

INTUIT INC  
Form 10-Q  
March 01, 2010

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**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 January 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 definition 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

Smaller reporting  
company

(Do not check if a 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. 313,918,834 shares of Common Stock, \$0.01 par value, were outstanding at February 22, 2010.

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ITEM 1  
FINANCIAL STATEMENTS****INTUIT INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January</b>	<b>January</b>	<b>January</b>	<b>January</b>
	<b>31,</b>	<b>31,</b>	<b>31,</b>	<b>31,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<i>(In millions, except per share amounts; unaudited)</i>				
Net revenue:				
Product	\$ 422	\$ 433	\$ 627	\$ 651
Service and other	415	340	684	584
Total net revenue	837	773	1,311	1,235
Costs and expenses:				
Cost of revenue:				
Cost of product revenue	48	56	83	88
Cost of service and other revenue	114	98	223	200
Amortization of purchased intangible assets	16	14	38	29
Selling and marketing	277	271	457	451
Research and development	144	140	285	274
General and administrative	88	70	165	134
Acquisition-related charges	11	13	21	23
Total costs and expenses	698	662	1,272	1,199
Operating income from continuing operations	139	111	39	36
Interest expense	(15)	(12)	(31)	(24)
Interest and other income, net	2	6	7	5
Income from continuing operations before income taxes	126	105	15	17
Income tax provision (benefit)	46	19	4	(17)
Net income from continuing operations	80	86	11	34
Net income (loss) from discontinued operations	34	(1)	35	(1)
Net income	\$ 114	\$ 85	\$ 46	\$ 33
Basic net income per share from continuing operations	\$ 0.25	\$ 0.27	\$ 0.04	\$ 0.10
Basic net income (loss) per share from discontinued operations	0.11		0.11	
Basic net income per share	\$ 0.36	\$ 0.27	\$ 0.15	\$ 0.10
Shares used in basic per share calculations	314	321	317	322

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Diluted net income per share from continuing operations	\$ 0.25	\$ 0.26	\$ 0.03	\$ 0.10
Diluted net income (loss) per share from discontinued operations	0.10		0.11	
Diluted net income per share	\$ 0.35	\$ 0.26	\$ 0.14	\$ 0.10
Shares used in diluted per share calculations	323	326	326	329

See accompanying notes.

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**INTUIT INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

<i>(In millions; unaudited)</i>	<b>January 31, 2010</b>	<b>July 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 337	\$ 679
Investments	609	668
Accounts receivable, net	468	135
Income taxes receivable	23	67
Deferred income taxes	80	92
Prepaid expenses and other current assets	86	43
Current assets of discontinued operations		12
Current assets before funds held for customers	1,603	1,696
Funds held for customers	313	272
Total current assets	1,916	1,968
Long-term investments	92	97
Property and equipment, net	518	527
Goodwill	1,853	1,754
Purchased intangible assets, net	269	291
Long-term deferred income taxes	43	36
Other assets	87	77
Long-term assets of discontinued operations		76
Total assets	\$ 4,778	\$ 4,826
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 159	\$ 103
Accrued compensation and related liabilities	135	171
Deferred revenue	511	360
Income taxes payable	2	
Other current liabilities	234	153
Current liabilities of discontinued operations		25
Current liabilities before customer fund deposits	1,041	812
Customer fund deposits	313	272
Total current liabilities	1,354	1,084
Long-term debt	998	998
Other long-term obligations	170	187
Total liabilities	2,522	2,269

## Commitments and contingencies

## Stockholders' equity:

Preferred stock		
Common stock and additional paid-in capital	2,599	2,547
Treasury stock, at cost	(3,220)	(2,846)
Accumulated other comprehensive income	8	7
Retained earnings	2,869	2,849
Total stockholders' equity	2,256	2,557
Total liabilities and stockholders' equity	\$ 4,778	\$ 4,826

See accompanying notes.

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**INTUIT INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock and		Accumulated			Total Stockholders' Equity
	Shares of Common Stock	Additional Paid-In Capital	Treasury Stock	Other Comprehensive Income	Retained Earnings	
<i>(In millions, except shares in thousands; unaudited)</i>						
<b>Balance at July 31, 2009</b>	<b>322,766</b>	<b>\$ 2,547</b>	<b>\$ (2,846)</b>	<b>\$ 7</b>	<b>\$ 2,849</b>	<b>\$ 2,557</b>
Components of comprehensive net income:						
Net income					46	46
Other comprehensive income, net of tax				1		1
Comprehensive net income						47
Issuance of common stock under employee stock plans	6,851	2	150		(2)	150
Restricted stock units released, net of taxes	1,430	(22)	26		(24)	(20)
Stock repurchases under stock repurchase programs	(18,814)		(550)			(550)
Tax benefit from employee stock option transactions		10				10
Share-based compensation		65				65
Other		(3)				(3)
<b>Balance at January 31, 2010</b>	<b>312,233</b>	<b>\$ 2,599</b>	<b>\$ (3,220)</b>	<b>\$ 8</b>	<b>\$ 2,869</b>	<b>\$ 2,256</b>

	Common Stock and		Accumulated			Total Stockholders' Equity
	Shares of Common Stock	Additional Paid-In Capital	Treasury Stock	Other Comprehensive Income (Loss)	Retained Earnings	
<i>(In millions, except shares in thousands; unaudited)</i>						
<b>Balance at July 31, 2008</b>	<b>322,600</b>	<b>\$ 2,415</b>	<b>\$ (2,787)</b>	<b>\$ 8</b>	<b>\$ 2,444</b>	<b>\$ 2,080</b>
Components of comprehensive net income:						
Net income					33	33
Other comprehensive loss, net of tax				(16)		(16)
Comprehensive net income						17
	4,911		106		(11)	95

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Issuance of common stock under employee stock plans							
Restricted stock units released, net of taxes	919	(14)	20		(20)		(14)
Stock repurchases under stock repurchase programs	(7,383)		(200)				(200)
Tax benefit from employee stock option transactions		7					7
Share-based compensation		57					57
Other		(6)					(6)
<b>Balance at January 31, 2009</b>	<b>321,047</b>	<b>\$ 2,459</b>	<b>\$ (2,861)</b>	<b>\$ (8)</b>	<b>\$ 2,446</b>	<b>\$ 2,036</b>	

See accompanying notes.

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**INTUIT INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January</b>	<b>January</b>	<b>January</b>	<b>January</b>
	<b>31,</b>	<b>31,</b>	<b>31,</b>	<b>31,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<i>(In millions; unaudited)</i>				
<b>Cash flows from operating activities:</b>				
Net income	\$ 114	\$ 85	\$ 46	\$ 33
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	36	36	75	69
Amortization of intangible assets	32	30	68	57
Share-based compensation	38	35	65	57
Pre-tax gain on sale of IRES (1)	(58)		(58)	
Deferred income taxes	2	(1)	(22)	44
Tax benefit from share-based compensation plans	4	(4)	10	7
Excess tax benefit from share-based compensation plans	(2)		(5)	(6)
Other	6	2	10	7
<b>Total adjustments</b>	<b>58</b>	<b>98</b>	<b>143</b>	<b>235</b>
<b>Changes in operating assets and liabilities:</b>				
Accounts receivable	(318)	(300)	(331)	(317)
Prepaid expenses, income taxes receivable and other assets	51	7	(5)	(114)
Accounts payable	47	(7)	56	15
Accrued compensation and related liabilities	19	16	(38)	(97)
Deferred revenue	180	140	156	122
Income taxes payable	2	1	2	(13)
Other liabilities	92	103	76	79
<b>Total changes in operating assets and liabilities</b>	<b>73</b>	<b>(40)</b>	<b>(84)</b>	<b>(325)</b>
<b>Net cash provided by (used in) operating activities (1)</b>	<b>245</b>	<b>143</b>	<b>105</b>	<b>(57)</b>
<b>Cash flows from investing activities:</b>				
Purchases of available-for-sale debt securities	(162)	(31)	(550)	(67)
Sales of available-for-sale debt securities	96	117	418	264
Maturities of available-for-sale debt securities	7	13	43	24
Net change in funds held for customers' money market funds and other cash equivalents	41	34	107	317
Purchases of property and equipment	(34)	(50)	(66)	(117)
Net change in customer fund deposits	20	(34)	41	(317)
Acquisitions of businesses, net of cash acquired	(141)		(141)	
Proceeds from divestiture of business	122		122	

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Other	(3)	1	(6)	4
<b>Net cash provided by (used in) investing activities</b>	<b>(54)</b>	<b>50</b>	<b>(32)</b>	<b>108</b>
<b>Cash flows from financing activities:</b>				
Net proceeds from issuance of common stock under stock plans	85	18	150	95
Tax payments related to issuance of restricted stock units	(5)	(2)	(20)	(14)
Purchase of treasury stock	(250)	(35)	(550)	(200)
Excess tax benefit from share-based compensation plans	2		5	6
Other		(2)	(1)	(2)
<b>Net cash used in financing activities</b>	<b>(168)</b>	<b>(21)</b>	<b>(416)</b>	<b>(115)</b>
Effect of exchange rates on cash and cash equivalents	1	(2)	1	(10)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>24</b>	<b>170</b>	<b>(342)</b>	<b>(74)</b>
Cash and cash equivalents at beginning of period	313	169	679	413
<b>Cash and cash equivalents at end of period</b>	<b>\$ 337</b>	<b>\$ 339</b>	<b>\$ 337</b>	<b>\$ 339</b>

(1) Because the operating cash flows of our Intuit Real Estate Solutions (IRES) discontinued operations were not material for any period presented, we have not segregated them from continuing operations on these statements of cash flows. We have presented the effect of the gain on disposal of IRES on the statement of cash flows for the three and six months ended January 31, 2010. See Note 6.

See accompanying notes.



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

**1. Description of Business, Basis of Presentation 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 institutions division, anchored by Digital Insight, provides outsourced online banking 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 July 2009 we acquired PayCycle, Inc. for a total purchase price of approximately \$169 million and in November 2009 we acquired Mint Software Inc. for total consideration of approximately \$170 million. Accordingly, we have included the results of operations for PayCycle and Mint in our consolidated results of operations from their respective dates of acquisition. In January 2010 we sold our Intuit Real Estate Solutions (IRES) business. Accordingly, 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.

These condensed consolidated financial statements also include the financial position, results of operations and cash flows of Superior Bankcard Services, LLC (SBS), an entity that acquired merchant accounts for our Payment Solutions business. We were allocated 51% of the earnings and losses of this entity and 100% of the losses in excess of the noncontrolling interest capital balances. We therefore eliminated the portion of the SBS financial results that pertained to the noncontrolling interests in our statements of operations and on our balance sheets. The amounts eliminated were not material for any period presented. On December 7, 2009 we purchased all of the noncontrolling members' interests in SBS for a total price of approximately \$9 million, net of loan repayments. See Note 8.

We have included all adjustments, consisting only of normal recurring items, that 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 included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2009. Results for the three and six months ended January 31, 2010 do not necessarily indicate the results we expect for the fiscal year ending July 31, 2010 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, 2009. On August 1, 2009 we adopted the Financial Accounting

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Standards Board (FASB) Accounting Standards Codification (ASC) as the sole source for authoritative guidance. On August 1, 2009 we also adopted certain authoritative guidance on fair value measurements for nonfinancial assets and nonfinancial liabilities and on business combinations that affected our significant accounting policies. See *Fair Value of Nonfinancial Assets and Nonfinancial Liabilities* and *Business Combinations* below. There have been no other changes to our significant accounting policies during fiscal 2010.

**Fair Value of Nonfinancial Assets and Nonfinancial Liabilities**

We describe our accounting policies for the valuation of goodwill, purchased intangible assets and other long-lived assets in *Goodwill, Purchased Intangible Assets and Other Long-Lived Assets* 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, 2009. On August 1, 2009 we adopted the provisions of the authoritative guidance on fair value measurements for nonfinancial assets and nonfinancial liabilities that we do not recognize or disclose at fair value on a recurring basis (at least annually). These include reporting units measured at fair value in a goodwill impairment test, other nonfinancial assets or liabilities measured at fair value for impairment testing, and nonfinancial assets acquired and liabilities assumed in a business combination. In accordance with this guidance, we define fair value as the price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As a result, we now estimate the fair values of these assets and liabilities from the perspective of a market participant rather than from an entity-specific perspective. In addition, we consider and use all valuation methods that are appropriate in estimating the fair value of these assets and liabilities. See Note 2, *Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*, for information on the impact of our adoption of this guidance.

**Business Combinations**

On August 1, 2009 we adopted the acquisition method of accounting for business combinations. The acquisition method of accounting requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which we may adjust the provisional amounts recognized for a business combination) in a manner that is generally similar to the previous purchase method of accounting.

Under the acquisition method of accounting we recognize separately from goodwill the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree, generally at the acquisition date fair value. We measure goodwill as of the acquisition date as the excess of consideration transferred, which we also measure at fair value, over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Costs that we incur to complete the business combination such as investment banking, legal and other professional fees are not considered part of consideration and we charge them to general and administrative expense as they are incurred. Under the acquisition method we also account for acquired company restructuring activities that we initiate separately from the business combination.

Should the initial accounting for a business combination be incomplete by the end of a reporting period that falls within the measurement period, we report provisional amounts in our financial statements. During the measurement period, we adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date and we record those adjustments to our financial statements. We apply those measurement period adjustments that we determine to be significant retrospectively to comparative information in our financial statements, including adjustments to depreciation and amortization expense.

Under the acquisition method of accounting for business combinations, if we identify changes to deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the measurement period and they relate to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement period adjustment and we record the offset to goodwill. We record all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current period income tax expense. This accounting applies to all of our acquisitions regardless of acquisition date.

*Other Accounting Pronouncements Adopted in the Current Period*

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On August 1, 2009 we adopted authoritative guidance for the determination of the useful lives of intangible assets. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to

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determine the useful lives of recognized intangible assets. Our adoption of this guidance had no impact on our financial position, results of operations or cash flows.

On August 1, 2009 we adopted authoritative guidance for the accounting and reporting of noncontrolling interests in consolidated entities and for the deconsolidation of those entities. As a result of our adoption of this guidance, we retrospectively reclassified the balances for the noncontrolling interest in SBS to stockholders' equity for all periods presented. These balances were not significant. The expense that we recorded for the noncontrolling interest in SBS's income was not significant compared with our consolidated financial results for any period presented and we have therefore included it in interest and other income, net in our statements of operations.

On November 1, 2009 we adopted authoritative guidance for measuring liabilities at fair value. This guidance amends the factors that should be considered in fair value measurements of liabilities when a quoted price in an active market is not available. Our adoption of this guidance had no impact on our financial position, results of operations or cash flows.

*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 identical since the effect of potential common shares is anti-dilutive and therefore excluded.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January</b>	<b>January</b>	<b>January</b>	<b>January</b>
	<b>31,</b>	<b>31,</b>	<b>31,</b>	<b>31,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<i>(In millions, except per share amounts)</i>				
<b>Numerator:</b>				
Net income from continuing operations	\$ 80	\$ 86	\$ 11	\$ 34
Net income (loss) from discontinued operations	34	(1)	35	(1)
Net income	\$ 114	\$ 85	\$ 46	\$ 33
<b>Denominator:</b>				
Shares used in basic per share amounts:				
Weighted average common shares outstanding	314	321	317	322
Shares used in diluted per share amounts:				
Weighted average common shares outstanding	314	321	317	322
Dilutive common equivalent shares from stock options and restricted stock awards	9	5	9	7
Dilutive weighted average common shares outstanding	323	326	326	329
<b>Basic and diluted net income (loss) per share:</b>				
Basic net income per share from continuing operations	\$ 0.25	\$ 0.27	\$ 0.04	\$ 0.10
Basic net income (loss) per share from discontinued operations	0.11		0.11	
Basic net income per share	\$ 0.36	\$ 0.27	\$ 0.15	\$ 0.10
Diluted net income per share from continuing operations				
Diluted net income (loss) per share from discontinued operations	\$ 0.25	\$ 0.26	\$ 0.03	\$ 0.10
Diluted net income per share	0.10		0.11	
Diluted net income per share	\$ 0.35	\$ 0.26	\$ 0.14	\$ 0.10
<b>Weighted average stock options and restricted stock units excluded from calculation due to anti-dilutive effect</b>				
	13	33	25	27

*Significant Customers*

No customer accounted for 10% or more of total net revenue in the three or six months ended January 31, 2010 or 2009. Due to the seasonality of our business, at January 31, 2010 the account of one retail customer represented approximately 16% of total accounts receivable and the account of another retail customer represented approximately 10% of total accounts receivable. No customer accounted for 10% or more of total accounts receivable at July 31, 2009.

*Recent Accounting Pronouncements*

ASU 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements a Consensus of the FASB Emerging Issues Task Force*

In October 2009 the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements a Consensus of the FASB Emerging Issues Task Force*. This update provides amendments to the criteria in ASC Topic 605, *Revenue Recognition*, for separating consideration

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in multiple-deliverable 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 if VSOE is not available, or estimated selling price if neither VSOE nor third-party evidence is available. ASU 2009-13 also eliminates 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. ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which means that it will be effective for our fiscal year beginning August 1, 2010. We are in the process of evaluating this update and therefore have not yet determined the impact that adoption of ASU 2009-13 will have on our financial position, results of operations or cash flows.

**ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements***

In January 2010 the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*. This update amends the disclosure requirements about fair value measurements in ASC Topic 820, *Fair Value Measurements and Disclosures*. ASU 2010-06 requires more robust disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, which means that it will be effective for our third fiscal quarter beginning February 1, 2010. We expect that the adoption of this update will have no significant impact on our financial position, results of operations or cash flows.

**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 the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We measure and disclose the fair value of certain assets and liabilities on a recurring basis and other assets and liabilities on a non-recurring basis, as described below. The authoritative guidance establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

**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 for similar assets or liabilities in active markets; 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.

**Level 3** uses one or more significant inputs that are unobservable and supported by little or no market activity, and that reflect the use of significant management judgment. 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*

Our cash equivalents, available-for-sale debt securities and long-term debt are measured at fair value on a recurring basis. We have classified these assets and liabilities in accordance with the fair value hierarchy. In instances where the inputs used to measure the fair value of an asset or liability fall into more than one level of the fair value hierarchy, we have classified them based on the lowest level input that is significant to the determination of the fair value.

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The following table presents financial assets and financial liabilities that we measured at fair value on a recurring basis at the date indicated.

<i>(In millions)</i>	January 31, 2010				July 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets:</b>								
Cash equivalents (1)	\$ 439	\$	\$	\$ 439	\$ 893	\$	\$	\$ 893
Available-for-sale debt securities:								
Municipal bonds (2)		409		409		448		448
Corporate notes (2)		152		152		44		44
U.S. agency securities (2)		60		60		25		25
U.S. treasuries (2)		9		9				
Municipal auction rate securities (3)			216	216			245	245
<b>Total assets</b>	<b>\$ 439</b>	<b>\$ 630</b>	<b>\$ 216</b>	<b>\$ 1,285</b>	<b>\$ 893</b>	<b>\$ 517</b>	<b>\$ 245</b>	<b>\$ 1,655</b>
<b>Liabilities:</b>								
Long-term debt (4)	\$	\$ 1,070	\$	\$ 1,070	\$	\$ 1,001	\$	\$ 1,001

(1) Included in cash and cash equivalents and funds held for customers on our balance sheets at January 31, 2010 and July 31, 2009.

(2) \$482 million included in investments and \$148 million included in funds held for customers on our balance sheet at January 31, 2010. \$517 million

included in investments on our balance sheet at July 31, 2009.

(3) \$127 million included in investments and \$89 million included in long-term investments on our balance sheet at January 31, 2010.

\$151 million included in investments and \$94 million included in long-term investments on our balance sheet at July 31, 2009.

(4) Carrying value on our balance sheets at January 31, 2010 and July 31, 2009 was \$998 million. See Note 8.

The following table presents a reconciliation of financial assets that we measure at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods indicated.

<i>(In millions)</i>	<b>Three Months Ended January 31, 2010</b>	<b>Six Months Ended January 31, 2010</b>
Beginning balance	\$ 224	\$ 245
Settlements at par	(8)	(29)
Ending balance	\$ 216	\$ 216

Financial assets whose fair values we measure using Level 3 inputs consisted of municipal auction rate securities. We classified \$127 million and \$151 million of these securities as short-term investments and \$89 million and \$94 million as long-term investments on our balance sheets at January 31, 2010 and July 31, 2009. At these dates all of the municipal auction rate securities we held were rated A or better by the major credit rating agencies and 84% or more were collateralized by student loans guaranteed by the U.S. Department of Education. These securities are long-term debt instruments that are intended to provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined intervals, typically every 35 days. 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. Regularly scheduled auctions for these securities have generally continued to fail since that time. When these auctions initially failed, higher interest rates for many of the securities went into effect in accordance with the terms of the prospectus for each security. As of January 31, 2010, we had received all interest payments in accordance with the contractual terms of these securities.

We estimated the fair values of the municipal auction rate securities we held at January 31, 2010 based on a discounted cash flow model that we prepared. Key inputs to our discounted cash flow model included the projected future interest rates; the likely timing of principal repayments; the probability of full repayment considering guarantees by the U.S. Department of Education of the underlying student loans or insurance by other third parties;

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publicly available pricing data for recently issued student loan backed securities that are not subject to auctions; and the impact of the reduced liquidity for auction rate securities. The following table presents information about significant inputs to our discounted cash flow model at the dates shown:

	<b>Inputs to Model at</b>	
	<b>January 31, 2010</b>	<b>July 31, 2009</b>
	1.90%	
	-	0.63% -
Range of average projected future yield rates	3.39%	3.78%
	1.47%	
Range of overall discount rates used in model (like-kind security yield rate plus illiquidity factor)	-	1.61% -
	1.72%	1.86%
Like-kind security yield rate	0.22%	0.36%
	125 -	
Range of illiquidity factors	150 bps	125 - 150 bps
Expected holding period in years	7	7

Using our discounted cash flow model we determined that the fair values of the municipal auction rate securities we held at January 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 or six 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. Based on the maturities of the underlying securities and the put option described below, we classified \$127 million and \$151 million of these securities as short-term investments and \$89 million and \$94 million as long-term investments on our balance sheets at January 31, 2010 and July 31, 2009.

In August 2008 the broker-dealers for our municipal auction rate securities announced settlements under which they may provide liquidity solutions, or purchase, the auction rate securities held by their institutional clients. On November 4, 2008 we accepted an offer from UBS AG (UBS), one of the broker-dealers for our municipal auction rate securities, that gives us the option to sell UBS a total of \$127 million in municipal auction rate securities at par value at any time during a two-year period beginning June 30, 2010. The put option also gives UBS the discretion to buy any or all of these securities from us at par value at any time. To date UBS has not purchased any of these securities from us. We chose not to elect the fair value option for the put option at the time we accepted the UBS offer. We accounted for the put option at its cost of zero on November 4, 2008, the date that we entered into the agreement, because we considered the value of the securities subject to the put option to be substantially equal to their par values at that date. The put option is considered to be a separate and freestanding financial instrument between UBS and Intuit because it is non-transferable and could not be attached to the related auction rate securities if they were to be sold to a third party. Since the put option is freestanding, we did not consider the option when estimating the fair value of the UBS auction rate securities we held at January 31, 2010 and July 31, 2009. We currently intend to exercise our option to sell UBS all of these municipal auction rate securities at par value in accordance with the terms of the offer within the next twelve months.

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.



*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

As discussed in Note 1, *Significant Accounting Policies*, on August 1, 2009 we adopted the provisions of the authoritative guidance on fair value measurements for nonfinancial assets and nonfinancial liabilities that we do not recognize or disclose at fair value on a recurring basis (at least annually). These include reporting units measured at fair value in a goodwill impairment test, other nonfinancial assets or liabilities measured at fair value for impairment testing, and nonfinancial assets acquired and liabilities assumed in a business combination. In the absence of an event or circumstance that indicates that the carrying value of a reporting unit may not be recoverable, we test our goodwill for impairment annually during our fourth fiscal quarter.

**Table of Contents****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 and municipal auction rate securities that we carry at fair value. Funds held for customers consist of cash, AAA-rated money market funds and available-for-sale investment-grade debt securities. Long-term investments consist primarily of municipal auction rate securities that we carry at fair value. Due to a decrease in liquidity in the global credit markets, we estimate the fair values of our municipal auction rate securities based on a discounted cash flow model that we prepare. See Note 2 for more information. 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>	<b>January 31, 2010</b>		<b>July 31, 2009</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Classification on balance sheets:</b>				
Cash and cash equivalents	\$ 337	\$ 337	\$ 679	\$ 679
Investments	607	609	666	668
Funds held for customers	313	313	272	272
Long-term investments	92	92	97	97
Total cash and cash equivalents, investments and funds held for customers	\$ 1,349	\$ 1,351	\$ 1,714	\$ 1,716

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>	<b>January 31, 2010</b>		<b>July 31, 2009</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Type of issue:</b>				
Total cash and cash equivalents	\$ 502	\$ 502	\$ 951	\$ 951
Available-for-sale debt securities:				
Municipal bonds	408	409	447	448
Municipal auction rate securities	216	216	245	245
Corporate notes	151	152	43	44
U.S. agency securities	60	60	25	25
U.S. treasuries	9	9		
Total available-for-sale debt securities	844	846	760	762
Other long-term investments	3	3	3	3
Total cash and cash equivalents, investments and funds held for customers	\$ 1,349	\$ 1,351	\$ 1,714	\$ 1,716

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 and six

months ended January 31, 2010 and 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 January 31, 2010 and July 31, 2009 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 January 31, 2010 were not other-than-temporarily impaired. While certain available-for-sale debt securities have fair values that are below cost, we do not intend to sell these securities and it is not more likely than not that we will be

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required to sell them before recovery at par. The unrealized losses at January 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>	<b>January 31, 2010</b>		<b>July 31, 2009</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Due within one year	\$ 189	\$ 190	\$ 185	\$ 186
Due within two years	268	269	159	160
Due within three years	8	8	5	5
Due after three years	379	379	411	411
Total available-for-sale debt securities	\$ 844	\$ 846	\$ 760	\$ 762

Available-for-sale debt securities due after three years in the table above included \$216 million and \$230 million in municipal auction rate securities at January 31, 2010 and July 31, 2009, of which \$127 million and \$136 million were subject to the UBS put option that is effective in June 2010. See Note 2. All of the remaining available-for-sale debt securities had an interest reset date, put date or mandatory call date within two years of those dates.

**4. Comprehensive Net Income (Loss)**

We add components of other comprehensive income or loss, 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. Other comprehensive income or loss items have no impact on our net income or loss as presented in our statements of operations.

The components of comprehensive net income, net of income taxes, were as shown in the following table for the periods indicated.

<i>(In millions)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January 31, 2010</b>	<b>January 31, 2009</b>	<b>January 31, 2010</b>	<b>January 31, 2009</b>
Net income	\$ 114	\$ 85	\$ 46	\$ 33
Components of other comprehensive income (loss):				
Changes in net unrealized gains (losses) on investments, net of reclassification adjustment for realized gains (losses), net of income taxes		(9)		(10)
Foreign currency translation adjustment, net of income taxes	1		1	(6)
Total other comprehensive income (loss), net of income taxes	1	(9)	1	(16)
Comprehensive net income, net of income taxes	\$ 115	\$ 76	\$ 47	\$ 17
Income tax provision (benefit) netted against other comprehensive income (loss)	\$	\$ (6)	\$	\$ (10)



**Table of Contents****5. Business Combinations***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 the fair value of assumed equity awards and cash retention bonuses that will be 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.

We have included Mint's results of operations in our consolidated results of operations from the date of acquisition. Mint's results of operations for periods prior to the date of acquisition were not material when compared with our consolidated results of operations.

*PayCycle, Inc.*

On July 23, 2009 we acquired all of the outstanding equity interests of PayCycle, Inc. for a total purchase price of approximately \$169 million, including the fair value of certain assumed stock options. PayCycle is a provider of online payroll solutions to small businesses and became part of our Employee Management Solutions segment. We acquired PayCycle to expand our online payroll offerings in support of our Connected Services strategy.

Under the purchase method of accounting we allocated the total purchase price 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 purchase price over the aggregate fair values as goodwill. Using information available at the time the acquisition closed, we allocated approximately \$5 million of the purchase price to tangible assets and liabilities and approximately \$42 million of the purchase price to identified intangible assets. We recorded the excess purchase price of approximately \$122 million as goodwill, none of which is deductible for income tax purposes. We may adjust the preliminary purchase price allocation after obtaining more information about asset valuations and liabilities assumed. The identified intangible assets are being amortized over a weighted average life of seven years.

We have included PayCycle's results of operations in our consolidated results of operations from the date of acquisition. PayCycle's results of operations for periods prior to the date of acquisition were not material when compared with our consolidated results of operations.

**6. 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 \$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 net assets and operating results of IRES from continuing operations on our balance sheets and in our statements of operations for all periods prior to the sale. Assets held for sale at July 31, 2009 consisted primarily of goodwill. 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. We have presented the effect of the net gain on disposal of IRES in net income from discontinued operations on our statements of cash flows for the three and six months ended January 31, 2010.



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Net revenue and net income (loss) from IRES discontinued operations were as shown in the following table for the periods indicated.

<i>(In millions)</i>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January 31, 2010</b>	<b>January 31, 2009</b>	<b>January 31, 2010</b>	<b>January 31, 2009</b>
Net revenue from discontinued operations	\$ 14	\$ 18	\$ 33	\$ 37
Net income (loss) from discontinued operations				
Net loss from discontinued operations	\$ (1)	\$ (1)	\$	\$ (1)
Net gain on disposal of discontinued operations	35		35	
Total net income (loss) from discontinued operations	\$ 34	\$ (1)	\$ 35	\$ (1)

**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 January 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>	<b>January 31, 2010</b>	<b>July 31, 2009</b>
Reserve for product returns	\$ 79	\$ 22
Reserve for rebates	44	30
Interest payable	21	21
Executive deferred compensation plan	40	37
Current portion of license fee payable	10	10
Other	40	33
Total other current liabilities	\$ 234	\$ 153

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*.



**Table of Contents****8. Long-Term Obligations***Senior Unsecured Notes*

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. The Notes are redeemable by Intuit at any time, subject to a make-whole premium. We paid \$28 million in cash for interest on the Notes during the six months ended January 31, 2010 and 2009. Based on the trading prices of the Notes at January 31, 2010 and July 31, 2009 and the interest rates we could obtain for other borrowings with similar terms at those dates, the estimated fair value of the Notes at those dates was approximately \$1.1 billion and \$1.0 billion.

*Other Long-Term Obligations*

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

<i>(In millions)</i>	<b>January 31, 2010</b>	<b>July 31, 2009</b>
Total license fee payable	\$ 73	\$ 71
Total deferred rent	60	64
Long-term deferred revenue	26	20
Long-term income tax liabilities	27	48
Other	3	4
Total long-term obligations	189	207
Less current portion (included in other current liabilities)	(19)	(20)
Long-term obligations due after one year	\$ 170	\$ 187

*Innovative Merchant Solutions Loan and Buyout Commitments*

In April 2005 our wholly owned subsidiary, Innovative Merchant Solutions (IMS), became a member of Superior Bankcard Services, LLC (SBS), a newly formed entity that acquired merchant accounts for our Payment Solutions business. Our consolidated financial statements include the financial position, results of operations and cash flows of SBS, after elimination of all significant intercompany balances and transactions, including amounts outstanding under the credit agreement described below. In connection with the formation of this entity IMS agreed to provide to SBS revolving loans in an amount of up to \$40 million under the terms of a credit agreement. Amounts outstanding under this agreement at July 31, 2009 totaled \$7 million at interest rates of 4.3% to 5.0%. On December 7, 2009 we purchased all of the noncontrolling members' interests in SBS for a total price of approximately \$9 million, net of loan repayments.

**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 rate for the three months ended January 31, 2010 was approximately 37%. This differed from the federal statutory rate of 35% due to state income taxes, which were partially offset by the benefit we received from the domestic production activities deduction and the federal and state research and experimentation credits. Our effective tax rate for the three months ended January 31, 2009 was approximately 18%. Excluding discrete tax benefits primarily related to a favorable agreement we entered into with a tax authority with respect to tax years ended prior to fiscal 2009, our effective tax rate for that period was approximately 36% and did not differ significantly from the federal statutory rate of 35%.

Our effective tax rate for the six months ended January 31, 2010 was approximately 27%. Excluding discrete tax benefits primarily related to routine stock option deduction benefits, our effective tax rate for that period was

approximately 37%. This differed from the federal statutory rate of 35% primarily due to state income taxes, which

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were partially offset by the benefit we received from the domestic production activities deduction and the federal and state research and experimentation credits. We recorded a tax benefit of \$17 million on pre-tax income of \$17 million for the six months ended January 31, 2009. Excluding discrete tax benefits primarily related to a favorable agreement we entered into with a tax authority as described above and the retroactive reinstatement of the federal research and experimentation credit, our effective tax rate for that period was approximately 36% and did not differ significantly from the federal statutory rate of 35%.

*Unrecognized Tax Benefits and Other Considerations*

The total amount of our unrecognized tax benefits at July 31, 2009 was \$40 million. Net of related deferred tax assets, unrecognized tax benefits were \$33 million at that date. If we were to recognize these net benefits, our income tax expense would reflect a favorable net impact of \$28 million. The recognition of the balance of these net benefits would result in an increase to stockholders' equity of \$5 million. There were no material changes to these amounts during the three and six months ended January 31, 2010. We do not believe that it is reasonably possible that there will be a significant increase or decrease in 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 8.2 million and 18.8 million shares for \$250 million and \$550 million under these programs during the three and six months ended January 31, 2010. We repurchased 1.4 million and 7.4 million shares for \$35 million and \$200 million under these programs during the three and six months ended January 31, 2009. At January 31, 2010, we had authorization from our Board of Directors to expend up to an additional \$350 million for stock repurchases through November 20, 2012.

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 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.

**Table of Contents***Stock Option Activity*

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

<i>(Shares in thousands)</i>	<b>Shares Available for Grant</b>	<b>Options Outstanding Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>
<b>Balance at July 31, 2009</b>	<b>8,086</b>	<b>45,674</b>	<b>\$ 26.00</b>
Additional shares authorized	9,000		
Options assumed and converted related to business combinations		372	3.08
Options granted	(1,390)	1,390	30.04
Restricted stock units granted	(994)		
Options exercised		(6,300)	21.80
Options canceled or expired (1)	1,612	(1,864)	28.94
Restricted stock units forfeited (1)	815		
<b>Balance at January 31, 2010</b>	<b>17,129</b>	<b>39,272</b>	<b>\$ 26.46</b>
<b>Exercisable at January 31, 2010</b>		<b>27,467</b>	<b>\$ 25.75</b>

(1) Stock options and restricted stock units canceled, expired or forfeited under expired plans are not returned to the pool of shares available for grant.

*Restricted Stock Unit Activity*

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

<i>(Shares in thousands)</i>	<b>Restricted Stock Units Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
<b>Nonvested at July 31, 2009</b>	<b>9,398</b>	<b>\$ 27.06</b>
Granted	994	29.92
Restricted stock granted related to business combinations	231	29.14
Vested	(1,973)	29.39
Forfeited	(818)	26.38
<b>Nonvested at January 31, 2010</b>	<b>7,832</b>	<b>\$ 26.97</b>

**Table of Contents***Share-Based Compensation Expense*

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

	Three Months Ended		Six Months Ended	
	January 31, 2010	January 31, 2009	January 31, 2010	January 31, 2009
<i>(In millions, except per share amounts)</i>				
Cost of product revenue	\$ 1	\$ 1	\$ 1	\$ 1
Cost of service and other revenue	2	2	4	3
Selling and marketing	12	12	19	20
Research and development	11	10	20	16
General and administrative	11	9	20	15
Discontinued operations	1	1	1	2
Total share-based compensation expense	38	35	65	57
Income tax benefit	(13)	(12)	(23)	(20)
Decrease in net income	\$ 25	\$ 23	\$ 42	\$ 37
Decrease in net income per share:				
Basic	\$ 0.08	\$ 0.07	\$ 0.13	\$ 0.11
Diluted	\$ 0.08	\$ 0.07	\$ 0.13	\$ 0.11

At January 31, 2010, there was \$207 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans which we expect to recognize as expense in the future. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average vesting period of 1.9 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 purchased intangible assets and acquisition-related charges.

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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, 2009. 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.

The following table shows our financial results by reportable segment for the three and six months ended January 31, 2010 and 2009. Results for our Other Businesses segment have been adjusted for all periods presented to exclude results for our Intuit Real Estate Solutions business, which became a discontinued operation in the second quarter of fiscal 2010. See Note 6.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January 31, 2010</b>	<b>January 31, 2009</b>	<b>January 31, 2010</b>	<b>January 31, 2009</b>
<i>(In millions)</i>				
<b>Net revenue:</b>				
Financial Management Solutions	\$ 154	\$ 158	\$ 288	\$ 302
Employee Management Solutions	105	94	202	183
Payment Solutions	79	70	154	141
Consumer Tax	216	187	238	201
Accounting Professionals	124	133	146	154
Financial Institutions	84	76	164	151
Other Businesses	75	55	119	103
 Total net revenue	 \$ 837	 \$ 773	 \$ 1,311	 \$ 1,235
 <b>Operating income:</b>				
Financial Management Solutions	\$ 37	\$ 38	\$ 62	\$ 67
Employee Management Solutions	61	52	117	106
Payment Solutions	22	7	35	12
Consumer Tax	88	59	59	25
Accounting Professionals	77	83	62	66
Financial Institutions	20	16	37	31
Other Businesses	22	14	25	23
 Total segment operating income	 327	 269	 397	 330
Unallocated corporate items:				
Share-based compensation expense	(37)	(34)	(64)	(55)
Other common expenses	(124)	(97)	(235)	(187)
Amortization of purchased intangible assets	(16)	(14)	(38)	(29)
Acquisition related charges	(11)	(13)	(21)	(23)
 Total unallocated corporate items	 (188)	 (158)	 (358)	 (294)
 Total operating income from continuing operations	 \$ 139	 \$ 111	 \$ 39	 \$ 36

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**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, 2009. In July 2009 we acquired PayCycle, Inc. for a total purchase price of approximately \$169 million and in November 2009 we acquired Mint Software Inc. for total consideration of approximately \$170 million. Accordingly, we have included the results of operations for PayCycle and Mint in our consolidated results of operations from their respective dates of acquisition. In January 2010 we sold our Intuit Real Estate Solutions (IRES) business. Accordingly, 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.

We calculate revenue growth rates and segment operating margins figures using dollars in thousands.

**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 half of fiscal 2010 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 Institutions 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 Web site 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 also 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.



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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 Institutions:** This segment consists primarily of outsourced online services for banks and credit unions provided by our Digital Insight business. It includes our online banking and bill-pay services as well as our Personal FinanceWorks and Small Business FinanceWorks offerings, which provide comprehensive online financial management solutions for consumers and small businesses.

**Other Businesses:** This segment includes Quicken personal finance products and services; Mint.com online personal finance services; and our business in Canada.

*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. 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 half of fiscal 2010 was \$1.3 billion, an increase of 6% compared with the same period of fiscal 2009. Revenue was higher in all of our business segments except Financial Management Solutions and Accounting Professionals. Consumer Tax segment revenue increased 18% due to growth in TurboTax Online units. Operating income was essentially flat in the first half of fiscal 2010 compared with the same period of fiscal 2009. Cost of product revenue and cost of service and other revenue as a percentage of related revenue were slightly lower. Higher operating expenses included the addition of operating expenses for acquired businesses, higher share-based compensation expense, and higher depreciation expense for investments in our infrastructure. In addition, operating expenses in the first half of fiscal 2009 benefited from certain compensation-related items and a decline in the market value of executive deferred compensation plan liabilities, neither of which recurred in the first half of fiscal 2010. Net income from continuing operations of \$11 million for the first half of fiscal 2010 decreased \$23 million compared with the same period of fiscal 2009 due to higher interest expense in the 2010 period and discrete tax benefits in the first half of fiscal 2009 that did not recur in the first half of fiscal 2010. Due to the foregoing factors, diluted net income per share from continuing operations of \$0.03 for the first half of fiscal 2010 was \$0.07 per share lower than in the same period of fiscal 2009.

We ended the first half of fiscal 2010 with cash, cash equivalents and investments totaling \$946 million, including \$127 million in municipal auction rate securities. We also held \$89 million in municipal auction rate securities that we classified as long-term investments at that date. In the first six months of fiscal 2010 we generated cash from operations, from the issuance of common stock under employee stock plans, and from the sale of our Intuit Real Estate Solutions business. During the same period we used cash for the repurchase of shares of our common stock under our stock repurchase programs, for the acquisition of Mint, and for capital expenditures. At January 31, 2010, we had authorization from our Board of Directors to expend up to an additional \$350 million for stock repurchases through November 20, 2012.

**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, 2009 have the greatest  
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potential impact on our financial statements, so we consider them to be our critical accounting policies and 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 half of fiscal 2010. 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.

*Fair Value of Nonfinancial Assets and Nonfinancial Liabilities*

On August 1, 2009 we adopted the provisions of the authoritative guidance on fair value measurements for nonfinancial assets and nonfinancial liabilities that we do not recognize or disclose at fair value on a recurring basis (at least annually). These include reporting units measured at fair value in a goodwill impairment test, other nonfinancial assets or liabilities measured at fair value for impairment testing, and nonfinancial assets acquired and liabilities assumed in a business combination. See Note 1, *Significant Accounting Policies Fair Value of Nonfinancial Assets and Nonfinancial Liabilities*, in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of this guidance.

We describe the estimates, judgments, and assumptions we make in connection with goodwill and purchased intangible asset impairment assessments under *Goodwill, Purchased Intangible Assets and Other Long-Lived Assets Impairment Assessments* in the Critical Accounting Policies and Estimates section in Item 7 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2009. The authoritative guidance we adopted on August 1, 2009 generally increases the level of estimates, judgments and assumptions we must make in connection with goodwill and purchased intangible asset impairment assessments, and with estimating the fair value of nonfinancial assets acquired and liabilities assumed in a business combination. In accordance with the new guidance, we define fair value as the price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Given the nature of nonfinancial assets and liabilities, the change from an entity-specific perspective to a market participant perspective is significant and inherently more complex. For example, if there are no known markets or we do not have access to any markets, we will be required to identify hypothetical market participants and develop a hypothetical market based on the expected assumptions of those market participants. In addition, we consider and use multiple valuation methods, if appropriate. Using multiple valuation methods can yield a range of possible results, which we must evaluate in order to choose the most representative point within the range. Assumptions and estimates about future values can be affected by a variety of internal and external factors. Changes in these factors may require us to revise our estimates and record future impairment charges for goodwill and purchased intangible assets, or retroactively adjust provisional amounts that we have recorded for the fair values of assets and liabilities in connection with business combinations. These charges and adjustments could materially decrease our future operating income and net income and result in lower asset values on our balance sheet.

*Business Combinations*

We describe the estimates, judgments and assumptions we make in connection with our accounting for business combinations under *Business Combinations Purchase Accounting*, in the Critical Accounting Policies and Estimates section in Item 7 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2009. On August 1, 2009 we adopted revised authoritative guidance on accounting for business combinations. See Note 1, *Significant Accounting Policies Business Combinations*, in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of this guidance.

Although the level of estimates, judgments, and assumptions we must make in connection with our accounting for business combinations did not change significantly as a result of adopting this guidance, our accounting for certain aspects of business combinations will now result in charges to expense rather than affect the original purchase price allocation and goodwill. For example, for all of our acquisitions regardless of acquisition date we will record any changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current period income tax expense unless those changes are identified during the one-year measurement period and relate to new information obtained about facts and circumstances that existed as of the acquisition date. In addition, should the initial accounting for a business combination be incomplete by the end of a reporting period that falls within the measurement period, we will report provisional amounts in our financial statements. During the measurement period,

we will adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the

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measurement of the amounts recognized as of that date. We will apply those measurement period adjustments that we determine to be significant retrospectively to comparative information in our financial statements, including adjustments to depreciation and amortization expense. The new authoritative guidance requires that we account for acquired company restructuring activities that we initiate separately from the business combination rather than as part of the purchase price. It also requires us to charge investment banking, legal and other professional fees that we incur to complete the transaction to expense as we incur them.

As a result of our adoption of this authoritative guidance on accounting for business combinations, we may incur additional income tax expenses, restructuring expenses, and expenses for professional fees incurred to complete acquisitions. We may also be required to retroactively adjust provisional amounts that we have recorded for the fair values of assets and liabilities in connection with those acquisitions. These charges and adjustments could materially decrease our future operating income and net income and result in lower asset values on our balance sheet.

**Results of Operations****Financial Overview**

	Q2		\$		YTD		%	
	FY10	FY09	Change	Change	Q2	Q2	Change	Change
					FY10	FY09		
<i>(Dollars in millions, except per share amounts)</i>								
Total net revenue	\$ 837	\$ 773	\$ 64	8%	\$ 1,311	\$ 1,235	\$ 76	6%
Operating income from continuing operations	139	111	28	25%	39	36	3	8%
Net income from continuing operations	80	86	(6)	(7%)	11	34	(23)	(68%)
Diluted net income per share from continuing operations	\$ 0.25	\$ 0.26	\$ (0.01)	(4%)	\$ 0.03	\$ 0.10	\$ (0.07)	(70%)

**Current Fiscal Quarter**

Total net revenue increased 8% in the second quarter of fiscal 2010 compared with the same quarter of fiscal 2009. In our Small Business Group, Financial Management Solutions segment revenue decreased 3% due to lower QuickBooks unit sales that were partially offset by higher average selling prices. Employee Management Solutions segment revenue increased 12% due to growth in the customer base that was driven by our July 2009 acquisition of PayCycle. Payment Solutions segment revenue increased 14% due to growth in the customer base partially offset by a decline in transaction volume per customer compared with the same quarter of the previous fiscal year. In our Tax businesses, Consumer Tax segment revenue increased 15% due to growth in TurboTax Online units. Accounting Professionals segment revenue decreased 7% as we deferred about \$9 million in revenue from the second quarter to the third quarter of fiscal 2010 due to changes in our product and service offerings. Financial Institutions segment revenue increased 10% due to growth in bill-pay end users and transaction volumes; higher Personal FinanceWorks and Small Business FinanceWorks revenue; and a new offering, TurboTax for Online Banking. Other Businesses segment revenue increased 38% due to higher Quicken revenue.

Operating income from continuing operations increased \$28 million or 25% in the second quarter of fiscal 2010 compared with the same quarter of fiscal 2009. Revenue was \$64 million higher and costs and expenses were \$36 million higher in the fiscal 2010 period. Total costs and expenses in the second quarter of fiscal 2010 increased about \$8 million due to higher cost of revenue associated with higher revenue; about \$11 million due to operating expenses for PayCycle and Mint; and about \$11 million due to higher variable compensation expense. See *Cost of Revenue* and *Operating Expenses* later in this Item 2 for more information.

Net income from continuing operations decreased \$6 million or 7% in the second quarter of fiscal 2010 compared with the same quarter of fiscal 2009. Our effective tax rate for the second quarter of fiscal 2010 was 37%. Due to certain discrete tax items, our effective tax rate for the second quarter of fiscal 2009 was 18%. See *Income Taxes* later in this Item 2 for more information about our effective tax rates for these periods.

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Due to the foregoing factors, diluted net income per share from continuing operations of \$0.25 in the second quarter of fiscal 2010 decreased 4% compared with \$0.26 in the same quarter of fiscal 2009.

*Fiscal Year to Date*

Total net revenue increased 6% in the first half of fiscal 2010 compared with the same period of fiscal 2009. In our Small Business Group, Financial Management Solutions segment revenue decreased 5% due to lower QuickBooks unit sales that were partially offset by higher average selling prices. Employee Management Solutions segment revenue increased 10% due to growth in the customer base that was driven by our July 2009 acquisition of PayCycle. Payment Solutions segment revenue increased 9% due to growth in the customer base partially offset by a decline in transaction volume per customer compared with the same period of the previous fiscal year. In our Tax businesses, Consumer Tax segment revenue increased 18% due to 36% growth in TurboTax Online units. Accounting Professionals segment revenue decreased 6% due to the revenue deferral described in *Current Fiscal Quarter* above. See *Business Segment Results Accounting Professionals* later in this Item 2 for more information. Financial Institutions segment revenue increased 9% due to growth in bill-pay end users and transaction volumes and to higher Personal FinanceWorks and Small Business FinanceWorks revenue. Other Businesses segment revenue increased 16% due to higher Quicken revenue.

Operating income from continuing operations increased \$3 million or 8% in the first half of fiscal 2010 compared with the same period of fiscal 2009. Revenue was \$76 million higher and total costs and expenses were \$73 million higher in the fiscal 2010 period. Total costs and expenses in the first half of fiscal 2010 increased about \$18 million due to higher cost of revenue associate with higher revenue; about \$17 million due to operating expenses for PayCycle and Mint; about \$9 million due to higher share-based compensation expense; and about \$6 million due to higher depreciation expense for investments in our infrastructure. In addition, total compensation-related expenses in the first half of fiscal 2009 reflected the benefit of an \$8 million decrease related to changes in estimates for our stock compensation and 401(k) benefits plans and an \$11 million decline in the market value of executive deferred compensation plan liabilities, neither of which recurred in the first half of fiscal 2010. See *Cost of Revenue* and *Operating Expenses* later in this Item 2 for more information.

Net income from continuing operations decreased \$23 million or 68% in the first half of fiscal 2010 compared with the same period of fiscal 2009. Interest expense was \$7 million higher and interest and other income, net was \$2 million higher in the fiscal 2010 period due to factors described in *Interest Expense* and *Interest and Other Income, Net* later in this Item 2. Due to certain discrete tax items, our effective tax rate was 27% for the first half of fiscal 2010 and we recorded a tax benefit of \$17 million on pretax income of \$17 million for the first half of fiscal 2009. See *Income Taxes* later in this Item 2 for more information about our effective tax rates for these periods.

Due to the foregoing factors, diluted net income per share from continuing operations of \$0.03 for the first half of fiscal 2010 decreased \$0.07 per share compared with the same period of fiscal 2009.

***Business Segment Results***

The information below is organized in accordance with our seven reportable business segments. Results for our Other Businesses segment have been adjusted for all periods presented to exclude results for our Intuit Real Estate Solutions business, which became a discontinued operation in the second quarter of fiscal 2010. See Note 6 to the financial statements in Part 1, Item 1 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 \$161 million and \$131 million in the second quarter of fiscal 2010 and 2009 and \$299 million and \$242 million in the first half of fiscal 2010 and 2009. Unallocated costs increased in the first half of fiscal 2010 compared with the same period of fiscal 2009 due in part to \$9 million in higher share-based compensation expense during the fiscal 2010 period and an \$11 million decline in the market value of executive deferred compensation plan liabilities that lowered corporate general and administrative expenses in the fiscal 2009 period. Segment expenses also do not include amortization of purchased intangible assets and acquisition-related charges. 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.

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<i>(Dollars in millions)</i>	<b>Q2 FY10</b>	<b>Q2 FY09</b>	<b>% Change</b>	<b>YTD Q2 FY10</b>	<b>YTD Q2 FY09</b>	<b>% Change</b>
Product revenue	\$ 101	\$ 108		\$ 185	\$ 206	
Service and other revenue	53	50		103	96	
Total segment revenue	\$ 154	\$ 158	-3%	\$ 288	\$ 302	-5%
% of total revenue	18%	21%		22%	25%	
Segment operati						