 1,975
Liabilities:								
Long-term debt (1)	\$	\$ 1,091	\$	\$ 1,091	\$	\$ 1,086	\$	\$ 1,086

(1) Carrying value on our balance sheets at October 31, 2010 and July 31, 2010 was \$998 million. See Note 8. The following table summarizes our cash equivalents and available-for-sale debt securities by balance sheet classification and level in the fair value hierarchy at the dates indicated.

<i>(In millions)</i>	October 31, 2010				July 31, 2010			Total Fair Value
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	
Cash equivalents:								
In cash and cash equivalents	\$ 53	\$	\$	\$ 53	\$ 143	\$	\$	\$ 143
In funds held for customers	213			213	187			187
Total cash equivalents	\$ 266	\$	\$	\$ 266	\$ 330	\$	\$	\$ 330
Available-for-sale debt securities:								
In investments	\$	\$ 1,062	\$	\$ 1,062	\$	\$ 1,408	\$	\$ 1,408
In funds held for customers		150		150		150		150
In long-term investments			85	85			87	87
Total available-for-sale debt securities	\$	\$ 1,212	\$ 85	\$ 1,297	\$	\$ 1,558	\$ 87	\$ 1,645

We value our Level 1 assets, consisting primarily of money market funds, using quoted prices in active markets for identical instruments. Financial assets whose fair values we measure on a recurring basis using Level 2 inputs consist of municipal bonds, corporate notes and U.S. agency securities. We measure the fair values of these assets using quoted prices in active markets for similar instruments. Financial liabilities whose fair values we measure

Table of Contents

using Level 2 inputs consist of long-term debt. See Note 8. We measure the fair value of our long-term debt based on the trading prices of the senior notes and the interest rates we could obtain for other borrowings with similar terms. Financial assets whose fair values we measure using significant unobservable (Level 3) inputs consist of municipal auction rate securities that are no longer liquid. These securities are included in long-term investments on our balance sheets at October 31, 2010 and July 31, 2010 based on the maturities of the underlying securities. There were no significant transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy during the three months ended October 31, 2010.

The following table presents a reconciliation of activity for our Level 3 assets for the three months ended October 31, 2010.

	Three Months Ended October 31, 2010
<i>(In millions)</i>	
Beginning balance	\$ 87
Settlements at par	(2)
Ending balance	\$ 85

We estimated the fair values of these municipal auction rate securities at October 31, 2010 and July 31, 2010 using a discounted cash flow model that we prepared. See Note 2 to the financial statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2010 for a description of that model and the nature of the key inputs. Using our discounted cash flow model we determined that the fair values of the municipal auction rate securities we held at October 31, 2010 were approximately equal to their par values. As a result, we recorded no decrease in the fair values of those securities for the three months then ended. We do not intend to sell our municipal auction rate securities and it is not more likely than not that we will be required to sell them before recovery at par, which may be at maturity. Based on our expected operating cash flows and our other sources of cash, we do not believe that the reduction in liquidity of our municipal auction rate securities will have a material impact on our overall ability to meet our liquidity needs.

3. Cash and Cash Equivalents, Investments and Funds Held for Customers

We consider highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash equivalents consist primarily of AAA-rated money market funds in all periods presented. Investments consist of available-for-sale investment-grade debt securities that we carry at fair value. Funds held for customers consist of cash and cash equivalents and available-for-sale investment-grade debt securities. Long-term investments consist primarily of municipal auction rate securities that we carry at fair value. See Note 2. Except for direct obligations of the United States government, securities issued by agencies of the United States government, and money market funds, we diversify our investments by limiting our holdings with any individual issuer. The following table summarizes our cash and cash equivalents, investments and funds held for customers by balance sheet classification at the dates indicated.

<i>(In millions)</i>	October 31, 2010		July 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Classification on balance sheets:				
Cash and cash equivalents	\$ 112	\$ 112	\$ 214	\$ 214
Investments	1,060	1,062	1,407	1,408

Edgar Filing: INTUIT INC - Form 10-Q

Funds held for customers	362	363	336	337
Long-term investments	89	89	91	91
Total cash and cash equivalents, investments and funds held for customers	\$ 1,623	\$ 1,626	\$ 2,048	\$ 2,050

Table of Contents

The following table summarizes our cash and cash equivalents, investments and funds held for customers by investment category at the dates indicated.

<i>(In millions)</i>	October 31, 2010		July 31, 2010	
	Amortized		Amortized	
	Cost	Fair Value	Cost	Fair Value
Type of issue:				
Total cash and cash equivalents	\$ 325	\$ 325	\$ 401	\$ 401
Available-for-sale debt securities:				
Municipal bonds	740	741	1,049	1,050
Municipal auction rate securities	85	85	87	87
Corporate notes	305	307	333	334
U.S. agency securities	164	164	174	174
Total available-for-sale debt securities	1,294	1,297	1,643	1,645
Other long-term investments	4	4	4	4
Total cash and cash equivalents, investments and funds held for customers	\$ 1,623	\$ 1,626	\$ 2,048	\$ 2,050

We use the specific identification method to compute gains and losses on investments. We include realized gains and losses on our available-for-sale debt securities in interest and other income, net in our statements of operations. Gross realized gains and losses on our available-for-sale debt securities for the three months ended October 31, 2010 and October 31, 2009 were not significant. We accumulate unrealized gains and losses on our available-for-sale debt securities, net of tax, in accumulated other comprehensive income in the stockholders' equity section of our balance sheets. Gross unrealized gains and losses on our available-for-sale debt securities at October 31, 2010 and July 31, 2010 were not significant.

We periodically review our investment portfolios to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. We believe that the investments we held at October 31, 2010 were not other-than-temporarily impaired. While 57 available-for-sale debt securities had fair values that were a total of \$0.4 million below amortized cost at that date, we do not intend to sell these securities and it is not more likely than not that we will be required to sell them before recovery at par, which may be at maturity. None of these securities had been in an unrealized loss position for more than 12 months at October 31, 2010. The unrealized losses at October 31, 2010 are due to changes in interest rates, including market credit spreads, and not due to increased credit risks associated with the specific securities.

The following table summarizes our available-for-sale debt securities classified by the stated maturity date of the security at the dates indicated.

<i>(In millions)</i>	October 31, 2010		July 31, 2010	
	Amortized		Amortized	
	Cost	Fair Value	Cost	Fair Value
Due within one year	\$ 423	\$ 424	\$ 432	\$ 433
Due within two years	275	276	365	366
Due within three years	256	257	164	164
Due after three years	340	340	682	682

Edgar Filing: INTUIT INC - Form 10-Q

Total available-for-sale debt securities	\$ 1,294	\$ 1,297	\$ 1,643	\$ 1,645
--	----------	----------	----------	----------

Available-for-sale debt securities due after three years in the table above included \$85 million in municipal auction rate securities at October 31, 2010 and \$87 million in municipal auction rate securities at July 31, 2010. See Note 2. Of the remaining available-for-sale debt securities, 80% and 89% had an interest reset date, put date or mandatory call date within two years of those dates.

Table of Contents**4. Accumulated Other Comprehensive Income**

We add components of other comprehensive income, such as changes in the fair value of available-for-sale debt securities and foreign currency translation adjustments, to our net income or loss to arrive at comprehensive net income or loss. For the three months ended October 31, 2010 and October 31, 2009, other comprehensive income was not significant.

The balances in accumulated other comprehensive income in the equity section of our balance sheets at October 31, 2010 and July 31, 2010 consisted primarily of cumulative foreign currency translation adjustments and were not significant.

5. Business Combinations

We completed the business combinations described below during fiscal 2010. We have included the results of operations for each of them in our consolidated results of operations from their respective dates of acquisition. Their results of operations for periods prior to the dates of acquisition were not material, individually or in the aggregate, when compared with our consolidated results of operations. The fair values assigned to the identifiable intangible assets acquired were based on estimates and assumptions determined by management.

Medfusion, Inc.

On May 21, 2010 we acquired privately held Medfusion, Inc. for total consideration of approximately \$89 million. The total consideration included approximately \$10 million for the fair value of cash retention bonuses that is being charged to expense over a three year service period. Medfusion is a provider of online patient-to-provider communication solutions and became part of our Other Businesses segment. We acquired Medfusion to expand our online healthcare offerings in support of our Connected Services strategy.

Under the acquisition method of accounting we allocated the fair value of the total consideration transferred to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition. We recorded the excess of consideration over the aggregate fair values as goodwill. Using information available at the time the acquisition closed, we allocated approximately \$8 million of the consideration to net tangible liabilities and approximately \$23 million of the consideration to identified intangible assets. We recorded the excess consideration of approximately \$62 million as goodwill, none of which is deductible for income tax purposes. The identified intangible assets are being amortized over a weighted average life of six years.

Mint Software Inc.

On November 2, 2009 we acquired all of the outstanding equity interests of Mint Software Inc. for total consideration of approximately \$170 million. The total consideration included approximately \$24 million for cash retention bonuses and the fair value of assumed equity awards and Intuit common stock issued to the holder of Mint Series D Preferred Stock. The total of \$24 million is being charged to expense over a three year service period. Mint is a provider of online personal finance services and became part of our Other Businesses segment. We acquired Mint to expand our online personal finance offerings in support of our Connected Services strategy.

Under the acquisition method of accounting we allocated the fair value of the total consideration transferred to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition. The fair values assigned to identifiable intangible assets acquired were based on estimates and assumptions determined by management. We recorded the excess of consideration over the aggregate fair values as goodwill. Using information available at the time the acquisition closed, we allocated approximately \$1 million of the consideration to tangible assets and liabilities and approximately \$43 million of the consideration to identified intangible assets. We recorded the excess consideration of approximately \$102 million as goodwill, none of which is deductible for income tax purposes. The identified intangible assets are being amortized over a weighted average life of seven years.

Table of Contents**6. Discontinued Operations**

On January 15, 2010 we sold our Intuit Real Estate Solutions (IRES) business for approximately \$128 million in cash and recorded a net gain on disposal of \$35 million. The decision to sell IRES was a result of management's desire to focus resources on Intuit's core products and services. IRES was part of our Other Businesses segment.

We determined that IRES became a discontinued operation in the second quarter of fiscal 2010. We have therefore segregated the operating results of IRES from continuing operations in our statements of operations for all periods prior to the sale. For the three months ended October 31, 2009, net revenue from IRES was \$19 million and net income from IRES was \$1 million. Because IRES operating cash flows were not material for any period presented, we have not segregated them from continuing operations on our statements of cash flows.

7. Current Liabilities*Unsecured Revolving Credit Facility*

On March 22, 2007 we entered into an agreement with certain institutional lenders for a \$500 million unsecured revolving credit facility that will expire on March 22, 2012. Advances under the credit facility will accrue interest at rates that are equal to, at our election, either Citibank's base rate or the London InterBank Offered Rate (LIBOR) plus a margin that ranges from 0.18% to 0.575% based on our senior debt credit ratings. The applicable interest rate will be increased by 0.05% for any period in which the total principal amount of advances and letters of credit under the credit facility exceeds \$250 million. The agreement includes covenants that require us to maintain a ratio of total debt to annual earnings before interest, taxes, depreciation and amortization (EBITDA) of not greater than 3.25 to 1.00 and a ratio of annual EBITDA to interest payable of not less than 3.00 to 1.00. We were in compliance with these covenants at October 31, 2010. We may use amounts borrowed under this credit facility for general corporate purposes or for future acquisitions or expansion of our business. To date we have not borrowed under this credit facility.

Other Current Liabilities

Other current liabilities were as follows at the dates indicated:

<i>(In millions)</i>	October 31, 2010	July 31, 2010
Reserve for product returns	\$ 24	\$ 20
Reserve for rebates	10	11
Current portion of license fee payable	10	10
Current portion of deferred rent	7	7
Interest payable	7	21
Executive deferred compensation plan liabilities	52	43
Other	20	22
Total other current liabilities	\$ 130	\$ 134

The balances of several of our other current liabilities, particularly our reserves for product returns and rebates, are affected by the seasonality of our business. See Note 1, *Seasonality*.

8. Long-Term Obligations and Commitments*Long-Term Debt*

On March 12, 2007 we issued \$500 million of 5.40% senior unsecured notes due on March 15, 2012 and \$500 million of 5.75% senior unsecured notes due on March 15, 2017 (together, the Notes), for a total principal amount of \$1 billion. We carried the Notes at face value less the unamortized discount of \$2 million on our balance sheets at October 31, 2010 and July 31, 2010. The Notes are redeemable by Intuit at any time, subject to a make-whole

Table of Contents

premium. The Notes include covenants that limit our ability to grant liens on our facilities and to enter into sale and leaseback transactions, subject to significant allowances. We paid \$28 million in cash for interest on the Notes during the three months ended October 31, 2010 and October 31, 2009.

Other Long-Term Obligations

Other long-term obligations were as follows at the dates indicated:

<i>(In millions)</i>	October 31, 2010	July 31, 2010
Total license fee payable	\$ 67	\$ 65
Total deferred rent	55	60
Long-term deferred revenue	27	29
Long-term income tax liabilities	40	20
Long-term payables	22	
Other	2	3
Total long-term obligations	213	177
Less current portion (included in other current liabilities)	(19)	(19)
Long-term obligations due after one year	\$ 194	\$ 158

9. Income Taxes*Effective Tax Rate*

We compute our provision for or benefit from income taxes by applying the estimated annual effective tax rate to income or loss from recurring operations and other taxable items. Our effective tax benefit rate for the three months ended October 31, 2010 was approximately 37%. This differed from the statutory rate of 35% primarily due to state income taxes, which were partially offset by the benefit we received from the domestic production activities deduction. Our effective tax benefit rate for the three months ended October 31, 2009 was approximately 38%. This differed from the federal statutory rate of 35% primarily due to state income taxes, which were partially offset by the benefit we received from the domestic production activities deduction and the federal research and experimentation credit.

Unrecognized Tax Benefits and Other Considerations

The total amount of our unrecognized tax benefits at July 31, 2010 was \$35 million. Net of related deferred tax assets, unrecognized tax benefits were \$30 million at that date. If we were to recognize these net benefits, our income tax expense would reflect a favorable net impact of \$30 million. There were no material changes to these amounts during the three months ended October 31, 2010. We do not believe that it is reasonably possible that there will be a significant increase or decrease in our unrecognized tax benefits over the next 12 months.

10. Stockholders Equity*Stock Repurchase Programs*

Intuit's Board of Directors has authorized a series of common stock repurchase programs. Shares of common stock repurchased under these programs become treasury shares. We repurchased 7.3 million shares for \$330 million under these programs during the three months ended October 31, 2010 and 10.6 million shares for \$300 million under these programs during the three months ended October 31, 2009. At October 31, 2010, we had authorization from our Board of Directors to expend up to an additional \$1.67 billion for stock repurchases through August 16, 2013.

Repurchased shares of our common stock are held as treasury shares until they are reissued or retired. When we reissue treasury stock, if the proceeds from the sale are more than the average price we paid to acquire the shares we record an increase in additional paid-in capital. Conversely, if the proceeds from the sale are less than the average

Table of Contents

price we paid to acquire the shares, we record a decrease in additional paid-in capital to the extent of increases previously recorded for similar transactions and a decrease in retained earnings for any remaining amount.

Share-Based Compensation Expense

The following table summarizes the total share-based compensation expense that we recorded for the periods shown.

	Three Months Ended	
	October 31, 2010	October 31, 2009
<i>(In millions, except per share amounts)</i>		
Cost of service and other revenue	\$ 1	\$ 2
Selling and marketing	9	7
Research and development	13	9
General and administrative	12	9
Total share-based compensation expense	35	27
Income tax benefit	(12)	(10)
Increase in net loss	\$ 23	\$ 17
Increase in net loss per share: Basic and diluted	\$ 0.07	\$ 0.05

Stock Option Activity and Related Share-Based Compensation Expense

A summary of activity under all share-based compensation plans for the three months ended October 31, 2010 was as follows:

	Shares Available for Grant	Options Outstanding Number of Shares	Weighted Average Exercise Price Per Share
<i>(Shares in thousands)</i>			
Balance at July 31, 2010	8,761	32,593	\$ 28.45
Options granted	(252)	252	42.58
Restricted stock units granted	(281)		
Options exercised		(5,571)	26.46
Options canceled or expired (1)	342	(361)	29.22
Restricted stock units forfeited (1)	288		
Balance at October 31, 2010	8,858	26,913	\$ 28.99
Exercisable at October 31, 2010		15,969	\$ 26.46

(1)

Stock options and restricted stock units canceled, expired or forfeited under our 2005 Equity Incentive Plan are returned to the pool of shares available for grant. Stock options and restricted stock units canceled, expired or forfeited under older expired plans are not returned to the pool of shares available for grant.

At October 31, 2010, there was approximately \$81 million of unrecognized compensation cost related to non-vested stock options that we expect to recognize as expense in the future. We will adjust unrecognized compensation cost for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average vesting period of 2.1 years.

Table of Contents*Restricted Stock Unit Activity and Related Share-Based Compensation Expense*

A summary of restricted stock unit activity for the three months ended October 31, 2010 was as follows:

<i>(Shares in thousands)</i>	Restricted Stock Units Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at July 31, 2010	11,531	\$ 30.93
Granted	281	35.02
Vested	(2,021)	28.40
Forfeited	(289)	29.52
Nonvested at October 31, 2010	9,502	\$ 31.63

At October 31, 2010, there was approximately \$180 million of unrecognized compensation cost related to non-vested RSUs and restricted stock that we expect to recognize as expense in the future. We will adjust unrecognized compensation cost for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average vesting period of 2.3 years.

11. Litigation

Intuit is subject to certain routine legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of our business, including assertions that we may be infringing patents or other intellectual property rights of others. We currently believe that the ultimate amount of liability, if any, for any pending claims of any type (either alone or combined) will not materially affect our financial position, results of operations or cash flows. The ultimate outcome of any litigation is uncertain and, regardless of outcome, litigation can have an adverse impact on Intuit because of defense costs, negative publicity, diversion of management resources and other factors. Our failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims, could adversely affect our business.

12. Segment Information

We have defined seven reportable segments based on factors such as how we manage our operations and how our chief operating decision maker views results. We define the chief operating decision maker as our Chief Executive Officer and our Chief Financial Officer. Our chief operating decision maker organizes and manages our business primarily on the basis of product and service offerings.

All of our business segments except Other Businesses operate primarily in the United States and sell primarily to customers in the United States. International total net revenue was less than 5% of consolidated total net revenue for all periods presented.

We include expenses such as corporate selling and marketing, product development, and general and administrative expenses and share-based compensation expenses that are not allocated to specific segments in unallocated corporate items. Unallocated corporate items also include amortization of acquired technology and amortization of other acquired intangible assets.

The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies in Note 1 to the financial statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2010. Except for goodwill and purchased intangible assets, we do not generally track assets by reportable segment and, consequently, we do not disclose total assets by reportable segment.

Table of Contents

The following table shows our financial results by reportable segment for the periods indicated. Results for our Other Businesses segment for the three months ended October 31, 2009 have been adjusted to exclude results for our Intuit Real Estate Solutions business, which we sold in January 2010. See Note 6.

	Three Months Ended	
	October 31, 2010	October 31, 2009
<i>(In millions)</i>		
Net revenue:		
Financial Management Solutions	\$ 154	\$ 134
Employee Management Solutions	107	97
Payment Solutions	80	75
Consumer Tax	29	22
Accounting Professionals	25	22
Financial Services	81	80
Other Businesses	56	44
 Total net revenue	 \$ 532	 \$ 474
 Operating loss:		
Financial Management Solutions	\$ 33	\$ 25
Employee Management Solutions	64	56
Payment Solutions	12	13
Consumer Tax	(29)	(31)
Accounting Professionals	(16)	(15)
Financial Services	15	19
Other Businesses	1	3
 Total segment operating income	 80	 70
Unallocated corporate items:		
Share-based compensation expense	(35)	(27)
Other common expenses	(134)	(111)
Amortization of acquired technology	(4)	(22)
Amortization of other acquired intangible assets	(11)	(10)
 Total unallocated corporate items	 (184)	 (170)
 Total operating loss from continuing operations	 \$ (104)	 \$ (100)

Table of Contents

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) includes the following sections:

Executive Overview that discusses at a high level our operating results and some of the trends that affect our business.

Significant changes since our most recent Annual Report on Form 10-K in the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments underlying our financial statements.

Results of Operations that includes a more detailed discussion of our revenue and expenses.

Liquidity and Capital Resources which discusses key aspects of our statements of cash flows, changes in our balance sheets, and our financial commitments.

You should note that this MD&A discussion contains forward-looking statements that involve risks and uncertainties. Please see Item 1A in Part II of this Quarterly Report on Form 10-Q for important information to consider when evaluating such statements.

You should read this MD&A in conjunction with the financial statements and related notes in Part I, Item 1 of this report and our Annual Report on Form 10-K for the fiscal year ended July 31, 2010. In November 2009 we acquired Mint Software Inc. for total consideration of approximately \$170 million and in May 2010 we acquired Medfusion, Inc. for total consideration of approximately \$89 million. We have included the results of operations for Mint and Medfusion in our consolidated results of operations from their respective dates of acquisition. In January 2010 we sold our Intuit Real Estate Solutions (IRES) business. We have reclassified our financial statements for all periods prior to the sale to reflect IRES as discontinued operations. Unless noted otherwise, the following discussion pertains to our continuing operations.

Executive Overview

This overview provides a high level discussion of our operating results and some of the trends that affect our business. We believe that an understanding of these trends is important in order to understand our financial results for the first three months of fiscal 2011 as well as our future prospects. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this Quarterly Report on Form 10-Q.

About Intuit

Intuit is a leading provider of business and financial management solutions for small and medium-sized businesses, consumers, accounting professionals and financial institutions. We organize our portfolio of businesses into four principal categories – Small Business Group, Tax, Financial Services and Other Businesses. These categories include seven financial reporting segments.

Small Business Group: This category includes three segments – Financial Management Solutions, Employee Management Solutions, and Payment Solutions.

Our Financial Management Solutions segment includes QuickBooks financial and business management software and services; technical support; financial supplies; and Intuit Websites, which provides website design and hosting services for small and medium-sized businesses.

Our Employee Management Solutions segment provides payroll products and services for small businesses.

Our Payment Solutions segment provides merchant services for small businesses, including credit and debit card processing, electronic check conversion and automated clearing house services.

Tax: This category includes two segments – Consumer Tax and Accounting Professionals.

Our Consumer Tax segment includes TurboTax income tax preparation products and services for consumers and small businesses.

Table of Contents

Our Accounting Professionals segment includes ProSeries and Lacerte professional tax products and services. This segment also includes QuickBooks Premier Accountant Edition and the QuickBooks ProAdvisor Program for accounting professionals.

Financial Services: This segment consists primarily of outsourced online services for banks and credit unions provided by our Intuit Financial Services business. These include comprehensive online financial management solutions for consumers and businesses.

Other Businesses: This segment includes Quicken personal finance products and services; Mint.com online personal finance services; Intuit Health online patient-to-provider communication solutions; and our businesses in Canada and the United Kingdom.

Seasonality and Trends

Our QuickBooks, Consumer Tax and Accounting Professionals businesses are highly seasonal. Revenue from our QuickBooks software products tends to be highest during our second and third fiscal quarters. Sales of income tax preparation products and services are heavily concentrated in the period from November through April. In our Consumer Tax business, a greater proportion of our revenue has been occurring later in this seasonal period due in part to the growth in sales of TurboTax Online, for which revenue is recognized upon printing or electronic filing of a tax return. The seasonality of our Consumer Tax and Accounting Professionals revenue is also affected by the timing of the availability of tax forms from taxing agencies and the ability of those agencies to receive electronic tax return submissions. Delays in the availability of tax forms or the ability of taxing agencies to receive submissions can cause revenue to shift from our second fiscal quarter to our third fiscal quarter. These seasonal patterns mean that our total net revenue is usually highest during our second quarter ending January 31 and third quarter ending April 30. We typically report losses in our first quarter ending October 31 and fourth quarter ending July 31, when revenue from our tax businesses is minimal while operating expenses continue at relatively consistent levels. We believe the seasonality of our revenue is likely to continue in the future. In our MD&A we often focus on year-to-date results for our seasonal businesses as they are generally more meaningful than quarterly results.

Overview of Financial Results

Total net revenue for the first quarter of fiscal 2011 was \$532 million, an increase of 12% compared with the same quarter of fiscal 2010. Revenue was higher in all of our business segments, with about 60% of the revenue growth for the first quarter of fiscal 2011 coming from the three segments in our Small Business Group. Operating loss increased 4% in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010. Higher costs and expenses included the addition of costs and expenses for acquired businesses, higher spending for staffing expenses and marketing programs, and higher share-based compensation expense. Net loss from continuing operations increased 1% in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010. Our effective tax benefit rate for the first quarter of fiscal 2011 was approximately 37% while our effective tax benefit rate for the first quarter of fiscal 2010 was approximately 38%. Due to all of the foregoing factors, basic and diluted net loss per share from continuing operations of \$0.22 for the first quarter of fiscal 2011 increased 5% compared with the same quarter of fiscal 2010. We ended the first quarter of fiscal 2011 with cash, cash equivalents and investments totaling \$1.2 billion. At that date we also held \$85 million in municipal auction rate securities that we classified as long-term investments. In the first quarter of fiscal 2011 we generated cash from net sales of investments and from the issuance of common stock under employee stock plans. During the same period we used cash for operations, for the repurchase of shares of our common stock under our stock repurchase programs, and for capital expenditures. At October 31, 2010, we had authorization from our Board of Directors to expend up to an additional \$1.67 billion for stock repurchases through August 16, 2013.

Critical Accounting Policies and Estimates

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income or loss and net income or loss, as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2010 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and

Table of Contents

estimates. Except for the changes to our critical accounting policies and estimates discussed below, we believe that there were no significant changes in those critical accounting policies and estimates during the first three months of fiscal 2011. Senior management has reviewed the development and selection of our critical accounting policies and estimates and their disclosure in this Quarterly Report on Form 10-Q with the Audit and Risk Committee of our Board of Directors.

Multiple-Deliverable Revenue Arrangements

On August 1, 2010 we adopted new accounting guidance for multiple-deliverable revenue arrangements that are outside the scope of industry-specific software revenue recognition guidance on a prospective basis. This guidance amends the criteria for allocating consideration in multiple-deliverable revenue arrangements by establishing a selling price hierarchy. The selling price used for each deliverable will be based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. See Note 1 to the financial statements in Part I, Item 1 of this report for more information. We regularly review VSOE, TPE, and ESP and maintain internal controls over the establishment and updates of these estimates.

When we are unable to establish selling price using VSOE or TPE, we use ESP in our allocation of arrangement consideration. ESP is a more subjective measure than either VSOE or TPE, and determining ESP requires significant judgment. We determine ESP for a product or service by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives, and pricing practices.

Results of Operations*Financial Overview*

<i>(Dollars in millions, except per share amounts)</i>	Q1 FY11	Q1 FY10	\$ Change	% Change
Total net revenue	\$ 532	\$ 474	\$ 58	12%
Operating loss from continuing operations	(104)	(100)	(4)	4%
Net loss from continuing operations	(70)	(69)	(1)	1%
Basic and diluted net loss per share from continuing operations	\$ (0.22)	\$ (0.21)	\$ (0.01)	5%

Total net revenue increased \$58 million or 12% in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010. In our Small Business Group, Financial Management Solutions segment revenue increased 15% due to growth in Intuit Websites, QuickBooks Online and QuickBooks Enterprise Solutions customers. Employee Management Solutions segment revenue increased 11% due to favorable offering mix, improved penetration of direct deposit, and the continuing effect of fiscal 2010 price increases for desktop payroll customers. Payment Solutions segment revenue increased 7% due to growth in the merchant customer base that was partially offset by lower charge volume per merchant. Financial Services segment revenue increased 1% due to growth in bill-pay revenue partially offset by the effect of the sale of that segment's lending business in the fourth quarter of fiscal 2010. Other Businesses segment revenue increased 27% due to higher Quicken revenue, strength in our Canadian and United Kingdom small business offerings, and our acquisitions of Mint and Medfusion. Due to the seasonal nature of our Tax businesses, we typically generate nominal revenue in our Consumer Tax and Accounting Professionals segments in our first fiscal quarter compared with our second and third fiscal quarters.

Operating loss from continuing operations increased 4% in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010. Cost of revenue as a percent of revenue decreased due to cost efficiencies, economies of scale, and \$18 million lower amortization expense for acquired intangible assets. Total operating expenses were \$69 million higher in the fiscal 2011 quarter, including about \$15 million due to operating expenses for Mint and Medfusion, about \$23 million for higher staffing expenses, about \$9 million for higher marketing program expenses

Table of Contents

in our Financial Management Solutions and Consumer Tax segments, and about \$9 million for higher share-based compensation expense. See *Cost of Revenue* and *Operating Expenses* later in this Item 2 for more information. Net loss from continuing operations increased 1% in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010. Our effective tax benefit rate for the first quarter of fiscal 2011 was approximately 37% while our effective tax benefit rate for the first quarter of fiscal 2010 was approximately 38%. See *Income Taxes* later in this Item 2 for more information about our effective tax rates for these periods.

Due to all of the foregoing factors, basic and diluted net loss per share from continuing operations of \$0.22 in the first quarter of fiscal 2011 increased 5% compared with \$0.21 in the same quarter of fiscal 2010.

Business Segment Results

The information below is organized in accordance with our seven reportable business segments. Results for our Other Businesses segment for the quarter ended October 31, 2009 have been adjusted to exclude results for our Intuit Real Estate Solutions business, which we sold in January 2010. See Note 6 to the financial statements in Part 1, Item 1 of this report for more information.

Segment operating income or loss is segment net revenue less segment cost of revenue and operating expenses. See *Executive Overview Seasonality and Trends* earlier in this Item 2 for a description of the seasonality of our business.

Segment expenses do not include certain costs, such as corporate selling and marketing, product development, and general and administrative expenses and share-based compensation expenses, which are not allocated to specific segments. These unallocated costs totaled \$169 million in the first quarter of fiscal 2011 and \$138 million in the first quarter of fiscal 2010. Unallocated costs increased in the first three months of fiscal 2011 compared with the same period of fiscal 2010 due to increases in corporate selling and marketing expenses in support of the growth of our businesses.

Segment expenses also do not include amortization of acquired technology and amortization of other acquired intangible assets. See Note 12 to the financial statements in Part I, Item 1 of this report for reconciliations of total segment operating income or loss to consolidated operating income or loss for each fiscal period presented.

We calculate revenue growth rates and segment operating margin figures using dollars in thousands. Those results may vary from figures calculated using the dollars in millions presented below.

Financial Management Solutions

<i>(Dollars in millions)</i>	Q1 FY11	Q1 FY10	% Change
Product revenue	\$ 84	\$ 84	
Service and other revenue	70	50	
Total segment revenue	\$ 154	\$ 134	15%
% of total revenue	29%	28%	
Segment operating income	\$ 33	\$ 25	35%
% of related revenue	21%	18%	

Financial Management Solutions (FMS) product revenue is derived primarily from QuickBooks desktop software products and financial supplies such as paper checks, envelopes, invoices, business cards and business stationery. FMS service and other revenue is derived primarily from QuickBooks Online; QuickBooks support plans; Intuit Websites, which provides website design and hosting services for small and medium-sized businesses; QuickBase; and royalties from small business online services.

Table of Contents

FMS total net revenue increased \$20 million or 15% in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010. In our QuickBooks desktop business, higher average selling prices nearly offset a 20% decline in total QuickBooks software units. We offered promotional discounts on QuickBooks in the first quarter of fiscal 2010 that generated strong unit growth in that quarter. QuickBooks Enterprise Solutions and QuickBooks Online customer growth drove more than half of the fiscal 2011 revenue increase, and Intuit Websites customer growth accounted for another 40% of the increase.

FMS segment operating income as a percentage of related revenue increased to 21% in the first quarter of fiscal 2011 from 18% in the same quarter of fiscal 2010 due to the increase in revenue described above partially offset by about \$7 million in higher expenses for marketing programs and, to a lesser extent, higher cost of revenue associated with revenue growth.

Employee Management Solutions

<i>(Dollars in millions)</i>	Q1 FY11	Q1 FY10	% Change
Product revenue	\$ 63	\$ 60	
Service and other revenue	44	37	
Total segment revenue	\$ 107	\$ 97	11%
% of total revenue	20%	20%	
Segment operating income	\$ 64	\$ 56	13%
% of related revenue	59%	58%	

Employee Management Solutions (EMS) product revenue is derived primarily from QuickBooks Basic Payroll and QuickBooks Enhanced Payroll, which are products sold on a subscription basis that offer payroll tax tables, payroll reports, federal and state payroll tax forms, and electronic tax payment and filing to small businesses that prepare their own payrolls. EMS service and other revenue is derived from QuickBooks Online Payroll, Intuit Online Payroll, fees for direct deposit services, and other small business payroll and employee management services. Service and other revenue for this segment also includes interest earned on funds held for customers.

EMS total net revenue increased \$10 million or 11% in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010. Revenue was higher in the fiscal 2011 period due to more customers choosing our online payroll and enhanced desktop payroll solutions, improved penetration of direct deposit, and the continuing effect of fiscal 2010 price increases for desktop payroll customers. Although online payroll customers were 19% higher, total payroll customers were flat compared with the same quarter of fiscal 2010.

EMS segment operating income as a percentage of related revenue increased slightly to 59% in the first quarter of fiscal 2011 from 58% in the same quarter of fiscal 2010. In the first quarter of fiscal 2011, operating income as a percentage of related revenue was comparable due to the increase in revenue described above and relatively stable costs and expenses.

Table of Contents*Payment Solutions*

<i>(Dollars in millions)</i>	Q1 FY11	Q1 FY10	% Change
Product revenue	\$ 8	\$ 7	
Service and other revenue	72	68	
Total segment revenue	\$ 80	\$ 75	7%
% of total revenue	15%	16%	
Segment operating income	\$ 12	\$ 13	-4%
% of related revenue	16%	17%	

Payment Solutions product revenue is derived primarily from Point of Sale solutions. Payment Solutions service and other revenue is derived primarily from merchant services for small businesses that include credit card, debit card, electronic benefits, and gift card processing services; check verification, check guarantee and electronic check conversion, including automated clearing house (ACH) and Check21 capabilities; and Web-based transaction processing services for online merchants. Service and other revenue for this segment also includes interest earned on funds held for customers.

Payment Solutions total net revenue increased \$5 million or 7% in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010, driven by 15% growth in the merchant customer base that was partially offset by 3% lower transaction volume per merchant.

Payment Solutions segment operating income as a percentage of related revenue decreased slightly to 16% in the first quarter of fiscal 2011 from 17% in the same quarter of fiscal 2010. In the first quarter of fiscal 2011, operating income declined slightly due to higher cost of revenue and selling expenses associated with customer mix, which more than offset the increase in revenue described above.

Consumer Tax

<i>(Dollars in millions)</i>	Q1 FY11	Q1 FY10	% Change
Product revenue	\$ 9	\$ 8	
Service and other revenue	20	14	
Total segment revenue	\$ 29	\$ 22	32%
% of total revenue	6%	5%	
Segment operating loss	\$ (29)	\$ (31)	4%
% of related revenue	n/a	n/a	

Consumer Tax product revenue is derived primarily from TurboTax federal and state consumer and small business desktop tax return preparation software. Consumer Tax service and other revenue is derived primarily from TurboTax Online tax return preparation services and electronic tax filing services.

Due to the seasonal nature of our Consumer Tax business, we typically generate nominal revenue from consumer and small business tax products and services in our first fiscal quarter compared with our second and third fiscal quarters. The majority of Consumer Tax revenue for the first quarter of each fiscal year is for the filing of extended returns for

the previous tax year. Consumer Tax revenue increased \$7 million or 32% in the first quarter of fiscal 2011 compared with the first quarter of fiscal 2010 primarily because customers filed more extended returns in the

Table of Contents

fiscal 2011 quarter. First fiscal quarter revenue in this segment is not indicative of revenue trends for the current tax year. We will not have substantially complete results for the 2010 tax season until the third quarter of fiscal 2011. In our first fiscal quarter our Consumer Tax segment typically generates operating losses because revenue is nominal while operating expenses continue at relatively consistent levels. We do not believe that Consumer Tax operating results for the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010 are indicative of trends for the full fiscal year.

Accounting Professionals

<i>(Dollars in millions)</i>	Q1 FY11	Q1 FY10	% Change
Product revenue	\$ 20	\$ 19	
Service and other revenue	5	3	
Total segment revenue	\$ 25	\$ 22	15%
% of total revenue	5%	5%	
Segment operating loss	\$ (16)	\$ (15)	-9%
% of related revenue	n/a	n/a	

Accounting Professionals product revenue is derived primarily from ProSeries and Lacerte professional tax preparation software products and from QuickBooks Premier Accountant Edition and ProAdvisor Program for professional accountants. Accounting Professionals service and other revenue is derived primarily from electronic tax filing services, bank product transmission services and training services.

Due to the seasonal nature of our Accounting Professionals business, we typically generate nominal revenue from professional tax products and services in our first fiscal quarter compared with our second and third fiscal quarters. The majority of Accounting Professionals tax revenue for the first quarter of each fiscal year is for the filing of extended returns for the previous tax year. Accounting Professionals revenue increased \$3 million or 15% in the first quarter of fiscal 2011 compared with the first quarter of fiscal 2010 primarily because customers filed more extended returns in the fiscal 2011 quarter. First fiscal quarter revenue in this segment is not indicative of revenue trends for the current tax year. We will not have substantially complete results for the 2010 tax season until the third quarter of fiscal 2011.

In our first fiscal quarter our Accounting Professionals segment typically generates operating losses because revenue is nominal while operating expenses continue at relatively consistent levels. We do not believe that Accounting Professionals operating results for the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010 are indicative of trends for the full fiscal year.

Financial Services

<i>(Dollars in millions)</i>	Q1 FY11	Q1 FY10	% Change
Product revenue	\$	\$	
Service and other revenue	81	80	
Total segment revenue	\$ 81	\$ 80	1%
% of total revenue	15%	17%	

Edgar Filing: INTUIT INC - Form 10-Q

Segment operating income	\$ 15	\$ 19	-20%
% of related revenue	19%	24%	

25

Table of Contents

Financial Services service and other revenue is derived primarily from outsourced online banking software products that are hosted in our data centers and delivered as on-demand service offerings to medium-sized banks and credit unions.

Financial Services total net revenue increased \$1 million or 1% in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010. Revenue growth in the fiscal 2011 quarter was driven by higher bill-pay revenue, partially offset by the effect of the sale of this segment's lending business in the fourth quarter of fiscal 2010. Revenue from the lending business was less than \$10 million for all of fiscal 2010. Bill-pay revenue grew due to a 19% increase in bill-pay end users and higher transaction volumes. Continuing price compression that resulted in lower revenue per user partially offset growth in the bill-pay end user customer base.

Financial Services segment operating income as a percentage of related revenue decreased to 19% in the first quarter of fiscal 2011 from 24% in the same quarter of fiscal 2010 due to higher staffing expenses that more than offset higher revenue.

Other Businesses

<i>(Dollars in millions)</i>	Q1 FY11	Q1 FY10	% Change
Product revenue	\$ 32	\$ 27	
Service and other revenue	24	17	
Total segment revenue	\$ 56	\$ 44	27%
% of total revenue	10%	9%	
Segment operating income	\$ 1	\$ 3	-54%
% of related revenue	2%	5%	

Other Businesses consist primarily of Quicken, Mint.com, Intuit Health, and our businesses in Canada and the United Kingdom. Quicken product revenue is derived primarily from Quicken desktop software products. Quicken service and other revenue is derived primarily from Quicken Online, fees from consumer online transactions, and Quicken Loans trademark royalties. Mint.com service revenue is derived primarily from lead generation fees. Intuit Health service revenue is derived from online patient-to-provider communication services. In Canada, product revenue is derived primarily from localized versions of QuickBooks and Quicken as well as consumer desktop tax return preparation software and professional tax preparation products. Service revenue in Canada consists primarily of revenue from payroll services and QuickBooks support plans. In the United Kingdom, product revenue is derived primarily from localized versions of QuickBooks and QuickBooks Payroll.

Other Businesses total net revenue increased \$12 million or 27% in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010 due to 19% higher Quicken revenue that was driven by higher unit sales, strong performance in our Canadian and United Kingdom small business offerings, and our acquisitions of Mint and Medfusion.

Other Businesses segment operating income as a percentage of related revenue decreased to 2% in the first quarter of fiscal 2011 from 5% in the same quarter of fiscal 2010. Higher fiscal 2011 revenue as described above was more than offset by higher costs and expenses associated with our fiscal 2010 acquisitions of Mint and Medfusion and by our continued investment in emerging market opportunities.

Table of Contents**Cost of Revenue**

<i>(Dollars in millions)</i>	Q1 FY11	% of Related Revenue	Q1 FY10	% of Related Revenue
Cost of product revenue	\$ 32	15%	\$ 35	17%
Cost of service and other revenue	123	39%	109	41%
Amortization of acquired technology	4	n/a	22	n/a
Total cost of revenue	\$ 159	30%	\$ 166	35%

Cost of product revenue as a percentage of product revenue decreased in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010 due to cost efficiencies in our Consumer Tax segment. Cost of service and other revenue as a percentage of service and other revenue also decreased in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010 due to the revenue increases in our tax businesses, which had little associated cost, and the sale of the Financial Services lending business in the fourth quarter of fiscal 2010.

Amortization of acquired technology decreased in the first quarter of fiscal 2011 compared with the first quarter of fiscal 2010 due to the completion of the amortization for certain Intuit Financial Services intangible assets that we acquired in fiscal 2007.

Operating Expenses

<i>(Dollars in millions)</i>	Q1 FY11	% of Total Net Revenue	Q1 FY10	% of Total Net Revenue
Selling and marketing	\$ 220	42%	\$ 180	38%
Research and development	156	29%	141	30%
General and administrative	90	17%	77	16%
Amortization of other acquired intangible assets	11	2%	10	2%
Total operating expenses	\$ 477	90%	\$ 408	86%

Total operating expenses as a percentage of total net revenue increased to 90% in the first quarter of fiscal 2011 from 86% in the same quarter of fiscal 2010. Revenue grew \$58 million and total operating expenses increased \$69 million in the fiscal 2011 quarter. Total operating expenses increased about \$15 million for the operating expenses of acquired businesses, about \$23 million for staffing expenses, about \$9 million for higher marketing program expenses, primarily in our Financial Management Solutions and Consumer Tax segments, and about \$9 million for higher share-based compensation expense. Share-based compensation expense increased because the market price of our common stock was higher at the time of our broad-based July 2010 grants of options and restricted stock units compared with the prior fiscal year. This increased the total fair value of these awards at the time of grant, which is being recognized as expense over the related service periods.

Non-Operating Income and Expenses**Interest Expense**

Interest expense of \$15 million and \$16 million for the first quarter of fiscal 2011 and 2010 consisted primarily of interest on \$1 billion in senior notes that we issued in March 2007. The senior notes are due in March 2012 and March 2017 and are redeemable by Intuit at any time, subject to a make-whole premium.

Table of Contents*Interest and Other Income, Net*

<i>(In millions)</i>	Three Months Ended	
	October 31, 2010	October 31, 2009
Interest income	\$ 3	\$ 4
Net gains (losses) on executive deferred compensation plan assets	3	1
Other	2	
Total interest and other income, net	\$ 8	\$ 5

Interest and other income, net consists primarily of interest income. The impact of lower interest rates more than offset the impact of higher average invested balances and resulted in lower interest income in the first quarter of fiscal 2011 compared with the same quarter of fiscal 2010. In accordance with generally accepted accounting principles, we record gains and losses associated with executive deferred compensation plan assets in interest and other income and gains and losses associated with the related liabilities in operating expenses. The amounts recorded in operating expenses generally offset the amounts recorded in interest and other income.

Income Taxes

Our effective tax benefit rate for the first quarter of fiscal 2011 was approximately 37%. This differed from the statutory rate of 35% primarily due to state income taxes, which were partially offset by the benefit we received from the domestic production activities deduction. Our effective tax benefit rate for the first quarter of fiscal 2010 was approximately 38%. This differed from the federal statutory rate of 35% primarily due to state income taxes, which were partially offset by the benefit we received from the domestic production activities deduction and the federal research and experimentation credit.

Discontinued Operations

In January 2010 we sold our Intuit Real Estate Solutions (IRES) business for approximately \$128 million in cash and recorded a net gain on disposal of approximately \$35 million. IRES was part of our Other Businesses segment. We have accounted for IRES as a discontinued operation and segregated its operating results from continuing operations in our statements of operations for all periods prior to the sale. For the first quarter of fiscal 2010, IRES revenue was \$19 million and IRES net income was \$1 million.

Liquidity and Capital Resources*Overview*

At October 31, 2010, our cash, cash equivalents and investments totaled \$1.2 billion, a decrease of \$448 million from July 31, 2010 due to the factors noted under *Statements of Cash Flows* below. At that date we also held \$85 million in municipal auction rate securities that we classified as long-term investments on our balance sheet. See *Auction Rate Securities* below for more information. Our primary source of liquidity has been cash from operations, which entails the collection of accounts receivable for products and services. Our primary uses of cash have been for research and development programs, selling and marketing activities, capital projects, acquisitions of businesses, debt service costs and repurchases of common stock.

In March 2007 we issued five-year and ten-year senior unsecured notes totaling \$1 billion. See *Contractual Obligations - Commitments for Senior Unsecured Notes* later in this Item 2 for more information. We also have a \$500 million unsecured revolving line of credit facility that is described later in this Item 2. To date we have not borrowed under the facility.

Table of Contents

The following table summarizes selected measures of our liquidity and capital resources at the dates indicated:

<i>(Dollars in millions)</i>	October 31, 2010	July 31, 2010	\$ Change	% Change
Cash, cash equivalents and investments	\$ 1,174	\$ 1,622	\$ (448)	(28%)
Long-term investments	89	91	(2)	(2%)
Long-term debt	998	998		0%
Working capital	874	1,074	(200)	(19%)
Ratio of current assets to current liabilities	1.8 : 1	1.9 : 1		

Auction Rate Securities

At October 31, 2010, we held a total of \$85 million in municipal auction rate securities that we classified as long-term investments on our balance sheet based on the maturities of the underlying securities. All of these securities are rated A or better by the major credit rating agencies and they are generally collateralized by student loans guaranteed by the U.S. Department of Education. Due to a decrease in liquidity in the global credit markets, in February 2008 auctions began failing for the municipal auction rate securities we held and in accordance with authoritative guidance we began estimating their fair value based on a discounted cash flow model that we prepared. Based on our expected operating cash flows and our other sources of cash, we do not believe that the reduction in liquidity of the municipal auction rate securities we held at October 31, 2010 will have a material impact on our overall ability to meet our liquidity needs.

Statements of Cash Flows

The following table summarizes selected items from our statements of cash flows for the first three months of fiscal 2011 and 2010. See the financial statements in Part I, Item 1 of this report for complete statements of cash flows for those periods.

<i>(Dollars in millions)</i>	Three Months Ended		\$	%
	October 31, 2010	October 31, 2009	Change	Change
Net cash provided by (used in):				
Operating activities	\$ (211)	\$ (140)	\$ (71)	51%
Investing activities	285	22	263	1195%
Financing activities	(177)	(248)	71	(29%)
Effect of exchange rate changes on cash	1		1	n/a
Decrease in cash and cash equivalents	\$ (102)	\$ (366)		

Operating Activities

During the first three months of fiscal 2011 we used \$211 million in cash for our operations. This included a seasonal net loss of \$70 million, a seasonal increase of \$114 million in income taxes receivable, and the payment of fiscal 2010 accrued bonuses, partially offset by adjustments for depreciation and amortization of \$56 million and share-based compensation expense of \$35 million.

During the first three months of fiscal 2010 we used \$140 million in cash for our operations. This included a seasonal net loss of \$68 million, a seasonal increase of \$31 million in income taxes receivable, and the payment of fiscal 2009 accrued bonuses, partially offset by and adjustments for depreciation and amortization of \$75 million and share-based compensation expense of \$27 million.

Table of Contents

Investing Activities

Investing activities generated \$285 million in cash during the first three months of fiscal 2011. We received \$344 million in cash from net sales of investments, which was partially offset by the use of \$51 million in cash for capital expenditures.

Investing activities generated \$22 million in cash during the first three months of fiscal 2010. We received \$57 million in cash from net sales of investments, which was partially offset by the use of \$32 million in cash for capital expenditures.

Financing Activities

We used \$177 million in cash for financing activities during the first three months of fiscal 2011, including \$330 million for the repurchase of common stock under our stock repurchase programs partially offset by the receipt of \$154 million in cash from the issuance of common stock under employee stock plans.

We used \$248 million in cash for financing activities during the first three months of fiscal 2010, including \$300 million for the repurchase of common stock under our stock repurchase programs partially offset by the receipt of \$65 million in cash from the issuance of common stock under employee stock plans.

Stock Repurchase Programs

Our Board of Directors has authorized a series of common stock repurchase programs. Shares of common stock repurchased under these programs become treasury shares. During the first three months of fiscal 2011 and 2010 we repurchased 7.3 million and 10.6 million shares of our common stock for \$330 million and \$300 million under these programs. At October 31, 2010, we had authorization from our Board of Directors to expend up to an additional \$1.67 billion for stock repurchases through August 16, 2013.

Unsecured Revolving Credit Facility

On March 22, 2007 we entered into an agreement with certain institutional lenders for a \$500 million unsecured revolving credit facility that will expire on March 22, 2012. Advances under the credit facility will accrue interest at rates that are equal to, at our election, either Citibank's base rate or the London InterBank Offered Rate (LIBOR) plus a margin that ranges from 0.18% to 0.575% based on our senior debt credit ratings. The applicable interest rate will be increased by 0.05% for any period in which the total principal amount of advances and letters of credit under the credit facility exceeds \$250 million. The agreement includes covenants that require us to maintain a ratio of total debt to annual earnings before interest, taxes, depreciation and amortization (EBITDA) of not greater than 3.25 to 1.00 and a ratio of annual EBITDA to interest payable of not less than 3.00 to 1.00. We were in compliance with these covenants at October 31, 2010. We may use amounts borrowed under this credit facility for general corporate purposes or for future acquisitions or expansion of our business. To date we have not borrowed under the credit facility. We monitor counterparty risk associated with the institutional lenders that are providing the credit facility. We currently believe that the credit facility will be available to us should we choose to borrow under it.

Liquidity and Capital Resource Requirements

We evaluate, on an ongoing basis, the merits of acquiring technology or businesses, or establishing strategic relationships with and investing in other companies. We may decide to use cash and cash equivalents, investments, and our revolving line of credit facility to fund such activities in the future.

Based on past performance and current expectations, we believe that our cash and cash equivalents, investments, and cash generated from operations will be sufficient to meet anticipated seasonal working capital needs, capital expenditure requirements, contractual obligations, commitments and other liquidity requirements associated with our operations for at least the next 12 months.

Off-Balance Sheet Arrangements

At October 31, 2010, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Table of Contents

Contractual Obligations

We presented our contractual obligations at July 31, 2010 in our Annual Report on Form 10-K for the fiscal year then ended. Except as discussed below, there have been no significant changes in those obligations during the first three months of fiscal 2011.

Commitments for Senior Unsecured Notes

On March 12, 2007 we issued \$500 million of 5.40% senior unsecured notes due on March 15, 2012 (the 2012 Notes) and \$500 million of 5.75% senior unsecured notes due on March 15, 2017 (the 2017 Notes) (together, the Notes). The Notes are redeemable by Intuit at any time, subject to a make-whole premium. Interest is payable semiannually on March 15 and September 15. At October 31, 2010, our maximum commitment for interest payments under the Notes was \$227 million.

We monitor the credit markets as part of our ongoing cash management activities. We currently intend to either pay off the 2012 Notes when they become due using operating cash or refinance those notes if the credit markets are favorable at that time.

Table of Contents**ITEM 3****QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Investment Risk**

There has been significant instability in the financial markets during fiscal 2009, 2010 and 2011. This period of extraordinary disruption and readjustment in the financial markets exposes us to additional investment risk. The value and liquidity of the securities in which we invest could deteriorate rapidly and the issuers of these securities could be subject to credit rating downgrades. In light of the current market conditions and these additional risks, we actively monitor market conditions and developments specific to the securities in which we invest. We believe that we take a conservative approach to investing our funds in that we invest only in highly-rated securities and diversify our portfolio of investments. While we believe we take prudent measures to mitigate investment related risks, such risks cannot be fully eliminated because of market circumstances that are outside our control.

Our investments consist of instruments that meet quality standards consistent with our investment policy. This policy specifies that, except for direct obligations of the United States government, securities issued by agencies of the United States government, and money market funds, we diversify our investments by limiting our holdings with any individual issuer. We do not hold derivative financial instruments in our portfolio of investments. See Note 3 to the financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a summary of the cost and fair value of our investments by type of issue.

Interest Rate Risk

Our cash equivalents and investments are subject to market risk due to changes in interest rates. Interest rate movements affect the interest income we earn on cash equivalents and investments and the fair value of those investments. Should the Federal Reserve Target Rate increase by 25 basis points from the level of October 31, 2010, the value of our investments would decrease by approximately \$3 million. Should the Federal Reserve Target Rate increase by 100 basis points from the level of October 31, 2010, the value of our investments would decrease by approximately \$11 million.

We are also exposed to the impact of changes in interest rates as they affect our \$500 million revolving credit facility. Advances under the credit facility accrue interest at rates that are equal to Citibank's base rate or the London InterBank Offered Rate (LIBOR) plus a margin that ranges from 0.18% to 0.575% based on our senior debt credit ratings. Consequently, our interest expense would fluctuate with changes in the general level of these interest rates if we were to borrow any amounts under the credit facility. At October 31, 2010, no amounts were outstanding under the credit facility.

On March 12, 2007 we issued \$500 million of 5.40% senior unsecured notes due on March 15, 2012 and \$500 million of 5.75% senior unsecured notes due on March 15, 2017. We carry these senior notes at face value less unamortized discount on our balance sheets. Since these senior notes bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of these notes fluctuates when interest rates change. See Note 2 and Note 8 to the financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

Impact of Foreign Currency Rate Changes

The functional currencies of our international operating subsidiaries are the local currencies. We translate the assets and liabilities of our foreign subsidiaries at the exchange rates in effect on the balance sheet date. We translate their revenue, costs and expenses at the average rates of exchange in effect during the period. We include translation gains and losses in the stockholders' equity section of our balance sheets. We include net gains and losses resulting from foreign exchange transactions in interest and other income, net in our statements of operations.

Since we translate foreign currencies (primarily Canadian dollars, British pounds, Indian rupees and Singapore dollars) into U.S. dollars for financial reporting purposes, currency fluctuations can have an impact on our financial results. The historical impact of currency fluctuations on our financial results has generally been immaterial. We believe that our exposure to currency exchange fluctuation risk is not significant because our international subsidiaries invoice customers and satisfy their financial obligations almost exclusively in their local currencies.

Table of Contents

Although the impact of currency fluctuations on our financial results has generally been immaterial in the past and we believe that for the reasons cited above currency fluctuations will not be significant in the future, there can be no guarantee that the impact of currency fluctuations will not be material in the future. As of October 31, 2010, we did not engage in foreign currency hedging activities.

Table of Contents

ITEM 4

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, Intuit's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures as defined under Exchange Act Rule 13a-15(e) and 15d-15(e) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During our most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II

ITEM 1

LEGAL PROCEEDINGS

See Note 11 to the financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of legal proceedings.

Table of Contents

**ITEM 1A
RISK FACTORS**

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements in this report, other than statements that are purely historical, are forward-looking statements. Words such as expect, anticipate, intend, plan, believe, forecast, estimate, seek, and similar expressions also identify forward-looking statements. In this report, forward-looking statements include, without limitation, the following:

our expectations and beliefs regarding future conduct and growth of the business;

the assumptions underlying our Critical Accounting Policies and Estimates, including our estimates regarding product rebate and return reserves; stock volatility and other assumptions used to estimate the fair value of share-based compensation; the fair value of goodwill; and expected future amortization of acquired intangible assets;

our belief that the investments we hold are not other-than-temporarily impaired;

our belief that the reduction in liquidity of the municipal auction rate securities we hold will not have a material impact on our overall ability to meet our liquidity needs;

our belief that our exposure to currency exchange fluctuation risk will not be significant in the future;

our expectations regarding future payment or refinancing of the 2012 Notes;

our assessments and estimates that determine our effective tax rate;

our belief that our cash and cash equivalents, investments and cash generated from operations will be sufficient to meet our working capital, capital expenditure and other liquidity requirements for at least the next 12 months;

our beliefs regarding seasonality and other trends for our businesses; and

our assessments and beliefs regarding the future outcome of pending legal proceedings and the liability, if any, that Intuit may incur as a result of those proceedings.

We caution investors that forward-looking statements are only predictions based on our current expectations about future events and are not guarantees of future performance. We encourage you to read carefully all information provided in this Quarterly Report and in our other filings with the Securities and Exchange Commission before deciding to invest in our stock or to maintain or change your investment. These forward-looking statements are based on information as of the filing date of this Quarterly Report, and we undertake no obligation to publicly revise or update any forward-looking statement for any reason.

Because forward-looking statements involve risks and uncertainties, there are important factors that may cause actual results to differ materially from those contained in the forward-looking statements. These factors include the following:

We face intense competitive pressures that may harm our operating results.

We face intense competition in all of our businesses, and we expect competition to remain intense in the future. Our competitors may introduce superior products and services, reduce prices, have greater technical, marketing and other resources, have greater name recognition, have larger installed bases of customers, have well-established relationships with our current and potential customers, advertise aggressively or beat us to market with new products and services. We also face intensified competition from providers of free accounting, tax, banking and other financial services. In order to compete, we have also introduced free offerings in several categories, but we may not be able to attract customers or effectively monetize all of these offerings, and customers who have formerly paid for Intuit's products

and services may elect to use free offerings instead. These competitive factors may diminish our revenue and profitability, and harm our ability to acquire and retain customers.

Our consumer tax business also faces significant competition from the public sector, where we face the risk of federal and state taxing authorities developing software or other systems to facilitate tax return preparation and electronic filing at no charge to taxpayers. These or similar programs may be introduced or expanded in the future, which may cause us to lose customers and revenue. Although the Free File Alliance has kept the federal government from being a direct competitor to Intuit's tax offerings, it has fostered additional online competition and may cause us to lose significant revenue opportunities. The current agreement with the Free File Alliance is scheduled to expire in October 2014. We anticipate that governmental encroachment at both the federal and state levels may present a continued competitive threat to our business for the foreseeable future.

Table of Contents***Future revenue growth depends upon our ability to adapt to technological change and successfully introduce new and enhanced products, services and business models.***

The Software as a Service (SaaS), desktop software and mobile technology industries are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. As we continue to grow our SaaS and other offerings, we must continue to innovate and develop new products and features to meet changing customer needs and attract and retain talented software developers. We need to continue to develop our skills, tools and capabilities to capitalize on existing and emerging technologies, which require us to devote significant resources. A number of our businesses also derive a significant amount of their revenue from one-time upfront license fees and rely on customer upgrades and service offerings to generate a significant portion of their revenues. In addition, our consumer and professional tax businesses depend significantly on revenue from customers who return each year to use our updated tax preparation and filing software and services. As our existing products mature, encouraging customers to purchase product upgrades becomes more challenging unless new product releases provide features and functionality that have meaningful incremental value. If we are not able to develop and clearly demonstrate the value of new or upgraded products or services to our customers, our revenues may be harmed. In addition, as we continue to introduce and expand our new business models, including offerings that are subscription-based or that are free to end users, we may be unsuccessful in monetizing or increasing customer adoption of these offerings.

In some cases, we may expend a significant amount of resources and management attention on offerings that do not ultimately succeed in their markets. We have encountered difficulty in launching new products and services in the past. If we misjudge customer needs in the future, our new products and services may not succeed and our revenues and earnings may be harmed. We have also invested, and in the future expect to invest, in new business models, strategies and initiatives. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, expenses associated with the strategies and inadequate return on investments. Because these new initiatives are inherently risky, they may not be successful and may harm our financial condition and operating results.

Business interruption or failure of our information technology and communication systems may impair the availability of our products and services, which may damage our reputation and harm our future financial results.

As we continue to transition our business to more connected services, we become more dependent on the continuing operation and availability of our information technology and communication systems and those of our external service providers. We do not have redundancy for all of our systems, many of our critical applications reside in only one of our data centers, and our disaster recovery planning may not account for all eventualities. In addition, we are in the process of updating our customer facing applications and the supporting information technology infrastructure to meet our customers' expectations for continuous service availability. Any difficulties in upgrading these applications or infrastructure or failure of our systems or those of our service providers may result in interruptions in our service, which may reduce our revenues and profits, cause us to lose customers and damage our reputation. Any prolonged interruptions at any time may result in lost customers, additional refunds of customer charges, negative publicity and increased operating costs, any of which may significantly harm our business, financial condition and results of operations.

We are in the process of migrating our applications and infrastructure to new data centers. If we do not execute the transition to the new data centers in an effective manner, we may experience unplanned service disruptions or unforeseen increases in costs which may harm our operating results and our business. We do not maintain real-time back-up of all our data, and in the event of significant system disruption we may experience loss of data or processing capabilities, which may cause us to lose customers and may materially harm our reputation and our operating results. Our business operations, data centers, information technology and communications systems are vulnerable to damage or interruption from natural disasters, human error, malicious attacks, fire, power loss, telecommunications failures, computer viruses, computer denial of service attacks, terrorist attacks and other events beyond our control. The majority of our research and development activities, our corporate headquarters, our principal information technology systems, and other critical business operations are located near major seismic faults. We do not carry earthquake insurance for direct quake-related losses. Our future financial results may be materially harmed in the event of a major earthquake or other natural or man-made disaster.

Table of Contents

We rely on internal systems and external systems maintained by manufacturers, distributors and other service providers to take and fulfill customer orders, handle customer service requests and host certain online activities. Any interruption or failure of our internal or external systems may prevent us or our service providers from accepting and fulfilling customer orders or cause company and customer data to be unintentionally disclosed. Our continuing efforts to upgrade and expand our network security and other information systems as well as our high-availability capabilities may be costly, and problems with the design or implementation of system enhancements may harm our business and our results of operations.

Our hosting, collection, use and retention of personal customer information and data create risk that may harm our business.

A number of our businesses collect, use and retain large amounts of personal customer information and data, including credit card numbers, tax return information, bank account numbers and passwords, personal and business financial data, social security numbers, healthcare information and payroll information. We may also develop new business models that use certain personal information, or data derived from personal information. In addition, we collect and maintain personal information of our employees in the ordinary course of our business. Some of this personal customer and employee information is held and some transactions are executed by third parties. In addition, as many of our products and services are Web-based, the amount of data we store for our users on our servers (including personal information) has been increasing. We and our vendors use commercially available security technologies to protect transactions and personal information. We use security and business controls to limit access and use of personal information. However, individuals or third parties may be able to circumvent these security and business measures, and errors in the storage, use or transmission of personal information may result in a breach of customer or employee privacy or theft of assets, which may require notification under applicable data privacy regulations. We employ contractors, temporary and seasonal employees who may have access to the personal information of customers and employees or who may execute transactions in the normal course of their duties. While we conduct background checks of our employees and other individuals and limit access to systems and data, it is possible that one or more of these individuals may circumvent these controls, resulting in a security breach.

The ability to execute transactions and the possession and use of personal information and data in conducting our business subjects us to legislative and regulatory burdens that may require notification to customers or employees of a security breach, restrict our use of personal information and hinder our ability to acquire new customers or market to existing customers. As our business continues to expand to new industry segments that may be more highly regulated for privacy and data security, and to countries outside the United States that have more strict data protection laws, our compliance requirements and costs may increase. We have incurred and may continue to incur significant expenses to comply with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

A major breach of our security measures or those of third parties that execute transactions or hold and manage personal information may have serious negative consequences for our businesses, including possible fines, penalties and damages, reduced customer demand for our services, harm to our reputation and brands, further regulation and oversight by federal or state agencies, and loss of our ability to provide financial transaction services or accept and process customer credit card orders or tax returns. From time to time, we detect, or receive notices from customers or public or private agencies that they have detected, vulnerabilities in our servers, our software or third-party software components that are distributed with our products. The existence of vulnerabilities, even if they do not result in a security breach, may harm customer confidence and require substantial resources to address, and we may not be able to discover or remediate such security vulnerabilities before they are exploited. In addition, hackers develop and deploy viruses, worms and other malicious software programs that may attack our offerings. Although this is an industry-wide problem that affects software across platforms, it is increasingly affecting our offerings because hackers tend to focus their efforts on the more popular programs and offerings and we expect them to continue to do so. If hackers were able to circumvent our security measures, we may lose personal information. Although we have commercially available network and application security, internal control measures, and physical security procedures to safeguard our systems, there can be no assurance that a security breach, loss or theft of personal information will not occur, which may harm our business, customer reputation and future financial results and may require us to

expend significant resources to address these problems, including notification under data privacy regulations.

Table of Contents

If we are unable to develop, manage and maintain critical third party business relationships, our business may be adversely affected.

Our growth is dependent on the strength of our business relationships and our ability to continue to develop, maintain and leverage new and existing relationships. We rely on various third party partners, including software and service providers, suppliers, vendors, manufacturers, distributors, financial institutions, core processors, licensing partners and development partners, among others, in many areas of our business in order to deliver our offerings and operate our business. We also rely on third parties to support the operation of our business by maintaining our physical facilities, equipment, power systems and infrastructure. In certain instances, these third party relationships are sole source or limited source relationships and can be difficult to replace or substitute depending on the level of integration of the third party's products or services into, or with, our offerings and/or the general availability of such third party's products and services. In addition, there may be few or no alternative third party providers or vendors in the market. The failure of third parties to provide acceptable and high quality products, services and technologies or to update their products, services and technologies may result in a disruption to our business operations, which may reduce our revenues and profits, cause us to lose customers and damage our reputation. Alternative arrangements and services may not be available to us on commercially reasonable terms or we may experience business interruptions upon a transition to an alternative partner.

In particular, we have relationships with banks, credit unions or other financial institutions, both as customers and as suppliers of certain critical services we offer to our other customers. If macroeconomic conditions or other factors cause any of these institutions to fail, consolidate or institute cost-cutting efforts, our business and financial results may suffer and we may be unable to offer those services to our customers.

Increased government regulation of our businesses may harm our operating results.

Many of our businesses are in highly regulated areas, including our tax, payroll, payments, financial services and healthcare businesses. The application of these laws and regulations to our businesses is often unclear and compliance with these regulations may involve significant costs or require changes to our business practices that result in reduced revenue. In addition, there have been significant new regulations and heightened focus by the government on many of these areas.

In addition, as we seek to grow our business, we may expand into more highly-regulated businesses or countries, which may require increased investment in compliance and auditing functions or new technologies in order to meet regulatory standards. Government authorities may enact other laws, rules or regulations that place new burdens or restrictions on our business or determine that our operations are directly subject to existing rules or regulations, such as requirements related to data collection, use, transmission, retention and processing, which may make our business more costly, less efficient or impossible to conduct, and may require us to modify our current or future products or services, which may harm our future financial results.

The tax preparation industry continues to receive heightened attention from federal and state governments. New legislation, regulation, public policy considerations or litigation by the government or private entities may result in greater oversight of the tax preparation industry, restrict the types of products and services that we can offer or the prices we can charge, or otherwise cause us to change the way we operate our tax businesses or offer our tax products and services. This in turn may increase our cost of doing business and limit our revenue opportunities. We are also required to comply with a variety of state revenue agency standards in order to successfully operate our tax preparation and electronic filing services. Changes in state-imposed requirements by one or more of the states, including the required use of specific technologies or technology standards, may significantly increase the costs of providing those services to our customers and may prevent us from delivering a quality product to our customers in a timely manner.

Our Financial Services business provides services to banks, credit unions and other financial institutions that are subject to extensive and complex federal and state regulation. As a result, our financial institution customers require that our products and services comply with the regulations applicable to these customers. If we are unable to comply with these regulations, we may incur significant costs and penalties, face litigation or governmental proceedings, and lose our ability to sell to these customers. Any of these adverse events may harm our future financial results and our reputation.

Table of Contents***If we fail to process transactions effectively or fail to adequately protect against disputed or potential fraudulent activities, our revenue and earnings may be harmed.***

Our operations process a significant volume and dollar value of transactions on a daily basis, especially in our payroll and payments businesses. Due to the size and volume of transactions that we handle, effective processing systems and controls are essential to ensure that transactions are handled appropriately. Despite our efforts, it is possible that we may make errors or that funds may be misappropriated due to fraud. In our payroll and payments businesses, we have been experiencing an increasing amount of fraudulent activities not only by our customers, but also targeted fraud by third parties aimed directly at our offerings. In addition to any direct damages and fines that any such problems may create, which may be substantial, the loss of customer confidence in our controls may seriously harm our business. The systems supporting our business are comprised of multiple technology platforms that are difficult to scale. If we are unable to effectively manage our systems and processes we may be unable to process customer data in an accurate, reliable and timely manner, which may harm our business. In our payments processing service business if merchants for whom we process payment transactions are unable to pay refunds due to their customers in connection with disputed or fraudulent merchant transactions, we may be required to pay those amounts and our payments may exceed the amount of the customer reserves we have established to make such payments.

Third parties claiming that we infringe their proprietary rights may cause us to incur significant legal expenses and prevent us from selling our products.

As the number of products in the software industry increases and the functionality of these products further overlap, and as we acquire technology through acquisitions or licenses, we may become increasingly subject to infringement claims, including patent, copyright, and trademark infringement claims. Litigation may be necessary to determine the validity and scope of the patent rights of others. We have received an increasing number of allegations of patent infringement claims in the past and expect to receive more claims in the future based on allegations that our offerings infringe upon patents held by third parties. Some of these claims are the subject of pending litigation against us and against some of our customers. These claims may involve patent holding companies or other adverse patent owners who have no relevant product revenues of their own, and against whom our own patents may provide little or no deterrence. The ultimate outcome of any allegation is uncertain and, regardless of outcome, any such claim, with or without merit, may be time consuming to defend, result in costly litigation, divert management's time and attention from our business, require us to stop selling, delay shipping or redesign our products, or require us to pay monetary damages for royalty or licensing fees, or to satisfy indemnification obligations that we have with some of our customers. Our failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims may harm our business.

We rely on third party intellectual property in our products and services.

Many of our products and services include intellectual property of third parties, which we license under agreements that must be renewed or renegotiated from time to time. We may not be able to obtain licenses to these third party technologies or content on reasonable terms, or at all. If we are unable to obtain the rights necessary to use this intellectual property in our products and services, we may not be able to sell the affected offerings, which may in turn harm our future financial results. Also, we and our customers have been and may continue to be subject to infringement claims as a result of the third party intellectual property incorporated in to our offerings. Although we try to mitigate this risk and we may not be ultimately liable for any potential infringement, pending claims require us to use significant resources, require management attention and could result in loss of customers.

Some of our offerings include third-party software that is licensed under so-called "open source" licenses, some of which may include a requirement that, under certain circumstances, we make available, or grant licenses to, any modifications or derivative works we create based upon the open source software. Although we have established internal review and approval processes to mitigate these risks, we may not be sure that all open source software is submitted for approval prior to use in our products. Many of the risks associated with usage of open source may not be eliminated, and may, if not properly addressed, harm our business.

We expect copying and misuse of our intellectual property to be a persistent problem which may cause lost revenue and increased expenses.

Policing unauthorized use and copying of our products is difficult, expensive, and time consuming. Current U.S. laws that prohibit copying give us only limited practical protection from software piracy and the laws of many other countries provide very little protection. We frequently encounter unauthorized copies of our software being sold

Table of Contents

through online marketplaces. Although we continue to evaluate and put in place technology solutions to attempt to lessen the impact of piracy and engage in efforts to educate consumers and public policy leaders on these issues and cooperate with industry groups in their efforts to combat piracy, we expect piracy to be a persistent problem that results in lost revenues and increased expenses.

Because competition for our key employees is intense, we may not be able to attract, retain and develop the highly skilled employees we need to support our planned growth.

Much of our future success depends on the continued service and availability of skilled personnel, including members of our executive team, and those in technical, marketing and staff positions. Experienced personnel in the software and Software as a Service industries are in high demand and competition for their talents is intense, especially in California and India, where the majority of our employees are located. Also, as we strive to continue to adapt to technological change and introduce new and enhanced products and business models, we must be able to secure, maintain and develop the right quality and quantity of engaged and committed talent. Although we strive to be an employer of choice, we may not be able to continue to successfully attract, retain and develop key personnel which may cause our business to suffer.

As our product and service offerings become more tightly integrated, we may be required to recognize the related revenue over relatively longer periods of time.

Our expanding range of products and services, and the combinations in which we offer them, generate different revenue streams than our traditional desktop software businesses, and the accounting policies that apply to revenue from these offerings are complex. For example, as we offer online services bundled with other products, we may be required to defer a higher percentage of our product revenue into future fiscal periods. In addition, as we offer more services on a subscription basis, we recognize revenue from those services over the periods in which the services are provided. This may result in significant shifts of revenue from quarter to quarter, or from one fiscal year to the next.

The nature of our products and services necessitates timely product launches and if we experience significant product quality problems or delays, it may harm our revenue, earnings and reputation.

All of our tax products and many of our non-tax products have rigid development timetables that increase the risk of errors in our products and the risk of launch delays. Our tax preparation software product development cycle is particularly challenging due to the need to incorporate unpredictable tax law and tax form changes each year and because our customers expect high levels of accuracy and a timely launch of these products to prepare and file their taxes by the tax filing deadline. Due to the complexity of our products and the condensed development cycles under which we operate, our products sometimes contain bugs that may unexpectedly interfere with the operation of the software. The complexity of our products may also make it difficult for us to consistently deliver offerings that contain the features, functionality and level of accuracy that our customers expect. When we encounter problems we may be required to modify our code, distribute patches to customers who have already purchased the product and recall or repackage existing product inventory in our distribution channels. If we encounter development challenges or discover errors in our products late in our development cycle it may cause us to delay our product launch date. Any major defects or launch delays may lead to loss of customers and revenue, negative publicity, customer and employee dissatisfaction, reduced retailer shelf space and promotions, and increased operating expenses, such as inventory replacement costs, legal fees or payments resulting from our commitment to reimburse penalties and interest paid by customers due solely to calculation errors in our consumer tax preparation products.

Our revenue and earnings are highly seasonal and our quarterly results fluctuate significantly.

Several of our businesses are highly seasonal causing significant quarterly fluctuations in our financial results. Revenue and operating results are usually strongest during the second and third fiscal quarters ending January 31 and April 30 due to our tax businesses contributing most of their revenue during those quarters and the timing of the release of our small business software products and upgrades. We experience lower revenues, and significant operating losses, in the first and fourth quarters ending October 31 and July 31. Our financial results may also fluctuate from quarter to quarter and year to year due to a variety of factors, including changes in product sales mix that affect average selling prices; product release dates; the timing of delivery of federal and state tax forms; the timing of our discontinuation of support for older product offerings; changes to our bundling strategy, such as the inclusion of upgrades with certain offerings; changes to how we communicate the availability of new functionality in

the future (any of which may impact the pattern of revenue recognition); and the timing of acquisitions, divestitures, and goodwill and acquired intangible asset impairment charges.

41

Table of Contents

We are frequently a party to litigation and regulatory inquiries which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operation and cash flows.

We are subject to various legal proceedings, claims and regulatory inquiries that have arisen out of the ordinary conduct of our business and are not yet resolved and additional claims and inquiries may arise in the future. The number and significance of these claims and inquiries have increased as our businesses have evolved. Any proceedings, claims or inquiries initiated by or against us, whether successful or not, may be time consuming; result in costly litigation, damage awards, injunctive relief or increased costs of business; require us to change our business practices; require significant amounts of management time; result in diversion of significant operations resources; or otherwise harm of business and future financial results.

The continued global economic downturn may harm our business and financial condition.

The continued global economic downturn has caused disruptions and extreme volatility in global financial markets and increased rates of default and bankruptcy, and has impacted consumer and small business spending. These macroeconomic developments have affected and may continue to negatively affect our business and financial condition. In particular, because the majority of our revenue is derived from sales within the U.S., economic conditions in the U.S. have an even greater impact on us than companies with a more diverse international presence. Potential new customers may not purchase or delay purchase of our products and services, and many of our existing customers may discontinue purchasing or delay upgrades of our existing products and services, thereby negatively impacting our revenues and future financial results. Decreased consumer spending levels may also reduce credit and debit card transaction processing volumes causing reductions in our payments revenue. Poor economic conditions and high unemployment has caused, and may continue to cause, a significant decrease in the number of tax returns filed, which may have a significant effect on the number of tax returns we prepare and file. In addition, weakness in the end-user consumer and small business markets may negatively affect the cash flow of our distributors and resellers who may, in turn, delay paying their obligations to us, which may increase our credit risk exposure and cause delays in our recognition of revenue or future sales to these customers. Additionally, if macroeconomic or other factors continue to cause banks, credit unions, mortgage lenders and other financial institutions to fail, or result in further cost-cutting efforts or consolidation of these entities, we may lose current or potential customers, achieve less revenue per customer and/or lose valuable relationships with such of these entities that provide critical services to our customers. Any of these events may harm our business and our future financial results.

We regularly invest resources to update and improve our internal information technology systems and software platforms. Should our investments not succeed, or if delays or other issues with new or existing internal technology systems and software platforms disrupt our operations, our business could be harmed.

We rely on our network and data center infrastructure and internal technology systems for many of our development, marketing, operational, support, sales, accounting and financial reporting activities. We are continually investing resources to update and improve these systems and environments in order to meet existing, as well as the growing and changing requirements of our business and customers. If we experience prolonged delays or unforeseen difficulties in updating and upgrading our systems and architecture, we may experience outages and may not be able to deliver certain offerings and develop new offerings and enhancements that we need to remain competitive. Such improvements and upgrades are often complex, costly and time consuming. In addition such improvements can be challenging to integrate with our existing technology systems, or may uncover problems with our existing technology systems. Unsuccessful implementation of hardware or software updates and improvements could result in outages, disruption in our business operations, loss of revenue or damage to our reputation.

Our international operations are subject to increased risks which may harm our business, operating results, and financial condition.

In addition to uncertainty about our ability to generate revenues from our foreign operations and expand into international markets, there are risks inherent in doing business internationally, including:

trade barriers and changes in trade regulations;

difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;

stringent local labor laws and regulations;

profit repatriation restrictions, and foreign currency exchange restrictions;

political or social unrest, economic instability, repression, or human rights issues;

geopolitical events, including acts of war and terrorism;

import or export regulations;

Table of Contents

compliance with U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to government officials;

different and more stringent user protection, data protection, privacy and other laws; and

risks related to other government regulation or required compliance with local laws.

Violations of the complex foreign and U.S. laws and regulations that apply to our international operations may result in fines, criminal actions or sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors or agents will not violate our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and may result in harm to our business, operating results, and financial condition.

If actual product returns exceed reserves our future financial results may be harmed.

We ship more desktop software products to our distributors and retailers than we expect them to sell, in order to reduce the risk that distributors or retailers may run out of products. This is particularly true for our Consumer Tax products, which have a short selling season and for which returns occur primarily in our fiscal third and fourth quarters. Like many software companies that sell their products through distributors and retailers, we have historically accepted significant product returns. We establish reserves against revenue for product returns in our financial statements based on estimated returns and we closely monitor product sales and inventory in the retail channel in an effort to maintain adequate reserves. In the past, returns have not differed significantly from these reserves. However, if we experience actual returns that significantly exceed reserves, it may result in lower net revenue.

Unanticipated changes in our income tax rates may affect our future financial results.

Our future effective income tax rates may be favorably or unfavorably affected by unanticipated changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or their interpretation. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. These continuous examinations may result in unforeseen tax-related liabilities, which may harm our future financial results.

Amortization of acquired intangible assets and impairment charges may cause significant fluctuation in our net income.

Our acquisitions have resulted in significant expenses, including amortization and impairment of acquired technology and other acquired intangible assets, and impairment of goodwill. Total costs and expenses in these categories were approximately \$91 million in fiscal 2010, \$101 million in fiscal 2009, and \$90 million in fiscal 2008. Although under current accounting rules goodwill is not amortized, we may incur impairment charges related to the goodwill already recorded and to goodwill arising out of future acquisitions. We test the impairment of goodwill annually in our fourth fiscal quarter or more frequently if indicators of impairment arise. The timing of the formal annual test may result in charges to our statement of operations in our fourth fiscal quarter that may not have been reasonably foreseen in prior periods. At October 31, 2010, we had \$1.9 billion in goodwill and \$242 million in net acquired intangible assets on our balance sheet, both of which may be subject to impairment charges in the future. New acquisitions, and any impairment of the value of acquired intangible assets, may have a significant negative impact on our future financial results.

Our acquisition and divestiture activities may disrupt our ongoing business, may involve increased expenses and may present risks not contemplated at the time of the transactions.

We have acquired and may continue to acquire companies, products and technologies that complement our strategic direction. Acquisitions involve significant risks and uncertainties, including:

inability to successfully integrate the acquired technology and operations into our business and maintain uniform standards, controls, policies, and procedures;

inability to realize synergies expected to result from an acquisition;

challenges retaining the key employees, customers, resellers and other business partners of the acquired operation;

the internal control environment of an acquired entity may not be consistent with our standards and may require significant time and resources to improve;

Table of Contents

unidentified issues not discovered in our due diligence process, including product or service quality issues, intellectual property issues and legal contingencies.

Because acquisitions and divestitures are inherently risky, our transactions may not be successful and may, in some cases, harm our operating results or financial condition. If we use debt to fund acquisitions or for other purposes, our interest expense and leverage may increase significantly. If we issue equity securities as consideration in an acquisition, current shareholders' percentage ownership and earnings per share may be diluted.

We have issued \$1 billion in a debt offering and may incur other debt in the future, which may adversely affect our financial condition and future financial results.

In fiscal 2007 we issued \$500 million in senior unsecured notes due in March 2012 and \$500 million in senior unsecured notes due in March 2017. As this debt matures, we will have to expend significant resources to either repay or refinance these notes. If we decide to refinance the notes, we may be required to do so on different or less favorable terms or we may be unable to refinance the notes at all, both of which may adversely affect our financial condition. We have also entered into a \$500 million five-year revolving credit facility. Although we have no current plans to request any advances under this credit facility, we may use the proceeds of any future borrowing for general corporate purposes or for future acquisitions or expansion of our business.

This debt may adversely affect our financial condition and future financial results by, among other things:

increasing our vulnerability to downturns in our business, to competitive pressures and to adverse economic and industry conditions;

requiring the dedication of a portion of our expected cash from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures and acquisitions; and

limiting our flexibility in planning for, or reacting to, changes in our businesses and our industries.

Our current revolving credit facility imposes restrictions on us, including restrictions on our ability to create liens on our assets and the ability of our subsidiaries to incur indebtedness, and require us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control. In addition, our long-term non-convertible debt includes covenants that may adversely affect our ability to incur certain liens or engage in certain types of sale and leaseback transactions. If we breach any of the covenants under our long-term debt or our revolving credit facility and do not obtain a waiver from the lenders, then, subject to applicable cure periods, any outstanding indebtedness may be declared immediately due and payable.

In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities. If our credit ratings are downgraded or other negative action is taken, the interest rate payable by us under our revolving credit facility may increase. In addition, any downgrades in our credit ratings may affect our ability to obtain additional financing in the future and may affect the terms of any such financing.

We are subject to risks associated with information disseminated through our services.

The law relating to the liability of online services companies for information carried on or disseminated through their services is often unsettled. Claims may be made against online services companies under both U.S. and foreign law for defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through their services. Certain of our services include content generated by users. Although this content is not generated by us, claims of defamation or other injury may be made against us for that content. Any costs incurred as a result of this potential liability may harm our business.

Our business depends on our strong reputation and the value of our brands.

Developing and maintaining awareness of our brands is critical to achieving widespread acceptance of our existing and future products and services and is an important element in attracting new customers. Adverse publicity (whether or not justified) relating to activities by our employees or agents may tarnish our reputation and reduce the value of our brands. Damage to our reputation and loss of brand equity may reduce demand for our products and services and thus have an adverse effect on our future financial results, as well as require additional resources to rebuild our reputation and restore the value of the brands.

Table of Contents**ITEM 2****UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Stock repurchase activity during the three months ended October 31, 2010 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans
August 1, 2010 through August 31, 2010	955,000	\$ 42.73	955,000	\$ 1,959,197,290
September 1, 2010 through September 30, 2010	2,784,700	\$ 44.60	2,784,700	\$ 1,835,003,229
October 1, 2010 through October 31, 2010	3,568,100	\$ 46.24	3,568,100	\$ 1,670,003,867
Total	7,307,800	\$ 45.16	7,307,800	

Notes:

- All shares purchased as part of publicly announced plans during the three months ended October 31, 2010 were purchased under a plan we announced on August 18, 2010 under which we are authorized to repurchase up to \$2 billion of our common stock from time to time over a three-year period ending on August 16, 2013.

Table of Contents**ITEM 6
EXHIBITS**

We have filed the following exhibits as part of this report:

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference
10.01+	Letter Regarding Terms of Employment by and between Intuit Inc. and Dan Maurer dated November 16, 2005, Promotion Memo dated January 16, 2008 and Amendment dated December 1, 2008	X	
10.02#	Amendment 5 to the Master Services Agreement between Intuit and Arvato Digital Services LLC effective August 19, 2010	X	
31.01	Certification of Chief Executive Officer	X	
31.02	Certification of Chief Financial Officer	X	
32.01*	Section 1350 Certification (Chief Executive Officer)	X	
32.02*	Section 1350 Certification (Chief Financial Officer)	X	
101.INS*	XBRL Instance Document	X	
101.SCH*	XBRL Taxonomy Extension Schema	X	
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase	X	
101.LAB*	XBRL Taxonomy Extension Label Linkbase	X	
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase	X	
101.DEF*	XBRL Taxonomy Extension Definition Linkbase	X	

+ Indicates a management contract or compensatory plan or arrangement.

We have requested confidential treatment for certain portions of this document pursuant to an application for confidential treatment sent to the Securities and Exchange Commission (SEC). We omitted such portions from this filing and filed them separately with the SEC.

* This exhibit is intended to be furnished and shall not be deemed filed for purposes of the Securities Exchange Act of 1934, as amended.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTUIT INC.
(Registrant)

Date: December 6, 2010

By: /s/ R. NEIL WILLIAMS
R. Neil Williams
Senior Vice President and Chief Financial
Officer
(Authorized Officer and Principal Financial
Officer)

47

Table of Contents**EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference
10.01+	Letter Regarding Terms of Employment by and between Intuit Inc. and Dan Maurer dated November 16, 2005, Promotion Memo dated January 16, 2008 and Amendment dated December 1, 2008	X	
10.02#	Amendment 5 to the Master Services Agreement between Intuit and Arvato Digital Services LLC effective August 19, 2010	X	
31.01	Certification of Chief Executive Officer	X	
31.02	Certification of Chief Financial Officer	X	
32.01*	Section 1350 Certification (Chief Executive Officer)	X	
32.02*	Section 1350 Certification (Chief Financial Officer)	X	
101.INS*	XBRL Instance Document	X	
101.SCH*	XBRL Taxonomy Extension Schema	X	
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase	X	
101.LAB*	XBRL Taxonomy Extension Label Linkbase	X	
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase	X	
101.DEF*	XBRL Taxonomy Extension Definition Linkbase	X	

+ Indicates a management contract or compensatory plan or arrangement.

We have requested confidential treatment for certain portions of this document pursuant to an application for confidential treatment sent to the Securities and Exchange Commission (SEC). We omitted such portions from this filing and filed them separately with the SEC.

* This exhibit is intended to be furnished and shall not be deemed filed for purposes of the Securities Exchange Act of 1934, as amended.