UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

April 22, 2003
(Date of report)

February 7, 2003
(Date of earliest event reported)

Commission File Number 0-21180

INTUIT INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0034661**
(State of incorporation)	*(IRS Employer Identification No.)*

2535 Garcia Avenue, Mountain View, CA 94043

(Address of principal executive offices, including zip code)

(650) 944-6000

(Registrant's telephone number, including area code)

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ITEM 5
OTHER EVENTS

As reported in our Form 8-K dated February 18, 2003, we sold our wholly-owned Japanese subsidiary, Intuit KK, on February 7, 2003. Intuit Inc. is filing this Form 8-K to report financial information for the referenced periods (see Item 7 below) reclassified to reflect Intuit KK as a discontinued operation.

ITEM 7
FINANCIAL INFORMATION AND EXHIBITS

(C) EXHIBITS

The following exhibits are filed herewith:

23.01 Consent of Ernst & Young LLP, Independent Auditors

99.01 Selected Financial Data for the fiscal years ended July 31, 1998, 1999, 2000, 2001 and 2002

99.02 Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal years ended July 31, 2000, 2001 and 2002

99.03 Consolidated Financial Statements for the fiscal years ended July 31, 2000, 2001 and 2002

SIGNATURES

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

INTUIT INC.
(Registrant)

Date: April 22, 2003

By: /s/ Robert B. Henske

Robert B. Henske
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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99.02	Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal years ended July 31, 2000, 2001 and 2002
99.03	Consolidated Financial Statements for the fiscal years ended July 31, 2000, 2001 and 2002

Exhibit 23.01

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements listed in the following table pertaining to the named plans of, or assumed by, Intuit Inc., of our report dated August 14, 2002 (except for Note 11, as to which the date is February 7, 2003) with respect to the consolidated financial statements and schedule of Intuit Inc. included in the Current Report on Form 8-K dated April 22, 2003, filed with the Securities and Exchange Commission.

Form S-8 No.	Plan
33-59458	1988 Option Plan; 1993 Equity Incentive Plan; Non-Plan Officer Options
33-73222	1993 Equity Incentive Plan; Chipsoft Plan
33-95040	1993 Equity Incentive Plan; Personal News Options
333-06889	Options Granted By Interactive Insurance Services Corp. Under Its Management Equity Plan Assumed By The Issuer
333-16827	1993 Equity Incentive Plan
333-16829	1996 Directors Stock Option Plan; 1996 Employee Stock Purchase Plan
333-20361	Option to Purchase Common Stock
333-45285	Intuit Inc. 1996 Employee Stock Purchase Plan
333-45277	Intuit Inc. 1996 Directors Stock Plan
333-45287	Intuit Inc. 1993 Equity Incentive Plan
333-68851	Intuit Inc. 1998 Option Plan For Mergers And Acquisitions
333-71099	Intuit Inc. 1993 Equity Incentive Plan
333-71101	Intuit Inc. 1996 Directors Stock Plan
333-71103	Intuit Inc. 1996 Employee Stock Purchase Plan
333-78041	Intuit Inc. 1998 Option Plan For Mergers And Acquisitions
333-84385	Options Granted Under The Boston Light Software Corp. 1999 Amended And Restated Option/Stock Issuance Plan and Assumed By Intuit Inc.
333-85349	Options Granted Under The Hutchison Avenue Software Corporation Stock Option Plan Date June 29, 1999 And Assumed By Intuit Inc.
333-92503	Options Granted Under The Rock Financial Corporation Amended And Restated 1996 Stock Option Plan Assumed By Intuit Inc.
333-92513	Intuit Inc. 1996 Employee Stock Purchase Plan

Form S-8 No.	Plan
333-92515	Intuit Inc. 1996 Directors Stock Plan
333-92517	Intuit Inc. 1993 Equity Incentive Plan
333-53322	Options Granted Under The Apps.Com, Inc. 1999 Equity Incentive Plan And Assumed By Intuit Inc.
333-53324	Options Granted Under The EmployeeMatters, Inc. 1999 Stock Option Plan And Assumed By Intuit Inc.
333-51696	Intuit Inc. Stock Option Agreements
333-51698	Intuit Inc. 1996 Directors Stock Plan
333-51700	Intuit Inc. Restricted Stock Purchase Agreements
333-51692	Intuit Inc. 1996 Employee Stock Purchase Plan
333-51694	Intuit Inc. 1993 Equity Incentive Plan
333-14715	Options Granted Under The Galt Technologies Inc. 1995 Stock Option Plan And Assumed By Intuit Inc.
333-81328	Intuit Inc. 1996 Employee Stock Purchase Plan
333-81324	Intuit Inc. 1996 Directors Stock Plan
333-81446	Intuit Inc. 2002 Equity Incentive Plan
333-89722	Options Granted Under The Flagship Group, Inc. 1999 Stock Option/Stock Issuance Plan and Assumed By Intuit Inc.
333-91056	Options Granted Under CBS Employer Services, Inc. 2000 Stock Option/Stock Issuance Plan and Assumed By Intuit Inc.
333-102213	Intuit Inc. 2002 Equity Incentive Plan; Intuit Inc. 1996 Employee Stock Purchase Plan; Intuit Inc. 1996 Directors Stock Option Plan

We also consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-50417, 333-63739 and 333-54610, and Form S-4 No. 333-71097) of Intuit Inc. and the related Prospectus of our report dated August 14, 2002 (except for Note 11, as to which the date is February 7, 2003) with respect to the consolidated financial statements and schedule of Intuit Inc. included in the Current Report on Form 8-K dated April 22, 2003, filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

San Francisco, California
April 21, 2003

EXHIBIT 99.01

SELECTED FINANCIAL DATA

The following table shows selected consolidated financial information for Intuit for the past five fiscal years. The comparability of the information is affected by a variety of factors, including acquisitions and dispositions of businesses and gains and losses related to marketable securities and other investments. In fiscal 2002, we sold our Quicken Loans mortgage business and accounted for the sale as discontinued operations. In the third quarter of fiscal 2003, we sold our wholly-owned Japanese subsidiary, Intuit KK, and accounted for the sale as discontinued operations. To better understand the information in the table, investors should read "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Exhibit 99.02, and the Consolidated Financial Statements and related Notes in Exhibit 99.03.

FIVE-YEAR SUMMARY

Consolidated Statement of Operations Data	Fiscal				
	1998	**1999**	**2000**	**2001**	**2002**
(In thousands, except per share data)					
Net revenue:					
Products	$493,059	$711,138	$775,316	$ 805,684	$ 977,528
Services	28,357	46,925	114,991	216,544	273,575
Other	32,152	42,877	91,411	73,834	61,125
Total net revenue	553,568	800,940	981,718	1,096,062	1,312,228
Income (loss) from continuing operations before cumulative effect of accounting change	2,606	388,788	325,691	(124,656)	53,615
Net income (loss) from discontinued operations	3,576	(2,224)	(20,030)	27,549	86,545
Cumulative effect of accounting change, net of taxes	—	—	—	14,314	—
Net income (loss)	$ 6,182	$386,564	$305,661	$ (82,793)	$ 140,160
Net income (loss) per common share:					
Basic income (loss) per share from continuing operations before cumulative effect of accounting change	$ 0.02	$ 2.03	$ 1.62	$ (0.60)	$ 0.25
Net income (loss) from discontinued operations	0.02	(0.01)	(0.10)	0.13	0.41
Cumulative effect of accounting change	—	—	—	0.07	—
Basic net income (loss) per share	$ 0.04	$ 2.02	$ 1.52	$ (0.40)	$ 0.66
Diluted income (loss) per share from continuing operations before cumulative effect of accounting change	$ 0.02	$ 1.94	$ 1.54	$ (0.60)	$ 0.24
Net income (loss) from discontinued operations	0.02	(0.01)	(0.09)	0.13	0.40
Cumulative effect of accounting change	—	—	—	0.07	—
Diluted net income (loss) per share	$ 0.04	$ 1.93	$ 1.45	$ (0.40)	$ 0.64
Pro Forma Data for Fiscal 2001 Change in Accounting Principle *(Unaudited)* **(a)**					
Pro forma net income	(a)	$382,438	$299,100	(a)	(a)
Pro forma diluted net income per share	(a)	$ 1.91	$ 1.42	(a)	(a)

(a) This pro forma data relates to accounting for derivative instruments. We adopted Statement of Financial Standards ("SFAS") No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" in fiscal 2001 and recognized the cumulative effect of the change in how we accounted for options to purchase shares of S1 Corporation as of August 1, 2000. Pro forma data presents our net income and diluted net income per share for fiscal 1999 and 2000 as if we had adopted SFAS 133 at the beginning of fiscal 1999. In accordance with SFAS 133, we included unrealized gains and

losses on the S1 options in our fiscal 2001 and 2002 reported results until we sold them in the first quarter of fiscal 2002. Intuit did not have any derivative instruments or engage in hedging activities prior to fiscal 1999. See Note 1 of the financial statements, *"Change in Accounting Principle."*

	July 31,				
Consolidated Balance Sheet Data	**1998**	**1999**	**2000**	**2001**	**2002**
(In thousands)					
Cash, cash equivalents and short-term investments	$ 372,038	$ 805,220	$1,399,351	$1,186,215	$1,230,090
Marketable securities	499,285	431,176	225,878	85,307	16,791
Working capital	632,713	842,213	1,321,957	1,359,960	1,262,716
Total assets	1,491,658	2,318,455	2,726,295	2,803,479	2,928,005
Long-term obligations	9,642	3,555	538	12,150	14,610
Total stockholders' equity	1,127,943	1,561,388	2,071,289	2,161,326	2,215,639

EXHIBIT 99.02

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

NOTE: For a more complete understanding of our financial condition and results of operations, and some of the risks that could affect future results, see "Risks That Could Affect Future Results" below. This section should also be read in conjunction with the Consolidated Financial Statements and related Notes in Exhibit 99.03. As discussed below, we sold our Quicken Loans mortgage business in July 2002 and our wholly-owned Japanese subsidiary, Intuit KK, in February 2003 and have accounted for these entities as discontinued operations. Unless otherwise noted, the following discussion pertains only to our continuing operations.

Results of Operations

Three-Year Total Net Revenue and Net Income (Loss) Trends

(Dollars in millions)	Fiscal 2000	Fiscal 2001	Fiscal 2002	2000-2001 % Change	2001-2002 % Change
Total net revenue	$981.7	$1,096.1	$1,312.2	12%	20%
Net income (loss)	305.7	(82.8)	140.2	(127)%	269%

Overview

Intuit's mission is to revolutionize how people manage their financial lives, and how small businesses and accounting professionals manage their businesses. Our goal is to create changes so profound customers wouldn't dream of going back to their old ways of keeping their books, doing their taxes or managing their personal finances. Intuit is a leading provider of small business, tax preparation and personal finance software products and services that simplify complex financial tasks for small businesses, consumers and accounting professionals. Our principal products and services include: small business accounting and business management solutions, including our QuickBooks® line of products and services as well as our Intuit® line of industry-specific business management solutions; TurboTax® consumer tax products and services; ProSeries® and Lacerte® professional tax products and services; and Quicken® personal finance products and services.

The business models for many of our products and services provide us with significant profit leverage, for three primary reasons. First, these businesses have relatively high fixed costs and low variable costs, so as we increase units sold, we generate more profit per incremental unit sold. Second, as we offer products and services with greater functionality, we can increase prices to reflect the greater value that we deliver to customers. Third, as customers move to some of our higher-end products and services, the better product and service mix is resulting in more revenue and profit per customer.

Our tax businesses are highly seasonal. Sales of tax preparation products and services are heavily concentrated in the period from November through April. These seasonal patterns mean that our total net revenue is usually highest during our second and third quarters ending January 31 and April 30. We typically report losses in our first and fourth quarters ending October 31 and July 31 when revenue from our tax businesses are minimal, but operating expenses to develop new products and services continue at relatively consistent levels.

Acquisitions and dispositions of businesses and assets have had a significant impact on the comparability of our results year over year. During the past three years, we have completed several acquisitions and dispositions. In fiscal 2002, we sold our Quicken Loans mortgage business and in the third quarter of fiscal 2003 we sold our wholly-owned Japanese subsidiary, Intuit KK. We have accounted for these entities as discontinued operations. See Notes 9, 10 and 11 of the financial statements. The impairment of goodwill and other intangibles received in connection with acquisitions has also had a significant impact on our operating results. During fiscal 2001 and 2002, we

recorded charges of $78.7 million and $27.3 million for impairment of goodwill and intangible assets. Total goodwill amortization expense, including impairments, was $139.5 million in fiscal 2001 and $122.6 million in fiscal 2002. We adopted Statement of Financial Standards ("SFAS") No. 142 on August 1, 2002. The adoption of this standard eliminated the amortization of goodwill commencing with the first quarter of fiscal 2003. However, it is possible that in the future we may incur impairment charges related to existing goodwill, as well as to goodwill arising out of future acquisitions. See Notes 1 and 5 of the financial statements for more information regarding our goodwill and intangible assets and the impact of impairment charges on our reported net income.

Gains and losses related to marketable securities and other investments have had a significant impact on the comparability of our yearly results as well. All of our marketable securities and long-term investments are holdings in high technology companies that have been extremely volatile since we purchased them. In fiscal 2001 and 2002, the market prices of a number of these companies' securities declined substantially from our initial investment due to the economic downturn in the high technology industry. During fiscal 2001 and 2002, we recorded charges of $68.8 million and $9.5 million for other-than-temporary declines in the value of our available-for-sale marketable securities and other investments, and a charge of $40.0 million during fiscal 2001 relating to the decline in the valuation of our trading securities. See Note 3 of the financial statements for more information regarding our investments in marketable securities and the impact of our trading securities on our reported net income.

Critical Accounting Policies

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income and net income, as well as on the value of certain assets on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. See Note 1 of the financial statements for more information about these critical accounting policies, as well as descriptions of other significant accounting policies.

- Net Revenue – Return and Rebate Reserves. As part of our revenue recognition policy, we estimate future product returns and rebate payments and establish reserves against revenue based on these estimates. Product returns by distributors and retailers principally relate to the return of obsolete products. Our return policy allows distributors and retailers, subject to certain contractual limitations, to return purchased products. For product returns reserves, we consider the volume and price mix of products in the retail channel, trends in retailer inventory, economic trends that might impact customer demand for our products (including the competitive environment and the timing of new releases of our products) and other factors. We fully reserve for obsolete products in the distribution channels.

  Our rebate reserves include distributor and retailer sales incentive rebates and end-user rebates. Our estimated reserves for distributor and retailer incentive rebates are based on distributors' and retailers' actual performance against the terms and conditions of rebate programs, which are typically entered into annually. Our reserves for end-user rebates are estimated based on the terms and conditions of the specific promotional program, actual sales during the promotion, the amount of redemptions received, historical redemption trends by product and by type of promotional program and the economic value of the rebate.

  In the past, actual returns and rebates have not generally exceeded our reserves. However, actual returns and rebates in any future period are inherently uncertain. If we were to change our assumptions and estimates, our revenue reserves would change, which would impact the net revenue we report. If actual returns and rebates are significantly greater than the reserves we have established, the actual results would decrease our future reported revenue. Conversely, if actual returns and rebates are significantly less than our reserves, this would increase our future reported revenue. As an example, a change of 1% in our consumer tax product return rate assumptions would have increased or reduced fiscal 2002 net revenue by approximately $1.2 million. If the historical data we use to calculate these estimates do not properly reflect actual returns or rebates, then we would make a change in the reserves in the period in which the determination is made.

- Goodwill, Purchased Intangibles and Other Long-Lived Assets – Impairment Assessments. Under current accounting standards, which changed significantly at the start of fiscal 2003, we make judgments about the recoverability of goodwill, purchased intangible assets and other long-lived assets whenever events or changes in circumstances indicate an other-than-temporary impairment in the remaining value of the assets recorded on our balance sheet may exist. In order to estimate the fair value of long-lived assets, we make various assumptions about the future prospects for the business that the asset relates to and typically estimate future cash flows to be generated by these businesses. Based on these assumptions and estimates, we determine whether we need to take an impairment charge to reduce the value of the asset stated on our balance sheet to reflect its estimated fair value. Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results. More conservative assumptions of the anticipated future benefits from these businesses would result in greater impairment charges, which would decrease net income and result in lower asset values on our balance sheet. Conversely, less conservative assumptions would result in smaller impairment charges, higher net income and higher asset values. See Note 1 "*Goodwill, Purchased Intangible Assets and Other Long-lived Assets"* and *"Recent Pronouncements,"* and Notes 5 and 12 of the financial statements for more information about how we make these judgments.

- Reserves for Uncollectible Accounts Receivable. We make ongoing assumptions relating to the collectibility of our accounts receivable. The accounts receivable amount on our balance sheet includes a reserve for accounts that might not be paid. In determining the amount of the reserve, we consider our historical level of credit losses. We also make judgments about the creditworthiness of significant customers based on ongoing credit evaluations, and we assess current economic trends that might impact the level of credit losses in the future. Our reserves have generally been adequate to cover our actual credit losses. However, since we cannot predict future changes in the financial stability of our customers, we cannot guarantee that our reserves will continue to be adequate. If actual credit losses are significantly greater than the reserve we have established, that would increase our general and administrative expenses and reduce our reported net income. Conversely, if actual credit losses are significantly less than our reserve, this would eventually decrease our general and administrative expenses and increase our reported net income. See Note 1 of the financial statements, "*Concentration of Credit Risk and Significant Customers and Suppliers,*" for more information about our accounts receivable.

- Income Taxes – Estimates of Effective Tax Rates, Deferred Taxes and Valuation Allowance. When we prepare our consolidated financial statements, we estimate our income taxes based on the various jurisdictions where we conduct business. This requires us to estimate our actual current tax exposure and to assess temporary differences that result from differing treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which we show on our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance in an accounting period, we must record a tax expense in our statement of operations.

  Management must make significant judgments to determine our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset. Our net deferred tax asset as of July 31, 2002 was $244.4 million, net of the valuation allowance of $6.8 million. We recorded the valuation allowance to reflect uncertainties about whether we will be able to utilize some of our deferred tax assets (consisting primarily of certain net operating losses carried forward by our international subsidiaries and certain state capital loss carryforwards) before they expire. The valuation allowance is based on our estimates of taxable income for the jurisdictions in which we operate and the period over which our deferred tax assets will be recoverable. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, we cannot assure that we will not be required to increase the valuation allowance to take into account additional deferred tax assets that we may be unable to realize. If we increase the valuation allowance, it could have a material adverse impact on our income tax provision and net income in the period in which we make the increase.

Total Net Revenue

The table below shows total net revenue and percentage of total net revenue for each of our business segments for fiscal years 2000, 2001 and 2002. We have reclassified prior year information to conform to the current year financial presentation for comparability. See Note 14 of the financial statements for additional information about our business segments.

(Dollars in millions)	Fiscal 2000	% Total Net Revenue	Fiscal 2001	% Total Net Revenue	Fiscal 2002	% Total Net Revenue	2000-2001 % Change	2001-2002 % Change
Total Net Revenue:								
Small Business								
Product	$275.3		$ 278.0		$ 318.8			
Service	20.2		32.6		51.4			
Other	16.0		18.0		4.4			
Subtotal	311.5	32%	328.6	30%	374.6	28%	6%	14%
Employer Services								
Product	30.6		60.1		81.7			
Service	44.8		58.1		72.4			
Other	—		—		0.2			
Subtotal	75.4	8%	118.2	11%	154.3	12%	57%	31%
Consumer Tax								
Product	170.5		168.2		219.4			
Service	40.9		100.5		128.4			
Other	4.8		3.4		3.3			
Subtotal	216.2	22%	272.1	25%	351.1	27%	26%	29%
Professional Accounting Solutions								
Product	161.4		177.3		219.2			
Service	9.1		11.1		6.5			
Other	—		—		—			
Subtotal	170.5	17%	188.4	17%	225.7	17%	10%	20%
Personal Finance								
Product	98.8		80.2		71.6			
Service	—		13.1		8.0			
Other	70.6		49.7		50.7			
Subtotal	169.4	17%	143.0	13%	130.3	10%	(16%)	(9%)
Global Business								
Product	38.7		41.9		57.9			
Service	—		1.0		1.1			
Other	—		2.8		2.5			
Subtotal	38.7	4%	45.7	4%	61.5	5%	18%	35%
Small Business Verticals and Other								
Product	—		—		8.9			
Service	—		0.1		5.8			
Other	—		—		—			
Subtotal	—	—	0.1	—	14.7	1%	—	NM
TOTALS:	**$981.7**	**100%**	**$1,096.1**	**100%**	**$1,312.2**	**100%**	**12%**	**20%**

NM is a non-meaningful comparison.

Fiscal 2002 Compared to Fiscal 2001. Total net revenue for fiscal 2002 was $1,312.2 million, compared to $1,096.1 million in fiscal 2001, representing an increase of 20%. The fiscal 2002 increase in net revenue was primarily due to growth of 31% in our Employer Services segment, 29% in our Consumer Tax segment and 20% in our Professional Accounting Solutions segments. Net revenue from our Small Business segment increased 14% due to growth in Quickbooks-related products. Personal Finance net revenue declined 9% in fiscal 2002, reflecting a decrease in Internet advertising revenue and lower sales of Quicken due to the continuing overall decline in the personal finance desktop software category.

Fiscal 2001 Compared to Fiscal 2000. Total net revenue for fiscal 2001 was $1,096.1 million, compared to $981.7 million in fiscal 2000, representing an increase of 12%. Our Consumer Tax segment had a strong year with an increase of 26% that was driven by Web-based tax return preparation and electronic tax return filing services revenue, which more than doubled from fiscal 2000. The revenue growth also reflected a 57% increase in our Employer Services segment. Growth in these segments was partially offset by a 16% decline in the Personal Finance segment. Personal Finance was adversely affected by the declining demand for Internet advertising as well as by lower sales of Quicken due to an overall decline in the personal finance desktop software category.

Total Net Revenue by Business Segment

The following net revenue discussion is categorized by our business segments, which reflect how we manage our operations and how our chief operating decision maker views results. The net revenue impact of the fiscal 2001 acquisition of Tax and Accounting Software Corporation is discussed below under Professional Accounting Solutions. No other acquisitions have had a material impact on net revenue in the periods presented.

Small Business

Small Business product revenue is derived primarily from QuickBooks desktop software products and financial supplies. Small Business services revenue is derived primarily from QuickBooks Service Solutions, our fee for support plan. Our Small Business Verticals businesses are managed separately from the Small Business segment, so their revenue is included in the Small Business Verticals and Other segment below.

Fiscal 2002 Compared to Fiscal 2001. Small Business total net revenue increased 14% in fiscal 2002 compared to fiscal 2001. Total QuickBooks-related revenue (which includes QuickBooks desktop software products, QuickBooks support plans, QuickBooks Internet Gateway and QuickBooks Online Edition) was 11% higher while QuickBooks desktop product revenue alone grew 19%. The increase in QuickBooks desktop product revenue reflected higher average selling prices driven primarily by the November 2001 launch of our higher-priced QuickBooks Premier products, as well as 12% higher unit sales. The volume increase was driven by strong upgrade sales, which we believe were due in part to our decision to discontinue technical support and tax table services during calendar 2002 for customers using certain older versions of QuickBooks. We believe that the availability of a range of third party offerings from the Intuit Developer Network to QuickBooks 2002 customers may also have contributed to the stronger upgrade sales. Fiscal 2002 QuickBooks-related revenue growth also reflected strong results from QuickBooks Service Solutions. In August 2001, we began offering several higher-end support plans, which resulted in significantly higher average selling prices that more than offset declines in volume compared to fiscal 2001. Revenue growth in QuickBooks-related products and services was partially offset by a decline in QuickBooks Internet Gateway revenue. Revenue for this business decreased due to a sharp decline in upfront fees received from Internet Gateway participants, as well as a decrease in transaction-based fees that reflects lower customer demand for Internet Gateway services and fewer services being offered. Financial supplies revenue increased modestly during the year.

We expect continued growth in our Small Business segment in fiscal 2003. We expect QuickBooks-related revenue to increase due to the fiscal 2002 introduction of products with more advanced functionality such as QuickBooks Premier, QuickBooks Premier: Accountant Edition and QuickBooks Enterprise Solutions Business Management Software, which have significantly higher selling prices than our other QuickBooks products.

Fiscal 2001 Compared to Fiscal 2000. For fiscal 2001, total net revenue for the Small Business segment increased 6% over fiscal 2000. Revenue from QuickBooks desktop products remained relatively flat. While average selling

prices increased for the year, unit sales declined 17%. This was attributable to a decline in the rate at which existing QuickBooks customers upgraded to newer QuickBooks products, as well as to a lower acquisition rate of new users. Product revenue from our financial supplies and services revenue from our QuickBooks Internet Gateway and QuickBooks Service Solutions increased in fiscal 2001.

Employer Services

Employer Services product revenue is derived primarily from our QuickBooks Do-It-Yourself Payroll (formerly Basic Payroll) offering. Employer Services services revenue is derived primarily from our QuickBooks Assisted Payroll Service (formerly Deluxe Payroll) and Intuit Payroll Services — Complete Payroll (formerly Premier Payroll).

Fiscal 2002 Compared to Fiscal 2001. Employer Services total net revenue increased 31% in fiscal 2002 compared to fiscal 2001, reflecting 39% combined growth for the QuickBooks-branded Do-It-Yourself Payroll and Assisted Payroll Service offerings, with revenue for the Intuit Payroll Services — Complete Payroll service roughly flat. Price increases accounted for a significant portion of the Do-It-Yourself Payroll and Assisted Payroll Service revenue growth, although the number of customers for the combined offerings also increased by approximately 12%.

We expect total net revenue to continue to increase in our Employer Services business in fiscal 2003, due in part to the acquisition of CBS Employer Services, Inc., a provider of full-service outsourced payroll functions for small businesses, in the fourth quarter of fiscal 2002.

Fiscal 2001 Compared to Fiscal 2000. Employer Services total net revenue increased 57% for fiscal 2001 compared to fiscal 2000. Increases in our average selling prices for both our Do-It-Yourself Payroll offering and our Assisted Payroll Service contributed to this growth. The higher average selling prices resulted from price increases as well as a shift toward a mix of higher-priced products. The number of customers for the combined offerings also grew approximately 7%.

Consumer Tax

Consumer Tax product revenue is derived primarily from TurboTax federal and state consumer desktop tax preparation products. Consumer Tax services revenue is derived primarily from TurboTax for the Web online tax preparation services and electronic filing services.

Fiscal 2002 Compared to Fiscal 2001. Consumer Tax total net revenue increased 29% in fiscal 2002 compared to fiscal 2001. Revenue from TurboTax desktop products was up 10%, due primarily to higher average selling prices resulting from the introduction of a higher-priced premium product. Revenue from TurboTax for the Web was strong in fiscal 2002, reflecting a significant increase in the mix of higher-end service offerings (TurboTax Premier) as well as 84% unit growth. Electronic filing units and revenue also contributed to the year-over-year growth. Overall, our Consumer Tax customer base grew 19% in fiscal 2002.

Fiscal 2001 Compared to Fiscal 2000. For fiscal 2001, Consumer Tax total net revenue increased approximately 26% compared to fiscal 2000. The increase was due to a combination of higher average selling prices resulting from price increases as well as improved product mix and increased unit sales for both our desktop products and Web-based tax preparation services. Our Consumer Tax business also benefited from Microsoft's discontinuation of its desktop consumer tax preparation software after the 1999 tax season which ended April 15, 2000. Our Web-based tax preparation and electronic filing services also experienced strong growth during fiscal 2001. Web-based tax preparation revenue more than doubled from fiscal 2000 as a result of increased prices as well as a 71% increase in unit volume. In addition, our electronic filing services revenue increased 53%. Overall, our Consumer Tax customer base grew 14% in fiscal 2001.

We expect continued growth in our Consumer Tax business in fiscal 2003 due to the continuing upward trend in consumer use of the Web for tax return preparation and filing. We also expect revenue growth as a result of product activation features to be included in the tax year 2002 federal versions of TurboTax desktop products for Windows®, which are designed to reduce unauthorized sharing of those products.

Professional Accounting Solutions

Professional Accounting Solutions product revenue is derived primarily from ProSeries and Lacerte professional tax preparation products. Professional Accounting Solutions services revenue is derived primarily from electronic filing and tax advice services.

Fiscal 2002 Compared to Fiscal 2001. Total net revenue from our professional tax preparation products and services increased 20% in fiscal 2002 compared to fiscal 2001. Approximately $21.0 million or 11% of the growth compared to fiscal 2001 resulted from our acquisition of Tax and Accounting Software Corporation in April 2001. Higher revenue from electronic filing services was also a significant factor in the increase. Our fiscal 2002 introduction of product activation technology that restricted sharing of professional tax products and higher average selling prices for our ProSeries and Lacerte unlimited-use products also contributed to the revenue growth. Renewal rates for our existing customer base remained strong during fiscal 2002.

Fiscal 2001 Compared to Fiscal 2000. Total net revenue from our professional tax preparation products and services increased 10% in fiscal 2001 compared to fiscal 2000. This growth resulted from higher average selling prices for both our ProSeries and Lacerte unlimited-use products and unit growth for our pay-per return customers. Renewal rates for our existing customer base were strong during fiscal 2001.

We expect continued growth in our Professional Accounting Solutions business in fiscal 2003 but we expect the rate of growth to slow compared to fiscal 2002. Fiscal 2002 growth rates for this business were unusually high due to the acquisition of TAASC in late fiscal 2001.

Personal Finance

Personal Finance product revenue is derived primarily from Quicken desktop products. Personal Finance services revenue is minimal. Other revenue consists of Quicken.com advertising revenue and royalties for online transactions.

Fiscal 2002 Compared to Fiscal 2001. Personal Finance total net revenue decreased 9% in fiscal 2002 compared to fiscal 2001, due primarily to a 15% decline in revenue from Quicken desktop products and a 38% decline in Quicken.com revenue. Solid growth in our online transactions business partially offset these declines. The decrease in Quicken revenue reflected the continuing overall decline in the personal finance desktop software category. Our share of retail units in this category remained above 70% in fiscal 2002. The decrease in Quicken.com advertising revenue reflected the industry-wide decline in spending by purchasers of Internet advertising. We expect these trends to continue in fiscal 2003.

Fiscal 2001 Compared to Fiscal 2000. Total net revenue from the Personal Finance segment decreased 16% in fiscal 2001 compared to fiscal 2000. This decline in revenue was attributable in part to a 27% decline in unit sales for our Quicken desktop products and a 31% decline in our Quicken.com Internet advertising revenues. Quicken revenue was down due to an overall decline in the personal finance desktop software category. Advertising revenue declined compared to the prior year due to the overall economic environment which resulted in reduced advertising spending by purchasers of Internet advertising. We experienced continued growth in our online transactions business, which partially offset these declines.

Global Business

Global Business product revenue is derived primarily from QuickBooks, Quicken and QuickTax desktop software products in Canada. Global Business services revenue consists primarily of revenue from software maintenance contracts sold with QuickBooks in Canada.

Fiscal 2002 Compared to Fiscal 2001. Global Business total net revenue increased 35% in fiscal 2002 compared to fiscal 2001. Revenue from Canada increased 29% year over year. This reflected strong tax season results for QuickTax, due in part to the preliminary success of our efforts to reduce unauthorized sharing of desktop software. Canadian tax revenue growth was partially offset by modest revenue declines for QuickBooks and Quicken.

Fiscal 2001 Compared to Fiscal 2000. Global Business total net revenue for fiscal 2001 increased 18% compared to fiscal 2000. This increase was primarily due to 39% overall revenue growth in Canada, which was driven by 45% growth in QuickBooks revenue. In addition, Canada experienced 14% growth in professional tax revenue as a result of an acquisition we made early in fiscal 2001.

Small Business Verticals and Other

As part of our Right for My Business strategy, in fiscal 2002 we acquired several companies that enable us to provide accounting and business management solutions to customers in selected industries, which we refer to as "verticals." These new businesses, which we report as a single business segment, include the following: Intuit Construction Business Solutions (formerly OMware, Inc.), which provides business management software for the construction industry; Intuit Public Sector Solutions (formerly The Flagship Group), which offers accounting and business management software solutions for nonprofit organizations, universities, and government agencies; Intuit MRI Real Estate Solutions (formerly Management Reports, Inc.), which provides business management software for commercial and residential property managers; and Intuit Eclipse Distribution Management Solutions (formerly Eclipse, Inc.), which offers business management software for the wholesale durable goods industry.

Three of the four acquisitions were completed in the fourth quarter of fiscal 2002. As a result, total net revenue from the Small Business Vertical and Other segment was not significant in fiscal 2002 and consisted primarily of revenue generated by OMware, Inc. There was no significant revenue in this segment from sources other than the acquired vertical businesses during fiscal 2002. Driving the growth of the vertical businesses we have acquired so far, and acquiring additional vertical businesses, are key business initiatives for fiscal 2003. Therefore, we expect that we will continue to report these businesses as a separate business segment in the future.

Cost of Revenue

	Fiscal 2000	% of Related Revenue	Fiscal 2001	% of Related Revenue	Fiscal 2002	% of Related Revenue	2000-2001 % Change	2001-2002 % Change
(Dollars in millions)								
Cost of Revenue:								
Cost of products	$149.4	19%	$135.6	17%	$157.4	16%	(9%)	16%
Cost of services	71.2	62%	108.3	50%	107.6	39%	52%	(1%)
Cost of other revenue	30.7	34%	26.0	35%	24.4	40%	(15%)	(6%)
Amortization of purchased software	7.0	n/a	14.9	n/a	12.4	n/a	113%	(17%)
TOTALS:	**$258.3**	**26%**	**$284.8**	**26%**	**$301.8**	**23%**	**10%**	**6%**

There are four components of our cost of revenue: (1) cost of products, which includes the direct cost of manufacturing and shipping desktop software products; (2) cost of services, which reflects direct costs associated with providing services, including data center costs relating to delivering Internet-based services; (3) cost of other revenue, which includes costs associated with generating advertising and marketing and online transactions revenue; and (4) amortization of purchased software, which represents the cost of depreciating products we obtained through acquisitions over their useful lives.

Fiscal 2002 Compared to Fiscal 2001. Cost of products as a percentage of product revenue decreased slightly to 16% in fiscal 2002 from 17% in fiscal 2001. We lowered our per-unit materials, manufacturing and shipping costs for our shrink-wrap software products, resulting in significant cost savings. These savings were nearly offset by increased costs associated with improving our product distribution function. During the first quarter of fiscal 2002, we established a new third-party retail distribution relationship for our shrink-wrap software products. This distribution relationship enables us to ship a larger percentage of our products directly to individual retail stores and allows us to provide inventory to our retail customers on a more timely basis. By providing better service to our retailers, we are reducing product returns and related costs. Because of this and because we plan to continue

redesigning the packaging for many of our software products and further streamlining our manufacturing processes, we expect cost of products as a percentage of product revenue to decline in fiscal 2003.

Cost of services as a percentage of services revenue decreased to 39% in fiscal 2002 from 50% in fiscal 2001. This decrease was attributable primarily to our payroll and Web-based tax businesses, which experienced significant revenue growth with relatively fixed cost bases.

Cost of other revenue as a percentage of other revenue increased to 40% in fiscal 2002 compared to 35% in fiscal 2001. This increase was primarily due to increased data center costs related to our Personal Finance segment's online transaction business, which experienced revenue growth in fiscal 2002.

Amortization of purchased software decreased slightly in fiscal 2002 compared to fiscal 2001. This reflected lower amortization expense in the second half of fiscal 2002 that resulted from a lower base of assets to be amortized. This decline was partially offset by impairment charges for certain purchased software assets that were recorded in the second quarter of fiscal 2002, which caused the decrease in the base of assets. See Note 5 of the financial statements.

Fiscal 2001 Compared to Fiscal 2000. Cost of products as a percentage of product revenue decreased to 17% for fiscal 2001 compared to 19% for fiscal 2000. The decline was primarily attributable to lower excess and obsolete inventory expenses for all of our product lines due to improved inventory management. Cost of services as a percentage of services revenue decreased to 50% for fiscal 2001 compared to 62% for fiscal 2000 due primarily to revenue growth in our payroll business with a relatively fixed cost base. This factor was partially offset by increased data center costs related to our Personal Finance segment's online transactions businesses. Cost of other revenue as a percentage of other revenue increased to 35% for fiscal 2001 compared to 34% for fiscal 2000 due to a significant decrease in Internet advertising revenue with a relatively fixed cost base.

Operating Expenses

	Fiscal 2000	% Total Net Revenue	Fiscal 2001	% Total Net Revenue	Fiscal 2002	% Total Net Revenue	2000-2001 % Change	2001-2002 % Change
(Dollars in millions)								
Operating Expenses:								
Customer service and technical support	$129.0	13%	$137.2	13%	$164.9	13%	6%	20%
Selling and marketing	200.7	20%	217.8	20%	263.7	20%	9%	21%
Research and development	157.1	16%	196.1	18%	198.5	15%	25%	1%
General and administrative	72.7	7%	93.5	9%	109.1	8%	29%	17%
Charge for purchased research and development	1.3	0%	0.2	0%	2.2	0%	NM	NM
Charge for vacant facilities	—	—	—	—	13.2	1%	—	—
Acquisition related charges	150.2	15%	247.8	23%	181.4	14%	65%	(27%)
Loss on impairment of long-lived asset	—	—	—	—	27.0	2%	—	—
TOTALS:	**$711.0**	**72%**	**$892.6**	**81%**	**$960.0**	**73%**	**26%**	**8%**

Customer Service and Technical Support

Fiscal 2002 Compared to Fiscal 2001. Customer service and technical support expenses were 13% of total net revenue in fiscal 2002 and fiscal 2001. We improved our efficiency in fiscal 2002 by increasing the proportion of customer service and technical support we provide through less expensive methods such as Web sites, online chat, email and other electronic means. We also implemented a number of successful process excellence initiatives that reduced costs while maintaining or increasing service levels. However, these benefits were more than offset by higher direct sales and support costs associated with converting the customers of Tax Accounting and Software Company, a company that we acquired in April 2001, to our ProSeries and Lacerte professional tax products, and by increased demand for customer service and technical support due to our growing customer base. We expect customer service and technical support expenses to decrease slightly as a percentage of total net revenue in fiscal 2003 as TAASC conversion costs gradually decline and as we continue to benefit from lower cost, more scalable electronic customer service and technical support delivery mechanisms.

Fiscal 2001 Compared to Fiscal 2000. Customer service and technical support expenses were flat at 13% of total net revenue in fiscal 2001 and fiscal 2000. This reflected the benefit of providing an increased proportion of customer service and technical support more efficiently and less expensively through Web sites and other electronic means, and from the expansion of QuickBooks Service Solutions, our fee for support program for QuickBooks customers. These improvements were offset by the April 2001 start of support costs to convert customers of our newly acquired TAASC business to our ProSeries and Lacerte professional tax products.

Selling and Marketing

Fiscal 2002 Compared to Fiscal 2001. Selling and marketing expenses were 20% of total net revenue in fiscal 2002 and fiscal 2001. In fiscal 2002, selling and marketing expenses increased as we expanded our small business marketing programs to support the Right for My Business strategy announced in September 2001. We also incurred incremental marketing expenses for our Construction Business Solutions products, which we acquired in November 2001. These increases were partially offset by a decrease in selling and marketing expenses as a percentage of total net revenue for our payroll business due to significant revenue growth in that segment. We also donated $8.0 million to The Intuit Foundation in fiscal 2002, which will be used to benefit the community through contributions to selected non-profit organizations. We expect selling and marketing expenses to continue to increase as a percentage of total net revenue in fiscal 2003 as we expand marketing programs for our new QuickBooks products as well as for the Right for My Business products and services we recently introduced and those we expect to introduce in fiscal 2003.

Fiscal 2001 Compared to Fiscal 2000. Selling and marketing expenses were 20% of total net revenue in fiscal 2001 and fiscal 2000. During fiscal 2000 we experienced relatively higher sales and marketing expenses in the first half of the year due to aggressive marketing programs to expand our Internet-based businesses and to respond to Microsoft's TaxSaver consumer tax offering. In fiscal 2001 our payroll business also experienced relatively lower marketing expenditures as it continued to benefit from the marketing value of the Intuit brand.

Research and Development

Fiscal 2002 Compared to Fiscal 2001. During fiscal 2002, we increased research and development spending in some of our highest-growth businesses – small business, consumer tax and professional tax – by approximately 10%. In particular, we continued to invest in our Right for My Business strategy, including new QuickBooks Premier, Point of Sale and Enterprise products launched in the second quarter of fiscal 2002, the Intuit Developer Network, and other new products that we expect to introduce in fiscal 2003. At the same time, we significantly decreased or stopped spending in less strategic areas and discontinued product lines. We also benefited from improvements in our development process that resulted in shorter development times and higher quality for our new QuickBooks products. The net result was that research and development expenses in fiscal 2002 were flat in absolute dollars and declined as a percentage of total net revenue to 15% of total net revenue, compared to 18% in fiscal 2001. During fiscal 2003, we expect to continue to make significant investments in research and development, particularly for new small business products and services.

Fiscal 2001 Compared to Fiscal 2000. Fiscal 2001 research and development expenses were 18% of total net revenue, compared to 16% of total net revenue in fiscal 2000. In both fiscal 2001 and 2000, we invested significant amounts in our services businesses, mostly focused in our Small Business and Employer Services segments. This included research and development efforts for QuickBooks Online Edition, our QuickBooks Assisted Payroll Service (formerly Deluxe Payroll), our QuickBase® information management tool and the Intuit Developer Network.

General and Administrative

Fiscal 2002 Compared to Fiscal 2001. General and administrative expenses were 8% of total net revenue in fiscal 2002, compared to 9% of total net revenue in fiscal 2001. We experienced increased directors' and officers' liability insurance costs and costs associated with integrating our acquisitions of OMware, Inc. in November 2001 and EmployeeMatters, Inc. in December 2000. These increases were offset by decreases in bad debt charges in fiscal 2002. We had relatively high accounts receivable write-offs in fiscal 2001 due to the deteriorating financial condition of many Internet companies with whom we did business. We expect general and administrative expenses to increase as a percentage of total net revenue in fiscal 2003 due to the costs of integrating our fourth quarter fiscal 2002 acquisitions and other acquisitions we expect to make in fiscal 2003, as well as to investments in our internal audit function and process excellence infrastructure. We also expect bad debt expense for fiscal 2003 to be somewhat higher than for fiscal 2002 because we experienced unusually low levels of bad debt expense in fiscal 2002.

Fiscal 2001 Compared to Fiscal 2000. General and administrative expenses were 9% of total net revenue for fiscal 2001, compared to 7% of total net revenue for fiscal 2000. During fiscal 2001, we experienced an increase in our bad debt expense related to the economic downturn in the high technology industry that impacted many companies with whom we did business. Our general and administrative expense for fiscal 2001 also included an increase of $1.2 million in deferred compensation amortization expense related to restricted stock we granted when we hired our President and Chief Executive Officer in January 2000.

Charge for Purchased Research and Development

In connection with certain acquisitions and with the assistance of third-party appraisers, we determine the value of in-process projects under development for which technological feasibility has not been established. The value of the projects is determined by estimating the costs to develop the in-process technology into commercially feasible products, estimating the net cash flows we believe would result from the products and discounting these net cash flows back to their present value. The resulting amount is recorded as a charge for purchased research and development when we acquire certain new businesses.

In fiscal 2002, we recorded a charge of $2.2 million for purchased research and development as a result of our acquisition of Management Reports, Inc. (now Intuit MRI Real Estate Solutions). In fiscal 2001, we recorded a charge of $0.2 million for purchased research and development when we acquired Tax Accounting and Software Corporation. We recorded $1.3 million for purchased research and development as a result of our Boston Light Software Corporation and Hutchison Avenue Software Corporation acquisitions in fiscal 2000.

Although we intend to continue to acquire relatively mature businesses with products whose technological feasibility has been demonstrated as part of our Right for My Business Strategy, it is possible that we will incur additional charges for purchased research and development in the future.

Charge for Vacant Facilities

During the third quarter of fiscal 2002, we concluded that we would not occupy two vacant leased buildings in Mountain View, California and that we would be unable to recover a substantial portion of our lease obligations by subleasing the vacant space. As a result, we recorded a charge of $13.2 million. See Note 13 of the financial statements.

Acquisition-Related Charges

Acquisition-related charges include the amortization of goodwill, purchased intangible assets and deferred compensation expenses arising from acquisitions, and impairment charges relating to certain acquired assets. See Note 5 of the financial statements.

The FASB recently adopted a new standard for accounting for goodwill acquired in a business combination. It continues to require us to recognize goodwill as an asset whenever we pay more for a business than the total of its net tangible and intangible assets, but it does not permit us to amortize goodwill, which we were previously required to do. Under the new statement, we must separately test goodwill for impairment using a fair-value-based approach on an annual basis or more frequently if an event occurs indicating potential impairment. The shift from an amortization approach to an impairment approach applies to all acquisitions completed after June 30, 2001. The additional goodwill amortization charge for businesses we acquired after June 30, 2001 would have been approximately $8.8 million in fiscal 2002 had this new standard not been in place. We will adopt the remaining elements of this new standard in the first quarter of fiscal 2003 and will therefore cease goodwill amortization for acquisitions we made prior to July 1, 2001. However, it is possible that in the future we may incur impairment charges related to the goodwill already recorded and to goodwill arising out of future acquisitions. In addition, we will continue to amortize most purchased intangible assets and to assess those assets for impairment as appropriate. In accordance with the new standard, we transferred the balance of $1.9 million for assembled workforce at August 1, 2002 to goodwill and will no longer amortize that asset. See Note 1 of the financial statements.

Fiscal 2002 Compared to Fiscal 2001. In fiscal 2002 acquisition-related charges were $181.4 million, compared to $247.8 million in fiscal 2001. Acquisition-related charges in fiscal 2002 included impairment charges totaling $22.0 million that were related to our Internet-based advertising business and our Site Solutions business. See Notes 1 and 5 of the financial statements. Acquisition-related charges in fiscal 2002 also reflected an increase of $12.7 million in amortization of intangibles associated with the acquisitions of EmployeeMatters, Inc. in December 2000 and Tax Accounting and Software Corporation in April 2001. Acquisition-related charges for fiscal 2001 included impairment charges that totaled $78.7 million.

Fiscal 2001 Compared to Fiscal 2000. In fiscal 2001 acquisition-related charges were $247.8 million, compared to $150.2 million in fiscal 2000. The increase was primarily attributable to impairment charges totaling $78.7 million that were recorded in the second half of fiscal 2001. During our review for impairment, events and circumstances indicated possible impairment of goodwill and intangible assets related to our acquisitions of Venture Finance Software Corp., SecureTax.com and Hutchison Avenue Software Corporation. See Notes 1 and 5 of the financial statements. Based on our analysis we recorded impairment charges of $51.0 million, $26.0 million and $1.7 million associated with VFSC, SecureTax and Hutchison, respectively.

Loss on Impairment of Long-lived Asset

The fiscal 2002 loss on impairment of long-lived asset related to the impairment of the asset we received from the purchaser of our Quicken Bill Manager business in May 2001. We regularly perform reviews to determine if the carrying values of our long-lived assets are impaired. During the first quarter of fiscal 2002, events and circumstances indicated impairment of this asset. Based on our resulting analysis of the asset's fair value, we recorded a charge of $27.0 million to reduce the carrying value of this asset to its estimated fair value of zero, reflecting the deteriorating financial condition of the purchasing company. See Note 12 of the financial statements.

Non-Operating Income and Expenses

Interest and Other Income

In fiscal 2002, interest and other income decreased to $27.3 million, compared to $57.6 million in fiscal 2001 and $48.7 million in fiscal 2000. The decrease during fiscal 2002 was due to a sharp decline in the interest we earned on our cash and short-term investment balances in fiscal 2002, reflecting significant decreases in market interest rates during the period. The increase during fiscal 2001 resulted from higher average cash and short-term investment balances, due in part to sales of marketable securities as well as more cash generated from operations compared to

fiscal 2000. The total fiscal 2001 increase was partially offset by the effect of lower market interest rates compared to fiscal 2000. Interest earned on customer payroll deposits is reported as revenue for our payroll business, and is not included in interest and other income.

Gains (Losses) on Marketable Securities and Other Investments, Net

As of July 31, 2002, we held marketable securities and long-term investments in privately held companies carried at $23.6 million on our balance sheet. This balance was down from $109.4 million as of July 31, 2001 due to sales and write-downs. We review the values of our investments each quarter and make adjustments as appropriate. See Notes 1 and 3 of the financial statements. The steep decline in equity markets over the past few years has significantly reduced the value of our marketable securities and long-term investments. If the value of these remaining securities continues to decline in the future, it would have a negative impact on our financial results.

We considered our shares of Excite@Home and 724 Solutions common stock to be trading securities. As a result, unrealized gains or losses due to market fluctuations in these securities were included in our net income or loss on a quarterly basis until we sold them in the first quarter of fiscal 2002. We considered our other marketable securities to be available-for-sale and did not reflect quarterly fluctuations in their value in our net income or loss on a quarterly basis unless we concluded that a decline in value was other-than-temporary. See Note 3 of the financial statements.

We recorded pre-tax net losses relating to marketable securities and other investments of $15.5 million in fiscal 2002 and $98.1 million in fiscal 2001. In fiscal 2000, we recorded a pre-tax gain relating to marketable securities and other investments of $481.1 million. See Note 3 of the financial statements. The fiscal 2002 net loss included charges totaling $9.5 million to write down certain long-term investments for which the decline in fair value below carrying value was other-than-temporary. Our fiscal 2001 net loss included charges of $40.2 million to write down certain available-for-sale securities for which the decline in fair value below carrying value was other-than-temporary and $28.6 million to write down certain long-term investments for which the decline in fair value below carrying value was other-than-temporary. The fiscal 2000 net gain resulted primarily from our sales of Checkfree, Signio (now VeriSign) and Homestore.com common stock.

Net Gains (Losses) on Divestitures

In March 2002, we paid $12.0 million to terminate our $20.3 million obligation under an interactive services agreement related to our Quicken Bill Manager business, which we sold in May 2001. When we terminated the interactive services agreement, we recorded a pre-tax gain of $8.3 million. See Note 10 of the financial statements. In the first quarter of fiscal 2002, we wrote off the $27.0 million asset acquired from the purchaser of our Quicken Bill Manager business to loss on impairment of long-lived asset in our statement of operations. See Note 12 of the financial statements.

During fiscal 2001 we recorded a pre-tax net loss of $15.3 million resulting from our divestitures of businesses. During the second quarter of fiscal 2001 we realized a pre-tax net gain of $1.6 million for the sale of certain assets of our wholly owned subsidiary, Intuit Insurance Services, Inc., which operated our Quicken Insurance business. The gain was more than offset by a pre-tax net loss of $16.9 million for the sale of the technology assets of our Quicken Bill Manager business in the fourth quarter of fiscal 2001. See Note 10 of the financial statements. Neither of these divestitures represented discontinued operations.

Income Tax (Benefit) Provision

For fiscal 2002, we recorded an income tax provision of $16.9 million on pre-tax income from continuing operations of $70.5 million, resulting in an effective tax rate of approximately 24%. For fiscal 2001, we recorded an income tax benefit of $12.5 million on a pre-tax loss from continuing operations of $137.1 million, resulting in an effective rate of approximately 9%. For fiscal 2000, we recorded an income tax provision of $216.6 million on pre-tax income of $542.2 million, resulting in an effective tax rate of approximately 40%. Our effective tax rate for fiscal 2002 differs from the federal statutory rate primarily due to a tax benefit related to a divestiture that became available during the year and tax-exempt interest income, offset by non-deductible merger related charges. Our effective tax rate for fiscal 2001 differs from the federal statutory rate primarily due to the net effect of non-deductible merger and divestiture related charges offset by the benefit we received from tax-exempt interest income.

Our effective tax rate for fiscal 2000 differs from the federal statutory rate primarily due to the net effect of non-deductible merger charges offset by the benefit received from tax-exempt interest income.

As of July 31, 2002, we had net deferred tax assets of $244.4 million, which included a valuation allowance of $6.8 million for net operating loss carryforwards relating to our international subsidiaries and certain state capital loss carryforwards. The allowance reflects management's assessment that we may not receive the benefit of certain loss carryforwards of our international subsidiaries and capital loss carryforwards in certain state jurisdictions. While we believe our current valuation allowance is sufficient, it may be necessary to increase this amount if it becomes more likely that we will not realize a greater portion of the net deferred tax assets. We assess the need for an adjustment to the valuation allowance on a quarterly basis. See Note 20 of the financial statements.

Discontinued Operations

Quicken Loans

On July 31, 2002, we sold our Quicken Loans mortgage business segment and received consideration in the form of a five-year interest bearing promissory note in the principal amount of $23.3 million. This amount exceeded the net shareholders' equity of Quicken Loans by $23.3 million. We accounted for the sale as discontinued operations. In accordance with APB No. 30, the operating results of Quicken Loans have been segregated from continuing operations in our statements of operations for fiscal years 2000, 2001 and 2002 and are shown on a single line captioned net income (loss) from Quicken Loans discontinued operations. The sale resulted in a pre-tax gain of $23.3 million in the fourth quarter of fiscal 2002. We did not record the tax benefit related to the gain on the transaction because we cannot be assured that we will realize the tax benefit. See Note 11 of the financial statements.

Concurrent with the sale, we signed an agreement to license the Quicken Loans brand and a distribution agreement under which the purchasing company will provide mortgage services on Quicken.com. We will receive minimum royalties of $1.8 million a year for the next five years under the licensing agreement and minimum fees of $0.8 million a year for the next five years under the distribution agreement. Royalties and fees under these agreements will be recorded as earned and included in other income on our statement of operations.

Intuit KK

On February 7, 2003, we sold our wholly-owned Japanese subsidiary, Intuit KK, to a private equity investment firm located in Japan. We accounted for the sale as discontinued operations. In accordance with SFAS 144, the operating results of Intuit KK have been segregated from continuing operations in our statements of operations for fiscal years 2000, 2001 and 2002 and are shown on a single line captioned net income (loss) from Intuit KK discontinued operations. See Note 11 of the financial statements.

Cumulative Effect of Accounting Change

During the first quarter of fiscal 2001, we recorded a cumulative gain of $14.3 million, net of taxes, as a result of a change in accounting principle when we adopted SFAS 133, *"Accounting for Derivative Instruments and Hedging Activities."* We recognized the cumulative effect of the change in how we accounted for options to purchase shares of S1 Corporation as of August 1, 2000. See Note 1 of the financial statements. Subsequent fluctuations in the fair value of these options were included in our net income or net loss until we sold them in the first quarter of fiscal 2002.

Liquidity and Capital Resources

At July 31, 2002 our cash, cash equivalents and short-term investments totaled $1,230.1 million, a $43.9 million increase from July 31, 2001.

We generated $344.3 million in cash from our operations during fiscal 2002. The primary components of cash provided by operations were net income from continuing operations of $53.6 million and adjustments made for non-cash expenses, including acquisition-related charges and amortization of purchased software of $193.8 million, depreciation charges of $58.8 million and an impairment loss on a long-lived asset of $27.0 million.

We used $25.1 million in cash for investing activities during fiscal 2002. Our primary use of cash was for business acquisitions, which totaled $278.3 million net of cash we acquired. Our short-term investments decreased $304.0 million during the fiscal year, with proceeds of $3.15 billion from the sale upon maturity of certain short-term investments partially offset by reinvestments of $2.85 billion. As a result of our continued investment in information systems and infrastructure, we also purchased property and equipment of $42.1 million and capitalized internal use software development projects of $21.3 million in fiscal 2002.

We used $196.1 million in cash for our financing activities in fiscal 2002. The primary component of cash used was $318.4 million for the repurchase of treasury stock through our stock repurchase program. See Note 17 of the financial statements. This was partially offset by proceeds of $133.6 million we received from the issuance of common stock under employee stock plans.

In the normal course of business, we enter into leases for new or expanded facilities in both domestic and global locations. We also 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 to fund such activities in the future.

In May 2001, Intuit's Board of Directors authorized the company to repurchase up to $500 million of common stock over a three-year period. In July 2002, our Board of Directors increased the authorized purchase amount by $250 million. At July 31, 2002, we had repurchased a total of $326.8 million of common stock since the inception of the program.

In connection with the sale of our Quicken Loans mortgage business in July 2002, we agreed to continue providing to the purchasing company an interest-bearing line of credit of up to $375.0 million to fund mortgage loans for a transition period of up to six months. The line expires on January 31, 2003. The line is secured by the related mortgage loans and had an outstanding balance of $245.6 million at July 31, 2002. See Note 11 of the financial statements.

Loans to executive officers and other employees totaled $12.9 million at July 31, 2001 and $21.3 million at July 31, 2002. Loans to executive officers are primarily relocation loans and none of these were made or modified since July 31, 2002. Loans are generally interest-bearing, secured by real property and have maturity dates of up to 10 years. See Note 22 of the financial statements.

We believe that our cash, cash equivalents and short-term investments will be sufficient to meet anticipated seasonal working capital and capital expenditure requirements for at least the next twelve months.

The following table summarizes our contractual obligations at July 31, 2002:

(In millions) Contractual Obligations	Payments Due by Period				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Restricted cash	$ 11.3	$ —	$ —	$ —	$ 11.3
Short-term notes payable	2.3	—	—	—	2.3
Long-term debt	—	8.1	2.7	3.8	14.6
Operating leases	29.0	50.4	41.8	29.5	150.7
Other obligations	25.4	—	—	—	25.4
Total contractual cash obligations	$ 68.0	$58.5	$44.5	$33.3	$204.3

Restricted cash at July 31, 2002 included $5.8 million that we held in escrow in connection with our fiscal 2002 acquisition of CBS Employer Services, Inc. The escrow period expires in June 2003. Restricted cash also included $5.5 million for rebates due our customers.

Other obligations at July 31, 2002 consisted primarily of amounts we owe to former stockholders of CBS Employer Services, Inc. in connection with Intuit's acquisition of that company in the fourth quarter of fiscal 2002. This contractual obligation is included in other current liabilities on our balance sheet. See Notes 9 and 15 of the financial statements.

Recent Pronouncements

On June 29, 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 141, "*Business Combinations,*" and SFAS 142, "*Goodwill and Other Intangible Assets*."

SFAS 141 supercedes APB Opinion No. 16, "*Business Combinations,*" and eliminates the pooling-of-interests method of accounting for business combinations, thus requiring that all business combinations be accounted for using the purchase method. In addition, in applying the purchase method, SFAS 141 changes the criteria for recognizing intangible assets other than goodwill and states that the following criteria should be considered in determining the classification of intangible assets: (1) whether the intangible asset arises from contractual or other legal rights, or (2) whether the intangible asset is separable or dividable from the acquired entity and capable of being sold, transferred, licensed, rented, or exchanged. If neither criteria is met, the intangible assets are classified as goodwill and are not amortized. We have applied the requirements of SFAS 141 to all business combinations initiated after June 30, 2001.

SFAS 142 supercedes APB Opinion No. 17, "*Intangible Assets,*" and provides that goodwill and other intangible assets that have an indefinite useful life will no longer be amortized. However, these assets must be reviewed for impairment at least annually or more frequently if an event occurs indicating the potential for impairment. The shift from an amortization approach to an impairment approach applies to all acquisitions completed after June 30, 2001. The additional goodwill amortization charge for businesses we acquired subsequent to June 30, 2001 would have been approximately $8.8 million in fiscal 2002 had this new standard not been in place. Total goodwill amortization expense, including impairments, was $139.5 million in fiscal 2001 and $122.6 million in fiscal 2002. We adopted the remaining elements of this new standard in the first quarter of fiscal 2003 and therefore ceased goodwill amortization for acquisitions made prior to July 1, 2001. However, it is possible that in the future we may incur impairment charges related to the goodwill already recorded and to goodwill arising out of future acquisitions. In addition, we will continue to amortize most purchased intangible assets and to assess those assets for impairment as appropriate.

In connection with the transitional goodwill impairment evaluation under SFAS 142, we will perform an assessment of goodwill impairment as of August 1, 2002, the date of adoption. To accomplish this, we will identify our reporting units and determine the carrying value of each of them by assigning the assets and liabilities, including existing goodwill and intangible assets, to those reporting units as of the date of adoption. We will then have up to

six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent that a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and we must perform the second step of the transitional impairment test. In the second step, we must compare the implied fair value of the reporting unit's goodwill to its carrying amount, both of which will be measured as of the date of adoption. The implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS 141. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the statement of operations.

As of the date of adoption of SFAS 142 on August 1, 2002, we had an unamortized acquired intangible assets balance of approximately $123.6 million, excluding the balance of approximately $1.9 million for assembled workforce reclassified to goodwill. As of that date, we also had an unamortized goodwill balance of approximately $430.8 million which included the amount of assembled workforce reclassified to goodwill. These balances will be subject to the transitional provisions of SFAS 141 and 142. Transitional impairment losses that may be required to be recognized upon adoption of SFAS 141 and 142 are indeterminable at this time.

In October 2001, the FASB issued SFAS 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets,"* which applies to financial statements issued for fiscal years beginning after December 15, 2001. SFAS 144 supersedes FASB Statement 121, *"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,"* and portions of APB Opinion No. 30, *"Reporting the Results of Operations."* SFAS 144 provides a single accounting model for long-lived assets we expect to dispose of and significantly changes the criteria for classifying an asset as held-for-sale. This classification is important because held-for-sale assets are not depreciated and are stated at the lower of fair value or carrying amount. SFAS 144 also requires expected future operating losses from discontinued operations to be displayed in the period(s) in which the losses are actually incurred, rather than when the amount of the loss is estimated, as presently required. We adopted SFAS 144 effective August 1, 2002 and do not expect the adoption of SFAS 144 to have a material impact on our financial position, results of operations or cash flows.

In November 2001, the FASB's Emerging Issues Task Force released Issue No. 01-9, "*Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Product*," which applies to annual or interim financial statement periods beginning after December 15, 2001. The release provides that cash consideration (including sales incentives) that we give to our customers or resellers should be accounted for as a reduction of revenue rather than as an operating expense unless we receive a benefit that we can identify and reasonably estimate. We adopted this new release beginning in the third quarter of fiscal 2002. The adoption of EITF Issue No. 01-9 did not have a material impact on our total net revenue and as a result we did not reclassify prior period financial statements.

In July 2002, the FASB issued SFAS 146, *"Accounting for Costs Associated with Exit and Disposal Activities."* This statement revises the accounting for exit and disposal activities under EITF Issue No. 94-3, *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity."* A formal commitment to a plan to exit an activity or dispose of long-lived assets will no longer be sufficient to record a one-time charge for most exit and disposal costs. Instead, companies will record exit or disposal costs when they are incurred and can be measured at fair value, and will subsequently adjust the recorded liability for changes in estimated cash flows. The provisions of SFAS 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002. Companies may not restate previously issued financial statements for the effect of the provisions of SFAS 146 and liabilities that a company previously recorded under EITF Issue No. 94-3 are not affected. We do not believe that the adoption of SFAS 146 will have a material impact on our financial position, results of operations or cash flows.

RISKS THAT COULD AFFECT FUTURE RESULTS

Company-Wide Factors That Could Affect Future Results

Our revenue and earnings are highly seasonal. Seasonality and other factors cause significant quarterly and annual fluctuations in our revenue and net income. Several of our businesses are highly seasonal — particularly our tax businesses, but also small business and personal finance to a lesser extent. This causes 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. We experience lower revenues, and often significant operating losses, in the first and fourth quarters ending October 31 and July 31. Our financial results can also fluctuate from quarter to quarter and year to year due to a variety of factors, including changes in product release dates, and the timing of acquisitions, dispositions, goodwill and intangible assets impairment charges and gains and losses related to marketable securities.

Fluctuations in interest rates can cause significant quarterly and annual fluctuations in our net income, earnings per share and asset values. Recent declines in interest rates have resulted in a significant decline in the interest income we earned on our investment portfolio during recent reporting periods, which has had a negative impact on our net income (loss) and net income (loss) per share. Declining interest rates can also reduce the value of our interest rate sensitive assets, such as certain assets that relate to our payroll business. See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" for more details.

Our recent acquisitions have presented business integration challenges and we may not fully realize the intended benefits of these acquisitions. During the past few years, we have completed numerous acquisitions, including five during fiscal 2002. These acquisitions have expanded our product and service offerings, personnel and geographic locations. Integrating and organizing acquired businesses creates challenges for our operational, financial and management information systems, as well as for our product development processes. We might not be able to coordinate the diverse operating structures, policies and practices of companies we have acquired or successfully integrate the employees of the acquired companies into our organization and culture, which could harm employee morale and productivity. These difficulties may be increased by the various geographic locations of our acquired businesses, which include Colorado, Connecticut, Ohio and Texas. If we do not adequately address issues presented by growth through acquisitions, we may not fully realize the intended benefits (including financial benefits) of these acquisitions.

We expect to continue to make acquisitions, which could put a strain on our resources and adversely affect our financial results. A key component of our Right for My Business strategy is to continue to expand our product and service offerings, and we expect that a significant portion of this expansion will result from acquisitions. Integrating newly acquired organizations and technologies into our business could put a strain on our resources and be expensive and time consuming. In addition, we may not succeed in integrating acquired businesses or technologies and may not achieve anticipated financial benefits. Our acquisition strategy and future acquisitions could also result in the following risks:

- Increased competition for acquisition opportunities could inhibit our ability to complete suitable acquisitions, and could also increase the price we would have to pay to complete acquisitions.
- If we are unable to complete acquisitions successfully, we may not be able to develop and market products for new industries or applications with which we may not be familiar.
- Despite our due diligence reviews, acquired businesses may bring with them unanticipated liabilities, business or legal risks or operating costs that could harm our results of operations or business, reduce or eliminate any benefits of the acquisition or require unanticipated expenses.
- If we fail to retain the services of key employees of acquired companies for significant time periods after the acquisition of their companies, we may experience difficulty in managing the acquired company's business and not realize the anticipated benefits of the acquisition.

- The accounting treatment of acquisitions can result in significant acquisition-related accounting charges and expenses that would reduce our reported results of operations both at the time of the acquisition and in future periods.

- Future acquisitions may require us to issue shares of our stock and stock options to owners of the acquired businesses, which would result in dilution to the equity interests of our stockholders.

Acquisition-related costs can cause significant fluctuation in our net income. Our recent acquisitions have resulted in significant expenses, including amortization of purchased software (which is reflected in cost of revenue), as well as charges for in-process research and development, and amortization and impairment of goodwill, purchased intangibles and deferred compensation (which are reflected in operating expenses). Total acquisition-related costs in the categories identified above were $158.5 million in fiscal 2000, $263.0 million in fiscal 2001 (including charges of $78.7 million to write down the long-lived intangible assets related to three acquisitions), and $196.0 million in fiscal 2002 (including charges of $27.3 million to write down the long-lived intangible assets related to two acquisitions). Additional acquisitions, and any additional impairment of the value of purchased assets, could have a significant negative impact on our future operating results.

Recent changes to Financial Accounting Standards Board guidelines relating to accounting for goodwill could make our acquisition-related charges less predictable in any given reporting period. The new FASB standard for accounting for goodwill acquired in a business combination applies to all acquisitions initiated after June 30, 2001. In the first quarter of fiscal 2003, we adopted the new standard for acquisitions we completed before June 30, 2001. Under the new standard, we must continue to recognize goodwill as an asset but will not amortize goodwill as previously required. Instead, we must separately test goodwill for impairment using a fair-value-based approach at least annually and also when an event occurs indicating the potential for impairment. As a result of this shift from an amortization approach to an impairment approach, we will stop recording charges for goodwill amortization. However, it is possible that in the future, we may incur less frequent, but larger, impairment charges related to the goodwill already recorded and to goodwill arising out of future acquisitions as we continue to expand our business. As of August 1, 2002, we had an unamortized goodwill balance of approximately $430.8 million, which included the amount of assembled workforce reclassified to goodwill. These amounts could be subject to impairment charges in the future.

If we are required to account for options under our employee stock plans as a compensation expense, it would significantly reduce our net income and earnings per share. There has been increasing public debate about the proper accounting treatment for employee stock options. Although we are not currently required to record any compensation expense in connection with option grants that have an exercise price at or above fair market value, it is possible that future laws or regulations will require us to treat all stock options as a compensation expense. Note 17 of the financial statements shows the impact that such a change in accounting treatment would have had on our net income and earnings per share if it had been in effect during the past three fiscal years and if the compensation expense were calculated as described in Note 17.

A general decline in economic conditions could lead to reduced demand for our products and services. The continuing downturn in general economic conditions has led to reduced demand for a variety of goods and services, including software and other technology products. We believe the economic decline was partially responsible for slower than expected growth in our Small Business segment during fiscal 2001 and the first half of fiscal 2002. Although we experienced solid revenue growth in most of our businesses during the second half of fiscal 2002, the future economic environment remains uncertain. If conditions decline, or fail to improve, in geographic areas that are significant to us, such as the United States and Canada, we could see a significant decrease in the overall demand for our products and services that could harm our operating results.

If we do not continue to successfully develop new products and services in a timely manner, our future financial results will suffer. We believe that it is necessary to continually develop new products and services and to improve existing products and services to remain competitive in the markets we serve. Failure to do so may give competitors opportunities to improve their competitive position at our expense and result in declines in our revenue and earnings. However, developing and improving our products and services is a complex process involving several risks. Hiring and retaining highly qualified technical employees is critical to the success of our development efforts, and we face intense competition for these employees. Launches of products and services can be delayed for a variety of reasons.

New or improved products and services may also have defects that hinder performance. Third-party products we incorporate in, or use to build and support, our products and services may also contain defects that impair performance. These problems can be expensive to fix and can also result in higher technical support costs and lost customers. New products or features are sometimes built on top of older architectures or infrastructures, which can take longer to bring to market, make quality assurance and support more difficult, and lead to complexity in supporting future functionality.

The expansion of our product and service offerings through internal growth and through recent and anticipated acquisitions creates risks due to the number and complexity of our revenue models and the operational infrastructure required to support our expanded portfolio of products and services. The business models for our expanding range of products and services rely on more complex and varied revenue streams than our traditional desktop software businesses. In particular, the revenue recognition practices of several of the businesses we have recently acquired are more complex than the revenue recognition principles that apply to our existing products and services. We expect this trend to continue with future acquisitions. As a result of both acquisitions and internal growth, we expect to continue expanding our product offerings to larger enterprises, and we may begin to offer additional features and options as part of multiple-element sales arrangements. These dynamics may require us to defer a higher percentage of our product revenue at the time of sale than we do for current products, which would decrease revenue at the time products are shipped, but result in more revenue in fiscal periods after shipment. In addition, many of our newer businesses depend on a different operational infrastructure than our desktop software businesses, and we must continually develop, expand and modify our internal systems and procedures — including call center, customer management, order management, billing and other systems — to support these businesses. In particular, the success of our Internet-based services requires us to maintain continuous and reliable operations at our data center. Despite our efforts, like all providers of Internet-based products and services, we occasionally experience unplanned outages or technical difficulties. Lengthy and/or frequent service outages — particularly for services that customers consider time-sensitive — can result in negative publicity, damage to our reputation and lost customers.

Despite our efforts to adequately staff and equip our customer service and technical support operations, we cannot always respond promptly to customer requests for assistance. We occasionally experience customer service and support problems, including longer than expected “hold” times when our staffing is inadequate to handle higher than anticipated call volume, and a large number of inquiries from customers checking on the status of product orders when the timing of shipments fails to meet customer expectations. This can adversely affect customer relationships and our financial performance. In order to improve our customer service and technical support, we must continue to focus on eliminating underlying causes of service and support calls through product improvements and better order fulfillment processes, and on more accurately anticipating demand for customer service and technical support.

We face risks relating to customer privacy and security and increasing regulation, which could hinder the growth of our businesses. Despite our efforts to address customer concerns about privacy and security, these issues still pose a significant risk, and we have experienced lawsuits and negative publicity relating to privacy issues. For example, during fiscal 2000 and fiscal 2001, there were press articles criticizing our privacy and security practices as they relate to the connectivity of our desktop software to our Web sites. We have faced lawsuits and negative press alleging that we improperly shared information about customers with third-party “ad servers” for our Web sites. A major breach of customer privacy or security by Intuit, or even by another company, could have serious consequences for our businesses, including reduced customer interest and/or additional regulation by federal or state agencies. In addition, the federal government has developed mandatory privacy and security standards and protocols, and we have incurred significant expenses to comply with these requirements. Additional similar federal and state laws, and/or laws that govern telemarketing activity, may be passed in the future, and the cost of complying with additional legislation could have a negative impact on our operating results. If Internet use does not grow as a result of privacy or security concerns, increasing regulation or for other reasons, the growth of our Internet-based businesses would be hindered.

We face several risks relating to our retail distribution channel. We face ongoing challenges in negotiating favorable terms (including financial terms) with retailers, due in part to the recent trend of declining importance of software as a retail category. In addition, any termination or significant disruption of our relationship with any of our major resellers could result in a decline in our net revenue. Also, any financial difficulties of our resellers could

have an adverse effect on our operating expenses if uncollectible amounts from them exceed the bad debt reserves we have established.

We rely on third-party vendors to handle substantially all outsourced aspects of manufacturing and distribution for our primary retail desktop software products. To manufacture and distribute our primary retail products at the time of product launches and to replenish products in the retail channel after the primary launch, we have manufacturing relationships with Modus Media and Sony, and a distribution arrangement with Ingram Micro Logistics. While we believe that relying on only three outsourcers for product launches and replenishment improves the efficiency and reliability of these activities, relying on any vendor for a significant aspect of our business can have severe negative consequences if the vendor fails to perform at acceptable service levels for any reason, including but not limited to financial difficulties of the vendor.

Actual product returns may exceed returns reserves, particularly for our consumer tax preparation software. 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 will run out of products. This is particularly true for our consumer tax products, which have a short selling season. Like most software companies, we have a liberal product return policy and we have historically accepted significant product returns. We establish reserves for product returns in our financial statements, based on estimated future returns of products. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Net Revenue — Return and Rebate Reserves." We closely monitor levels of product sales and inventory in the retail channel in an effort to maintain reserves that are adequate to cover expected returns. In the past, returns have not generally exceeded these reserves. However, if we do experience actual returns that significantly exceed reserves, it would result in lower net revenue.

We face existing and potential government regulation in many of our businesses, which can increase our costs and hinder the growth of our businesses. We offer some regulated products and services through separate subsidiary corporations. Establishing and maintaining regulated subsidiaries can requires significant financial, legal and management resources. If any regulated subsidiary fails to comply with applicable regulations, it could face liability to customers and/or penalties and sanctions by government regulators. In addition, our Internet-based products and services are available in many states and foreign countries. As a result, we may be subject to regulation and/or taxation in many additional jurisdictions, which could substantially slow commercial use of the Internet and growth of our Internet-based businesses.

Gains and losses related to marketable securities and other investments can cause significant fluctuations in our net income. Our investment activities have had a significant impact on our net income. We recorded pre-tax net gains from marketable securities and other investments of $481.1 million in fiscal 2000 and pre-tax net losses of $98.1 million in fiscal 2001 and $15.5 million in fiscal 2002. As of July 31, 2002, our marketable securities balance was $16.8 million. Any additional significant long-term declines in value of these securities could reduce our net income in future periods.

Legal protection for our intellectual property is not always effective to prevent unauthorized use or copying. We rely on a combination of copyright, patent, trademark and trade secret laws, and employee and third-party nondisclosure and license agreements to protect our software products and other proprietary technology. Current U.S. laws that prohibit copying give us only limited practical protection from software "pirates," and the laws of many other countries provide very little protection. Policing unauthorized use of our products is difficult, expensive and time-consuming. Although we have begun to incorporate product activation technology in some of our tax preparation products in order to reduce unauthorized sharing of the products, we expect that software piracy will continue to be a persistent problem for our desktop software products. In addition, the Internet may tend to increase, and provide new methods for, illegal copying of the technology used in our desktop and Internet-based products and services. We also face risks relating to our licensing of our intellectual property to third parties. In connection with our sale of our Quicken Loans mortgage business, we licensed the use of the Quicken Loans and Quicken Mortgage trademarks to the purchaser. If the purchaser violates the terms of the trademark license, it could result in serious and irreparable harm to Intuit's reputation and the value of its Quicken-related brands.

We do not own all of the software and other technologies used in our products and services. We have the licenses from third parties that we believe are necessary for using technology that we do not own in our current products and

services. From time to time we may be required to renegotiate with these third parties to include their technology in our existing products, in new versions of our current products or in new products. We may not be able to renegotiate licenses on reasonable terms, or at all.

We may unintentionally infringe on the intellectual property rights of others, which could expose us to substantial damages or restrict our business operations. As the number of our products and services increases and their features and content continue to expand, we may increasingly become subject to infringement claims by third parties. Although we believe that we make reasonable efforts to ensure that our products and services do not violate the intellectual property rights of others, it is possible that third parties still may claim infringement. From time to time, we have received communications from third parties in which the claimant alleges that a product or service we offer infringes the claimant's intellectual property rights. Occasionally these communications result in lawsuits. In many of these cases, it is difficult to assess the extent to which the intellectual property that is being asserted is valid or the extent to which we have any material exposure. Past claims have not resulted in any significant litigation, settlement or licensing expenses, but future claims could present an exposure of uncertain magnitude. Existing or future infringement claims or lawsuits against us, whether valid or not, may be time consuming and expensive to defend. Intellectual property litigation or claims could force us to do one or more of the following: cease selling, incorporating or using products or services that incorporate the challenged intellectual property; obtain a license from the holder of the infringed intellectual property, which may not be available on commercially favorable terms or at all; or redesign our software products or services, possibly in a manner that reduces their commercial appeal. Any of these actions may cause material harm to our business and financial results.

Our ability to conduct business could be impacted by a variety of factors, such as electrical power interruptions, earthquakes, fires, terrorist activities and other similar events. Our business operations depend on the efficient and uninterrupted operation of a large number of computer and communications hardware and software systems. These systems are vulnerable to damage or interruption from electrical power interruptions, telecommunication failures, earthquakes, fires, floods, terrorist activities and their aftermath, and other similar events. Other unpredictable events could also impact our ability to continue our business operations. For our Internet-based services, system failures of our internal server operations or those of various third-party service providers could result in interruption in our services to our customers. Any significant interruptions in our ability to conduct our business operations could reduce our revenue and operating income. Our business interruption insurance may not adequately compensate us for the impact of interruptions to our business operations.

Factors Relating to Competition

We face competitive pressures in all of our businesses, which can have a negative impact on our revenue, profitability and market position. There are formidable current and potential competitors, including competition from publicly-funded state government entities in the consumer tax area. Accordingly, we expect competition to remain intense during fiscal 2003 and beyond. In all our businesses, we face continual risks that competitors will introduce better products and services, reduce prices, gain better access to distribution channels, increase advertising (including advertising targeted at Intuit customers), and release new products and services before we do. Any of these competitive actions (particularly any prolonged price competition) could result in lower net revenue and/or lower profitability for Intuit. They could also affect our ability to keep existing customers and acquire new customers.

In the small business and employer services areas, we face a wide range of competitive risks that could impact our financial results. Our small business products and services face current competition from competitors' desktop software, as well as from other Web-based small business services products. Microsoft offers several products and services targeted at similar size customers as our high-end QuickBooks products, and has recently acquired additional products and services that compete with our small business offerings. Other competitors and potential competitors have begun providing, or have expressed significant interest in providing, accounting and business management products and services to small businesses. As we implement our Right for My Business strategy we face increased competitive threats from larger companies in bigger markets than we have historically faced. For example, we face direct competition in our Intuit Payroll Services – Complete Payroll business from traditional payroll services offered by a number of companies, including Paychex and ADP. Our financial supplies business faces ongoing pricing pressures from many of our competitors.

We face intense competitive pressures in our consumer tax preparation software business, which can have a negative impact on our revenue, profitability and market position. There are formidable current and potential competitors in the private sector. We also face competition from publicly-funded state government entities that offer individual taxpayers electronic tax preparation and filing services, at no cost to individual taxpayers. If state governmental agencies were to be successful in their efforts to develop consumer tax preparation and filing services and to gain consumer acceptance of those services, it could have a significant negative impact on our financial results in future years. The federal government announced a proposal in August 2002 that would mitigate the risk of government encroachment in federal tax preparation and filing services. The policy proposes that, for at least the next three years, a number of private sector companies, rather than the federal government, would provide Web-based federal tax preparation and filing services at no cost to lower income taxpayers and other underserved taxpayers through voluntary public service initiatives such as our Intuit Tax Freedom Project. Despite this positive development, future administrative, regulatory or legislative activity in this area could adversely impact Intuit and other companies that provide tax preparation software and services. Intuit is actively working with others in the private sector, as well as with state government policy makers, to help clarify the appropriate roles for government agencies and the private sector in the electronic commerce marketplace.

Our personal finance products face aggressive competition that could have a negative impact on revenue, profitability and market position . Our Quicken products compete directly with Microsoft Money, which is aggressively promoted and priced. We expect competitive pressures for Quicken to continue, both from Microsoft Money and from Web-based personal finance tracking and management tools that are becoming increasingly available at no cost to consumers. Competitive pressures can result in reduced revenue and lower profitability for our Quicken product line. There are many competitors for our Internet-based personal finance products and services. However, the general downturn in Internet and technology stocks since March 2000 has resulted in significant consolidation, with fewer, but more financially sound, competitors surviving. This could make it more difficult for us to compete effectively.

Specific Factors Affecting Small Business

It is too early to provide any assurance that our Right for My Business strategy will generate substantial and sustained revenue growth in the small business accounting and business management segments. A key component of our Right for My Business strategy is to continue to expand our small business accounting and management products and services, through internal growth and from acquisitions. We don’t expect that sales of our QuickBooks desktop products alone will be adequate to meet our growth goals. We must generate revenue from a wider range of market and customer segments as well as from new products and services. There are a number of risks associated with the strategy, including the following:

- Our strategy depends on our successfully completing acquisitions and integrating acquired companies, which presents a number of challenges as described above under “Company-Wide Factors That Could Affect Future Results.”

- Our strategy is resulting in a dramatic increase in the number and complexity of the products and services that we offer. This is placing greater demands on our research and development, marketing and sales resources, as we must develop, market and sell both the new products and services as well as periodic enhancements to an expanding portfolio of products and services. This will also require us to continually develop, expand and modify our internal business operations systems and procedures to support new businesses, including our customer service and technical support call centers, and our customer management, order management, billing and other systems.

- Many of the new products and services we are and will be offering are much more complex than our traditional core desktop software products and are being priced accordingly. They will therefore require a more consultative sales process, and a higher level of post-sales support. If we are not able to effectively adapt our marketing, sales, distribution and customer support functions to accommodate these changes, we will not succeed in generating significant or sustained revenue from these new businesses.

Our financial supplies business relies on two key single-source vendors . We have an exclusive contract with John H. Harland Company to print and fulfill supplies orders for all of our checks and most other products for our financial supplies business. Harland fulfilled orders for about 75% to 80% of our supplies revenue in fiscal 2000 and 2001, and about 85% of our supplies revenue in fiscal 2002. We believe that relying on one vendor improves customer service and maximizes operational efficiencies for our supplies business. However, if there are significant problems with Harland's performance, it could have a material negative impact on sales of supplies and on Intuit's business as a whole. We also have a sole-source vendor that operates our supplies sales website. If there are any significant problems with this vendor's performance, it could have a negative impact on supplies revenue.

Specific Factors Affecting Employer Services

Our employer services business faces a number of risks that could have a negative impact on revenue and profitability. For our employer services, we must be able to process customer data accurately, reliably and in a timely manner in order to attract and retain customers and avoid the costs associated with errors. For example, if we make errors in providing accurate and timely payroll information, cash deposits or tax return filings, we face potential liability to customers, additional expense to correct product errors and loss of customers. For our Internet-based offerings (including QuickBooks Do-it-Yourself Payroll and QuickBooks Assisted Payroll), we must also continue to improve our operations to provide reliable connectivity to our data centers to enable customers to transmit and receive data. In order to generate sustained growth for our Intuit Payroll Services – Complete Payroll, we will be required to successfully develop and manage a more extensive and proactive direct field sales operation, which is a different distribution method than those we have historically relied on. For future employer services we face the risk of potential delays in technology development, as well as dependency on the performance of third parties that may be key to our ability to deliver certain services. We also face the risk that we may not be able to successfully cross-sell employee administration products and services to the existing base of QuickBooks customers.

Specific Factors Affecting our Tax Businesses

We face intense competitive pressures in our consumer tax preparation software business, which can have a negative impact on our revenue, profitability and market position. There are formidable current and potential competitors in the private sector. We also face competition from publicly funded state government entities If state governmental agencies were to be successful in their efforts to develop consumer tax preparation and filing services and to gain consumer acceptance of those services, it could have a significant negative impact on our financial results in future years. We expect competition to remain intense during fiscal 2003 and beyond.

If we fail to maintain reliable and responsive service levels for our electronic tax offerings, we could lose revenue and customers. Our Web-based tax preparation and electronic filing services must effectively handle extremely heavy customer demand during the peak tax season. We face significant challenges in maintaining high service levels, particularly during peak volume service times. For example, we experienced relatively brief unscheduled interruptions in our electronic filing/and or tax preparation services during fiscal 2000 and 2001, and we reached maximum capacity for a short period on April 15, 2002. We do not believe any prior service outages had a material financial impact, prevented a significant number of customers from completing and filing their returns in a timely manner, or posed a risk that customer data would be lost or corrupted. However, we did experience negative publicity in some instances. The exact level of demand for Quicken TurboTax for the Web and electronic filing is impossible to predict. If we are unable to meet customer expectations in a cost-effective manner, we could lose customers, receive negative publicity and incur increased operating costs, any of which could have a significant negative impact on the financial and market success of these businesses.

Significant problems or delays in the development of our tax products would result in lost revenue and customers. The development of tax preparation software presents a unique challenge because of the demanding annual development cycle required to incorporate unpredictable tax law and tax form changes each year. The rigid development timetable increases the risk of errors in the products and the risk of launch delays. Any major defects could lead to negative publicity, customer dissatisfaction and incremental operating expenses — including expenses resulting from our commitment to reimburse penalties and interest paid by consumer customers due solely to calculation errors in our products. A late product launch could cause our current and prospective customers to choose a competitor's product for that year's tax season or to choose not to purchase tax preparation software. This

would result in lost revenue in the current year and would make it more difficult for us to sell our products to those customers in future tax seasons.

Specific Factors Affecting Personal Finance

The long-term viability of personal finance business will depend on our ability to provide new products and services that attract customers and that can generate revenue sources other than just advertising revenue. The demand for personal finance software such as Quicken has been weakening over recent years, and the demand for Internet advertising on Web sites like Quicken.com has declined precipitously. We must identify and capitalize on additional sources of revenue to provide sustainable future growth for our personal finance business. In an effort to stimulate customer demand and generate revenue growth, we recently launched Quicken Brokerage powered by Siebert, an online and telephone-based securities brokerage service for Quicken and Quicken.com customers made available through an exclusive strategic alliance with Siebert Financial Corp., the holding company for Muriel Siebert & Co. Inc.. However, it is too early to tell whether this service will generate sustainable revenue growth. Furthermore, it is unlikely that the brokerage service, even if successful, will by itself be sufficient to sustain our personal finance business, so we must identify additional sources for growth.

Specific Factors Affecting our Global Business

Business conditions in international markets and other risks inherent in global operations may negatively impact our financial performance. Conducting business globally involves many risks, including potential volatility in the political and economic conditions of certain foreign countries; difficulties in managing operations in different locations (including hiring and retaining management personnel); a product development process that is often more time-consuming and costly than in the United States due in part to localization requirements; fluctuations in foreign currency exchange rates; and unanticipated changes in foreign regulatory requirements.

EXHIBIT 99.03

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

1. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following financial statements are filed as part of this Report:

	Page
Report of Ernst & Young LLP, independent auditors	31
Consolidated Balance Sheets as of July 31, 2002 and 2001	32
Consolidated Statements of Operations for each of the three years in the period ended July 31, 2002	33
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended July 31, 2002	35
Consolidated Statements of Cash Flows for each of the three years in the period ended July 31, 2002	36
Notes to Consolidated Financial Statements	37

2. INDEX TO FINANCIAL STATEMENT SCHEDULES

The following financial statement schedule is filed as part of this report and should be read in conjunction with the Consolidated Financial Statements:

Schedule		Page
II	Valuation and Qualifying Accounts	67

All other schedules not listed above have been omitted because they are inapplicable or are not required.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders of Intuit Inc.

We have audited the accompanying consolidated balance sheets of Intuit Inc. as of July 31, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intuit Inc. at July 31, 2001 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

San Francisco, California
August 14, 2002, except for Note 11,
as to which the date is February 7, 2003

INTUIT INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)	July 31, 2001	July 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 66,910	$ 414,748
Short-term investments	1,119,305	815,342
Marketable securities	85,307	16,791
Customer deposits	205,254	300,409
Accounts receivable, net of allowance for doubtful accounts of $15,851 and $5,696 respectively	23,382	51,999
Deferred income taxes	72,675	67,799
Income taxes receivable	—	2,187
Prepaid expenses and other current assets	30,220	49,581
Amounts due from discontinued operations entities	349,742	241,616
Net current assets of discontinued operations	37,168	—
Total current assets	1,989,963	1,960,472
Property and equipment, net	171,439	179,122
Goodwill, net	326,815	428,948
Purchased intangibles, net	88,104	125,474
Long-term deferred income taxes	150,102	176,553
Long-term investments	24,107	6,765
Loans to executive officers and other employees	12,859	21,270
Other assets	26,795	25,089
Net assets of discontinued operations	13,295	4,312
Total assets	$2,803,479	$2,928,005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 58,054	$ 71,069
Accrued compensation and related liabilities	59,843	87,426
Payroll service obligations	205,067	300,381
Deferred revenue	123,760	147,120
Income taxes payable	82,486	—
Short-term note payable	8,683	2,277
Other current liabilities	92,110	81,795
Net current liabilities of discontinued operations	—	7,688
Total current liabilities	630,003	697,756
Long-term obligations	12,150	14,610
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value		
Authorized – 1,345 shares total; 145 shares designated Series A; 250 shares designated Series B Junior Participating		
Issued and outstanding – None	—	—
Common stock, $0.01 par value		
Authorized – 750,000 shares		
Issued and outstanding – 210,526 and 211,164 shares, respectively	2,105	2,112
Additional paid-in capital	1,723,385	1,844,595
Treasury shares, at cost	(8,497)	(126,107)
Deferred compensation	(21,720)	(12,628)
Accumulated other comprehensive income (loss)	28,180	(3,675)
Retained earnings	437,873	511,342
Total stockholders' equity	2,161,326	2,215,639
Total liabilities and stockholders' equity	$2,803,479	$2,928,005

See accompanying notes.

INTUIT INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)	Fiscal 2000	Fiscal 2001	Fiscal 2002
Net revenue:			
Products	$775,316	$ 805,684	$ 977,528
Services	114,991	216,544	273,575
Other	91,411	73,834	61,125
Total net revenue	981,718	1,096,062	1,312,228
Costs and expenses:			
Cost of revenue:			
Cost of products	149,445	135,559	157,373
Cost of services	71,184	108,349	107,634
Cost of other revenue	30,661	25,952	24,366
Amortization of purchased software	7,003	14,949	12,423
Customer service and technical support	128,979	137,171	164,875
Selling and marketing	200,672	217,769	263,721
Research and development	157,101	196,119	198,471
General and administrative	72,739	93,508	109,076
Charge for purchased research and development	1,312	238	2,151
Charge for vacant facilities	—	—	13,237
Acquisition-related charges (includes impairment charges of $78,686 in 2001 and $22,006 in 2002) (see Note 1 regarding adoption of SFAS 142)	150,208	247,806	181,401
Loss on impairment of long-lived asset	—	—	27,000
Total costs and expenses	969,304	1,177,420	1,261,728
Income (loss) from continuing operations	12,414	(81,358)	50,500
Interest and other income	48,697	57,593	27,276
Gains (losses) on marketable securities and other investments, net	481,130	(98,053)	(15,535)
Gains (losses) on divestiture of businesses, net	—	(15,315)	8,308
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	542,241	(137,133)	70,549
Income tax (benefit) provision	216,550	(12,477)	16,934
Net income (loss) from continuing operations before cumulative effect of accounting change	325,691	(124,656)	53,615
Discontinued operations, net of income taxes (Note 11):			
Net income (loss) from Quicken Loans discontinued operations	(16,517)	20,972	47,100
Gain on disposal of Quicken Loans discontinued operations	—	—	23,300
Net income (loss) from Intuit KK discontinued operations	(3,513)	6,577	16,145
Net income (loss) from discontinued operations	(20,030)	27,549	86,545
Cumulative effect of accounting change, net of income taxes of $9,543	—	14,314	—
Net income (loss)	$305,661	$ (82,793)	$ 140,160
Basic net income (loss) per share from continuing operations before cumulative effect of accounting change	$ 1.62	$ (0.60)	$ 0.25
Basic net income (loss) per share from discontinued operations	(0.10)	0.13	0.41
Cumulative effect of accounting change per share	—	0.07	—
Basic net income (loss) per share	$ 1.52	$ (0.40)	$ 0.66
Shares used in basic net income (loss) per share amounts	200,770	207,959	211,794

	Fiscal		
	2000	2001	2002
(In thousands, except per share data)			
Diluted net income (loss) per share from continuing operations before cumulative effect of accounting change	$ 1.54	$ (0.60)	$ 0.24
Diluted net income (loss) per share from discontinued operations	(0.09)	0.13	0.40
Cumulative effect of accounting change per share	—	0.07	—
Diluted net income (loss) per share	$ 1.45	$ (0.40)	$ 0.64
Shares used in diluted net income (loss) per share amounts	211,271	207,959	217,897

See accompanying notes.

INTUIT INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional		Deferred	Other Comprehensive	Retained	Total
	Shares	Amount	Paid In Capital	Treasury Stock	Stock Compensation	Income (Loss)	Earnings (Deficit)	Stockholders' Equity
(Dollars In thousands)								
Balance at August 1, 1999	196,348,524	$1,963	$1,265,248	$ (134)	$ —	$ 79,144	$215,167	$1,561,388
Components of comprehensive income:								
Net income	—	—	—	—	—	—	305,661	305,661
Other comprehensive loss, net of tax	—	—	—	—	—	(23,558)	—	(23,558)
Comprehensive income, net of tax								282,103
Issuance of common stock upon exercise of options and other	6,651,953	67	80,296	—	—	—	—	80,363
Issuance of restricted common stock	225,000	2	15,202	—	(15,202)	—	—	2
Issuance of common stock pursuant to Employee Stock Purchase Plan	355,281	4	9,771	—	—	—	—	9,775
Issuance of common stock pursuant to acquisitions	719,197	7	55,618	—	—	—	—	55,625
Tax benefit from employee stock option transactions	—	—	93,515	—	—	—	—	93,515
Deferred stock compensation	—	—	—	—	(16,605)	—	—	(16,605)
Amortization of deferred compensation	—	—	—	—	5,285	—	—	5,285
Stockholders' distributions	—	—	—	—	—	—	(162)	(162)
Balance at July 31, 2000	204,299,955	2,043	1,519,650	(134)	(26,522)	55,586	520,666	2,071,289
Components of comprehensive loss:								
Net loss	—	—	—	—	—	—	(82,793)	(82,793)
Other comprehensive loss, net of tax	—	—	—	—	—	(27,406)	—	(27,406)
Comprehensive loss, net of tax								(110,199)
Issuance of common stock upon exercise of options and other	5,201,860	52	82,024	—	—	—	—	82,076
Issuance of common stock pursuant to Employee Stock Purchase Plan	469,873	5	14,719	—	—	—	—	14,724
Stock repurchase	(239,542)	(2)	—	(8,363)	—	—	—	(8,365)
Issuance of common stock pursuant to acquisitions	794,093	7	44,779	—	—	—	—	44,786
Tax benefit from employee stock	—	—	—	—	—			
option transactions	—	—	59,546	—	—	—	—	59,546
Deferred stock compensation	—	—	2,667	—	(2,667)	—	—	—
Amortization of deferred compensation	—	—	—	—	7,469	—	—	7,469
Balance at July 31, 2001	210,526,239	2,105	1,723,385	(8,497)	(21,720)	28,180	437,873	2,161,326
Components of comprehensive income:								
Net income	—	—	—	—	—	—	140,160	140,160
Other comprehensive loss, net of tax	—	—	—	—	—	(31,855)	—	(31,855)
Comprehensive income, net of tax								108,305
Issuance of common stock upon exercise of options and other	5,961,161	60	(10,178)	193,010	—	—	(66,691)	116,201
Issuance of common stock pursuant to Employee Stock Purchase Plan	584,053	6	10,178	7,656	—	—	—	17,840
Stock repurchase	(7,361,839)	(74)	—	(318,276)	—	—	—	(318,350)
Issuance of common stock pursuant to acquisitions	1,454,027	15	67,964	—	—	—	—	67,979
Tax benefit from employee stock option transactions	—	—	53,246	—	—	—	—	53,246
Deferred stock compensation	—	—		—	(1,620)	—	—	(1,620)
Amortization of deferred compensation	—	—	—	—	10,712	—	—	10,712
Balance at July 31, 2002	211,163,641	$2,112	$1,844,595	$(126,107)	$ (12,628)	$ (3,675)	$511,342	$2,215,639

See accompanying notes.

INTUIT INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal		
	2000	**2001**	**2002**
(In thousands)			
Cash flows from operating activities:			
Net income (loss) from continuing operations	$ 325,691	$ (124,656)	$ 53,615
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Acquisition-related charges	150,208	247,806	181,401
Amortization of purchased software	7,003	14,949	12,423
Amortization of deferred compensation	1,266	2,531	2,534
Depreciation	45,536	54,324	58,841
Net (gains) losses from marketable securities and other investments	(481,130)	98,053	15,535
Charge for purchased research and development	1,312	238	2,151
Charge for vacant facilities	—	—	13,237
Loss on impairment of long-lived asset	—	—	27,000
Net (gains) losses on divestiture of businesses	—	15,315	(8,308)
Loss on disposal of property and equipment	—	—	3,227
Deferred income tax benefit	(133,742)	(72,952)	(21,575)
Tax benefit from employee stock options	93,515	59,546	53,246
Changes in operating assets and liabilities:			
Customer deposits	(46,571)	(27,460)	(50,938)
Accounts receivable	(6,288)	38,409	(11,520)
Income taxes receivable	—	—	(2,187)
Prepaid expenses and other current assets	39,587	(13,324)	(11,144)
Accounts payable	12,343	(20,252)	8,522
Accrued compensation and related liabilities	9,402	16,203	21,578
Payroll service obligations	45,854	28,069	51,087
Deferred revenue	36,609	29,591	12,488
Income taxes payable	(8,661)	(55,620)	(65,726)
Other current liabilities	(4,866)	(60,034)	(1,187)
Total changes in operating assets and liabilities	77,409	(64,418)	(49,027)
Net cash provided by operating activities	87,068	230,736	344,300
Cash flows from investing activities:			
Change in other assets	(35,549)	7,764	(9,582)
Purchases of property and equipment	(93,375)	(48,410)	(42,096)
Capitalization of internal use software	—	(23,441)	(21,323)
Purchases of marketable securities	(18,800)	—	—
Proceeds from the sale of marketable securities	681,014	29,635	23,435
Purchases of short-term investments	(2,056,060)	(3,169,430)	(2,849,548)
Liquidation and maturity of short-term investments	1,346,975	3,104,983	3,152,256
Acquisitions of businesses, net of cash acquired	(76,714)	(198,062)	(278,265)
Purchases of long-term investments, net	(1,656)	(3,079)	—
Net cash used in investing activities	(254,165)	(300,040)	(25,123)
Cash flows from financing activities:			
Principal payments on long-term debt and notes payable	(4,856)	(850)	(11,333)
Net proceeds from issuance of common stock	89,978	96,797	133,565
Purchase of treasury stock	—	(8,363)	(318,350)
Net cash provided by (used in) financing activities	85,122	87,584	(196,118)
Net cash provided by (used in) discontinued operations	(69,110)	(303,087)	225,210
Effect of foreign currency translation	103	2,538	(431)
Net increase (decrease) in cash and cash equivalents	(150,982)	(282,269)	347,838
Cash and cash equivalents at beginning of period	500,161	349,179	66,910
Cash and cash equivalents at end of period	$ 349,179	$ 66,910	$ 414,748
Supplemental disclosure of cash flow information:			
Interest paid	$ 4,721	$ 3,149	$ 1,768
Income taxes paid	$ 270,271	$ 39,131	$ 101,645

See accompanying notes.

INTUIT INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the financial statements of Intuit and its wholly owned subsidiaries. We have eliminated all intercompany balances and transactions in consolidation. We have reclassified certain other previously reported amounts to conform to the current presentation. As discussed in Note 11, the Quicken Loans mortgage business, which we sold on July 31, 2002, has been accounted for as discontinued operations in accordance with Accounting Principles Board ("APB") Opinion No. 30. Also as discussed in Note 11, Intuit KK, our Japanese subsidiary, became a long-lived asset held for sale and a discontinued operation during the second quarter of fiscal 2003 in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144. The sale of Intuit KK closed on February 7, 2003. Accordingly, we have reclassified our financial statements for all periods presented to reflect Quicken Loans and Intuit KK as discontinued operations. Unless noted otherwise, discussions in these notes pertain to our continuing operations.

Investments in which we intend to maintain more than a temporary 20% to 50% interest, or otherwise have the ability to exercise significant influence, are accounted for under the equity method. Investments in which we have less than a 20% interest and over which we do not have the ability to exercise significant influence are carried at the lower of cost or estimated realizable value. We monitor both equity and cost basis investments for other than temporary declines in value and make reductions in carrying values when appropriate.

Use of Estimates

We make estimates and assumptions that affect the amounts reported in the financial statements and the disclosures made in the accompanying notes. Estimates are used for reserves for product returns, reserves for rebates, determining the collectibility of accounts receivable, the valuation of deferred tax assets and other amounts. We also use estimates to determine the remaining economic lives and carrying values of goodwill, purchased intangibles, property and equipment and other long-lived assets. Despite our intention to establish accurate estimates and assumptions, actual results may differ from our estimates.

Net Revenue

For our shrink-wrapped software products, we generally recognize revenue when we ship products (which is when title passes) either to retailers and distributors or directly to end user customers. We sell certain consumer tax products on consignment. We recognize revenue for consigned software products when the end-user sale has been confirmed. We recognize revenue only if payment is probable and we have no significant remaining obligations to the customer. We recognize revenue from distributors and retailers net of returns reserves that are based on historical returns experience and other factors such as the volume and price mix of products in the retail channel, trends in retailer inventory and economic trends that might impact customer demand for our products. We recognize revenue from end users net of rebate reserves that are based on the terms and conditions of the specific promotional program, actual sales during the promotion, the amount of redemptions received, historical redemption trends by product and by type of promotional program and the economic value of the rebate. In some situations, we receive advance payments from our customers. Revenue associated with these advance payments is deferred until the products are shipped or services are provided. We also reduce revenue by the estimated cost of rebates when products are shipped.

We recognize revenue from payroll processing and payroll tax filing services as the services are performed, provided we have no other remaining obligations. We generally require customers to remit payroll and payroll tax liability funds to us in advance of the applicable payroll due date, via electronic funds transfer. We include in total net revenue the interest earned on invested balances resulting from timing differences between the collection of these funds from customers and the remittance of such funds to outside parties because this interest income represents an integral part of the revenue generated from our services. We recognize this interest as it is earned.

We also offer several plans under which customers pay for technical support assistance. We recognize support revenue over the life of the plan, which is generally one year. We include costs incurred for fee-for-support plans in cost of revenue.

We recognize revenue from other products and services when it is earned based on the nature of the particular product or service. For products and services that we provide over a period of time, we recognize revenue pro rata

based on the contractual time period. Where we provide or deliver the product or service at a specific point in time and there are no remaining obligations, we recognize revenue upon delivery of the product or completion of the service.

Shipping and Handling Costs

We record costs incurred for the shipping and handling of our software products as cost of products in our statement of operations.

Customer Service and Technical Support

Customer service and technical support costs include the costs associated with performing order processing, answering customer inquiries by telephone and through Web sites and other electronic means and providing free technical support assistance to customers. In connection with the sale of certain products, we provide a limited amount of free technical support assistance to customers. We do not defer the recognition of any revenue associated with sales of these products, since the cost of providing this free technical support is insignificant. The technical support is provided within one year after the associated revenue is recognized and free product enhancements are minimal and infrequent. We accrue the estimated cost of providing this free support upon product shipment.

Software Development Costs

SFAS No. 86, "*Accounting for Costs of Computer Software to be Sold, Leased, or otherwise Marketed*," requires companies to expense software development costs as they incur them until technological feasibility has been established, at which time those costs are capitalized until the product is available for general release to customers. To date, our software has been available for general release concurrent with the establishment of technological feasibility and, accordingly, we have not capitalized any development costs. SFAS 2, "*Accounting for Research and Development Costs*" establishes accounting and reporting standards for research and development. In accordance with SFAS 2, costs we incur to enhance our existing products or after the general release of the service using the product are expensed in the period they are incurred and included in research and development costs in the statement of operations.

We capitalize costs related to the development of computer software developed or obtained for internal use in accordance with the American Institute of Certified Public Accountants Statement of Position 98-1, "*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*." Costs incurred in the application development phase are capitalized and amortized over their useful lives, generally not to exceed three years.

Advertising

We expense advertising costs as we incur them. Advertising expense for the years ended July 31, 2000, 2001 and 2002 was approximately $42.3 million, $31.6 million and $28.9 million, respectively.

Cash Equivalents and Short-Term Investments

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 money market funds in all periods presented. Short-term investments consist of available-for-sale debt securities that we carry at fair value. We include unrealized gains and losses on short-term investments, net of tax, in stockholders' equity. Available-for-sale debt securities are classified as current assets based upon our intent and ability to use any and all of these securities as necessary to satisfy the significant short-term liquidity requirements that may arise from the highly seasonal and cyclical nature of our businesses. Because of our significant business seasonality, cash flow requirements may fluctuate dramatically from quarter to quarter and require us to use a significant amount of the short-term investments held as available-for-sale securities. See Note 2.

Marketable Securities and Other Long-term Investments

We classify our marketable securities as available-for-sale, carry them at fair value and include unrealized gains and losses on them, net of tax, in stockholders' equity. We use the specific identification method to account for gains and losses on marketable equity securities. We include realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities in gains (losses) on marketable securities and other investments, net in the statement of operations. Our other long-term investments consist primarily of equity investments in privately held companies and are stated at cost, adjusted for declines in fair value that are considered other-than-temporary. See Note 3.

Change in Accounting Principle

During fiscal 2001, we adopted SFAS 133, "*Accounting for Derivative Instruments and Hedging Activities*," which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires us to recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. In May 1999, we completed a $50 million investment (970,813 shares) in Security First Technologies, now known as S1 Corporation. In connection with this agreement, we received options to purchase 4.8 million additional shares of S1 common stock, at a per share purchase price of $51.50. These options contained a net-exercise feature. In August 2000, we recorded the cumulative effect of the change in accounting for derivatives for our 4.8 million S1 options held in long-term investments. This resulted in a one-time cumulative effect of $14.3 million, net of income taxes totaling $9.5 million, in the first quarter of fiscal 2001. The one-time cumulative effect created an increase of $0.07 per share in the basic and diluted net loss per share for fiscal 2001. SFAS 133 requires the derivatives to be carried at fair value, so subsequent fluctuations in the fair value of these options were included in our net income (loss) until we sold them. For fiscal 2001, these fluctuations resulted in a loss of $9.7 million net of income taxes, which increased the basic and diluted net loss per share for the period by $0.05 per share. During the first quarter of fiscal 2002, we sold these options and recorded a realized loss of $1.9 million.

If we had adopted SFAS 133 as of the beginning of fiscal 2000, adjusted pro forma net income would have been $299.1 million compared to reported net income of $305.7 million and adjusted pro forma diluted net income per share would have been $1.42 compared to reported net income per share of $1.45.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. We calculate depreciation using the straight-line method over the estimated useful lives of the assets, which range from 3 to 30 years. We amortize leasehold improvements using the straight-line method over the lesser of their estimated useful lives or remaining lease terms.

Goodwill, Purchased Intangible Assets and Other Long-lived Assets

We record goodwill when the purchase price of net tangible and intangible assets we acquire exceeds their fair value. We generally amortized goodwill on a straight-line basis over periods ranging from 3 to 5 years in all periods presented. However, in accordance with SFAS 142, "*Goodwill and Other Intangible Assets*," we did not amortize goodwill for acquisitions completed after June 30, 2001 and effective August 1, 2002 we no longer amortize goodwill for acquisitions completed before July 1, 2001. See "*Recent Pronouncements"* below for more information. We amortize the cost of identified intangibles on a straight-line basis over periods ranging from 1 to 15 years.

We regularly perform reviews to determine if the carrying values of our long-lived assets are impaired. We look for facts or circumstances, either internal or external, that indicate that we may not recover the carrying value of the asset.

We measure impairment loss related to long-lived assets based on the amount by which the carrying amounts of such assets exceed their fair values. Our measurement of fair value is generally based on an analysis of the present value of estimated future discounted cash flows. Our analysis is based on available information and reasonable and supportable assumptions and projections. The discounted cash flow analysis considers the likelihood of possible outcomes and is based on our best estimate of projected future cash flows. If necessary, we perform subsequent calculations to measure the amount of the impairment loss based on the excess of the carrying value over the fair value of the impaired assets.

In June 2001, the Financial Accounting Standards Board issued SFAS 142, "*Goodwill and Other Intangible Assets*." In October 2001, the FASB issued SFAS 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* We implemented both SFAS 142 and SFAS 144 beginning in the first quarter of fiscal 2003. See *"Recent Pronouncements"* below for more information.

Customer Deposits

Customer deposits represent cash held on behalf of our customers in our payroll business.

Payroll Service Obligations

Payroll service obligations relate to our payroll business and consist primarily of payroll taxes we owe on behalf of our customers.

Concentration of Credit Risk and Significant Customers and Suppliers

We operate in markets that are highly competitive and rapidly changing. Significant technological changes, changes in customer requirements, the emergence of competitive products or services with new capabilities and other factors could negatively impact our operating results.

We are also subject to risks related to changes in the values of our significant balances of short-term investments, marketable securities and long-term private equity investments, as well as risks related to the collectibility of our trade accounts receivable. Our portfolio of short-term investments consists primarily of investment-grade securities that are diversified by limiting our holdings with any individual issuer in a managed portfolio to a maximum of $5 million. At July 31, 2002, we held approximately $16.8 million in marketable securities, as described in Note 3. See that note for a discussion of our marketable securities. At July 31, 2002, we also held approximately $6.8 million in long-term private equity investments, net of reserves for declines in value that management has determined to be other-than-temporary.

We sell a significant portion of our products through third-party distributors and retailers. As a result, we face risks related to the collectibility of our trade accounts receivable. To appropriately manage this risk, we perform ongoing evaluations of customer credit and limit the amount of credit extended as we deem appropriate but generally do not require collateral. We maintain reserves for estimated credit losses and these losses have historically been within our expectations. However, since we cannot necessarily predict future changes in the financial stability of our customers, we cannot guarantee that our reserves will continue to be adequate.

One distributor accounted for 10% of total net revenue in fiscal 2000 and the same distributor accounted for 15% of accounts receivable at July 31, 2001. Due to changes in our distributor relationships during fiscal 2002, we are selling an increasing proportion of our software products directly to a variety of retailers rather than through a few major distributors. No distributor or retailer accounted for 10% or more of total net revenue in fiscal 2001 or 2002, nor did any customer account for 10% or more of accounts receivable at July 31, 2002.

In connection with the sale of our Quicken Loans mortgage business in July 2002, we have agreed to continue providing to the purchasing company a line of credit of up to $375.0 million to fund mortgage loans for a transition period of up to six months. The line is secured by the related mortgage loans and had an outstanding balance of $245.6 million at July 31, 2002. As part of the consideration for the sale of the business, we also hold a five-year promissory note in the principal amount of $23.3 million from the purchasing company. See Note 11.

We rely on three third party vendors to handle all outsourced aspects of our primary retail desktop software product launches. We also have an exclusive contract with another vendor to print and fulfill orders for all of our checks and many other products for our financial supplies business. While we believe that relying on two vendors for product launches and replenishments and on one vendor for our supplies improves the efficiency and reliability of these activities, relying on any one vendor for a significant aspect of our business can have a significant negative impact on our revenue and profitability if that vendor fails to perform at acceptable service levels.

Foreign Currency

The functional currency of all our foreign subsidiaries is the local currency. Assets and liabilities of our foreign subsidiaries are translated at the exchange rate on the balance sheet date. Revenue, costs and expenses are translated at average rates of exchange in effect during the year. We report translation gains and losses as a separate component of stockholders' equity. We include net gains and losses resulting from foreign exchange transactions in the statement of operations and they were immaterial in all periods presented.

Recent Pronouncements

On June 29, 2001, the Financial Accounting Standards Board issued SFAS 141, "*Business Combinations,*" and SFAS 142, "*Goodwill and Other Intangible Assets*."

SFAS 141 supercedes APB Opinion No. 16, "*Business Combinations,*" and eliminates the pooling-of-interests method of accounting for business combinations, thus requiring that all business combinations be accounted for using the purchase method. In addition, in applying the purchase method, SFAS 141 changes the criteria for

recognizing intangible assets other than goodwill and states that the following criteria should be considered in determining the classification of intangible assets: (1) whether the intangible asset arises from contractual or other legal rights, or (2) whether the intangible asset is separable or dividable from the acquired entity and capable of being sold, transferred, licensed, rented, or exchanged. If neither criteria is met, the intangible assets are classified as goodwill and are not amortized. We have applied the requirements of SFAS 141 to all business combinations initiated after June 30, 2001.

SFAS 142 supercedes APB Opinion No. 17, "*Intangible Assets,*" and provides that goodwill and other intangible assets that have an indefinite useful life will no longer be amortized. However, these assets must be reviewed for impairment at least annually or more frequently if an event occurs indicating the potential for impairment. The shift from an amortization approach to an impairment approach applies to all acquisitions completed after June 30, 2001. The additional goodwill amortization charge for businesses we acquired subsequent to June 30, 2001 would have been approximately $8.8 million in fiscal 2002 had this new standard not been in place. Total goodwill amortization expense, including impairments, was $139.5 million in fiscal 2001 and $122.6 million in fiscal 2002. We adopted the remaining elements of this new standard in the first quarter of fiscal 2003 and therefore ceased goodwill amortization for acquisitions made prior to July 1, 2001. However, it is possible that in the future we may incur impairment charges related to the goodwill already recorded and to goodwill arising out of future acquisitions. In addition, we will continue to amortize most purchased intangible assets and to assess those assets for impairment as appropriate.

In connection with the transitional goodwill impairment evaluation under SFAS 142, we will perform an assessment of goodwill impairment as of August 1, 2002, the date of adoption. To accomplish this, we will identify our reporting units and determine the carrying value of each of them by assigning the assets and liabilities, including existing goodwill and intangible assets, to those reporting units as of the date of adoption. We will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent that a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and we must perform the second step of the transitional impairment test. In the second step, we must compare the implied fair value of the reporting unit's goodwill to its carrying amount, both of which will be measured as of the date of adoption. The implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS 141. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the statement of operations.

As of the date of adoption of SFAS 142 on August 1, 2002, we had an unamortized acquired intangible assets balance of approximately $123.6 million, excluding the balance of approximately $1.9 million for assembled workforce reclassified to goodwill. As of that date, we also had an unamortized goodwill balance of approximately $430.8 million which included the amount of assembled workforce reclassified to goodwill. These balances will be subject to the transitional provisions of SFAS 141 and 142. Transitional impairment losses that may be required to be recognized upon adoption of SFAS 141 and 142 are indeterminable at this time.

The following table shows our financial results as they would have been if we had adopted the non-amortization provisions of SFAS 142 as of the beginning of fiscal 2000:

(In thousands, except per share data; pro forma figures are unaudited)	Fiscal 2000	Fiscal 2001	Fiscal 2002
Income (loss) from continuing operations before cumulative effect of accounting change:			
As reported	$325,691	$(124,656)	$ 53,615
Amortization of goodwill, net of tax	73,014	92,040	82,161
Pro forma	$398,705	$ (32,616)	$135,776
Net income (loss):			
As reported	$305,661	$ (82,793)	$140,160
Amortization of goodwill, net of tax	73,014	92,040	82,161
Pro forma	$378,675	$ 9,247	$222,321
Basic income (loss) per share from continuing operations before cumulative effect of accounting change:			
As reported	$ 1.62	$ (0.60)	$ 0.25
Amortization of goodwill, net of tax	0.36	0.44	0.39
Pro forma	$ 1.98	$ (0.16)	$ 0.64
Basic net income (loss) per share:			
As reported	$ 1.52	$ (0.40)	$ 0.66
Amortization of goodwill, net of tax	0.36	0.44	0.39
Pro forma	$ 1.88	$ 0.04	$ 1.05
Diluted income (loss) per share from continuing operations before cumulative effect of accounting change:			
As reported	$ 1.54	$ (0.60)	$ 0.24
Amortization of goodwill, net of tax	0.35	0.44	0.38
Pro forma	$ 1.89	$ (0.16)	$ 0.62
Diluted net income (loss) per share:			
As reported	$ 1.45	$ (0.40)	$ 0.64
Amortization of goodwill, net of tax	0.35	0.44	0.38
Pro forma	$ 1.80	$ 0.04	$ 1.02

In October 2001, the FASB issued SFAS 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets,"* which applies to financial statements issued for fiscal years beginning after December 15, 2001. SFAS 144 supersedes FASB Statement 121, *"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,"* and portions of APB Opinion No. 30, *"Reporting the Results of Operations."* SFAS 144 provides a single accounting model for long-lived assets we expect to dispose of and significantly changes the criteria for classifying an asset as held-for-sale. This classification is important because held-for-sale assets are not depreciated and are stated at the lower of fair value or carrying amount. SFAS 144 also requires expected future operating losses from discontinued operations to be displayed in the period(s) in which the losses are actually incurred, rather than when the amount of the loss is estimated, as presently required. We adopted SFAS 144 effective August 1, 2002 and do not expect the adoption of SFAS 144 to have a material impact on our financial position, results of operations or cash flows.

In November 2001, the FASB's Emerging Issues Task Force released Issue No. 01-9, "*Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Product*," which applies to annual or interim financial statement periods beginning after December 15, 2001. The release provides that cash consideration (including sales incentives) that we give to our customers or resellers should be accounted for as a reduction of revenue rather than as an operating expense unless we receive a benefit that we can identify and reasonably estimate.

We adopted this new release beginning in the third quarter of fiscal 2002. The adoption of EITF Issue No. 01-9 did not have a material impact on our total net revenue and as a result we did not reclassify prior period financial statements.

In July 2002, the FASB issued SFAS 146, *"Accounting for Costs Associated with Exit and Disposal Activities."* This statement revises the accounting for exit and disposal activities under EITF Issue No. 94-3, *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity."* A formal commitment to a plan to exit an activity or dispose of long-lived assets will no longer be sufficient to record a one-time charge for most exit and disposal costs. Instead, companies will record exit or disposal costs when they are incurred and can be measured at fair value, and will subsequently adjust the recorded liability for changes in estimated cash flows. The provisions of SFAS 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002. Companies may not restate previously issued financial statements for the effect of the provisions of SFAS 146 and liabilities that a company previously recorded under EITF Issue No. 94-3 are not affected. We do not believe that the adoption of SFAS 146 will have a material impact on our financial position, results of operations or cash flows.

2. Short-Term Investments

The following schedule summarizes the estimated fair value of our short-term investments as of the dates indicated:

	July 31,	
	2001	**2002**
(In thousands)		
Corporate notes	$ 63,723	$ 24,405
Municipal bonds	1,030,442	780,914
U.S. government securities	25,140	10,023
	$1,119,305	$815,342

The following table summarizes the estimated fair value of our available-for-sale debt securities held in short-term investments classified by the stated maturity date of the security:

	July 31,	
	2001	**2002**
(In thousands)		
Due within one year	$ 215,205	$230,716
Due within two years	221,620	141,942
Due within three years	—	—
Due after three years	682,480	442,684
	$1,119,305	$815,342

3. Marketable Securities and Other Long-term Investments

We currently hold marketable securities that we acquired in connection with strategic business transactions and relationships. In accordance with SFAS 115, we classify marketable securities that we buy and hold principally for the purpose of selling in the near term as trading securities. We report trading securities at estimated fair value and include unrealized gains and losses on these securities in our net income (loss). We classify our other marketable securities as available-for-sale securities. We report available-for-sale securities at estimated fair value and include unrealized gains and losses on these securities in a separate component of stockholders' equity.

Marketable securities classified as trading and available-for-sale at July 31, 2002 and 2001 are summarized below. Estimated fair value is based on quoted market prices.

July 31, 2002	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(In thousands)				
Trading securities	$ —	$—	$ —	$ —
Securities available-for-sale:				
Checkfree Corporation common stock	24,866	—	(8,075)	16,791
	$24,866	$—	$(8,075)	$16,791

July 31, 2001	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(In thousands)				
Trading securities	$ 99,304	$ —	$(97,288)	$ 2,016
Securities available-for-sale:				
Checkfree Corporation common stock	35,621	37,215	—	72,836
S1 Corporation common stock	7,741	2,714	—	10,455
	$142,666	$39,929	$(97,288)	$85,307

In fiscal 2002, proceeds from the sales of available-for-sale securities totaled $25.0 million; gross realized gains totaled $6.0 million and gross realized losses totaled $2.9 million. In fiscal 2001, proceeds from the sales of available-for-sale securities totaled $21.5 million; gross realized gains totaled $15.8 million and gross realized losses totaled $4.9 million. We recorded charges of $40.2 million in fiscal 2001 to write down certain available-for-sale securities for which the decline in fair value below carrying value was other-than-temporary.

Unrealized gains and losses on trading securities are included in our net income (loss). We held no trading securities at July 31, 2002.

Our marketable securities, which are quoted on the Nasdaq Stock Market, are stocks of high technology companies whose market prices have been extremely volatile and have declined substantially during the past three years. These declines have resulted, and could continue to result, in material reductions in the carrying values of these assets. This has a negative impact on our operating results. If these securities experience further declines in fair value that are considered other-than-temporary, we will reflect the additional losses in our statement of operations in the period when the subsequent impairment becomes apparent.

The fair values of our long-term investments (consisting primarily of equity investments in privately held companies) have also declined substantially since our initial investments due to the volatility and economic downturn of the high technology industry. We recorded losses of $7.5 million in fiscal 2002 and $16.2 in fiscal 2001 and charges of $9.5 million in fiscal 2002 and $28.6 million in fiscal 2001, to write down certain long-term investments for which the decline in fair value below carrying value was other-than-temporary.

4. Property and Equipment

Property and equipment consisted of the following as of the dates indicated:

	Life in Years	July 31, 2001	July 31, 2002
(Dollars in thousands)			
Equipment	3-5	$ 147,361	$ 181,007
Computer software	3	50,014	60,461
Furniture and fixtures	5	23,614	27,230
Leasehold improvements	Note 1	63,814	69,059
Land and buildings	NA / 30	21,285	26,509
Capital in progress	—	8,540	18,016
		314,628	382,282
Less accumulated depreciation and amortization		(143,189)	(203,160)
		$ 171,439	$ 179,122

Capital in progress consists primarily of costs related to internal use software projects. As discussed in Note 1, "Software Development Costs," we capitalize costs related to the development of computer software for internal use in accordance with SOP 98-1. We capitalized approximately $23.4 million and $21.3 million of internal use software during fiscal 2001 and 2002, respectively. Costs related to internal use software projects are included in the capital in progress category of property and equipment until project completion, at which time they are transferred to the computer software category and amortized over their useful lives. Amortization expense for capitalized internal use software was $3.6 million in fiscal 2001 and $7.5 million in fiscal 2002. The net book value of completed capitalized internal use software was $11.3 million at July 31, 2001 and $15.6 million at July 31, 2002.

5. Goodwill and Intangible Assets

Goodwill and purchased intangible assets consisted of the following at the dates indicated:

	Life in Years	July 31, 2001	July 31, 2002
(Dollars in thousands)			
Goodwill	3-5	$ 713,596	$ 822,894
Accumulated amortization of goodwill		(386,781)	(393,946)
Net goodwill		326,815	428,948
Customer lists	3-12	119,310	144,379
Covenants not to compete	3-5	9,917	7,399
Purchased technology	1-7	107,855	121,763
Assembled workforce	2-5	11,882	4,458
Trade names and logos	1-15	12,004	16,555
Total intangible assets		260,968	294,554
Accumulated amortization of intangible assets		(172,864)	(169,080)
Net intangible assets		88,104	125,474
		$ 414,919	$ 554,422

Accumulated amortization of intangible assets declined during fiscal 2002 due to the retirement of certain fully amortized intangible assets.

In June 2001, the FASB issued SFAS 142, "*Goodwill and Other Intangible Assets*." We adopted SFAS 142 on August 1, 2002. As a result, goodwill will no longer be amortized but will be subject to annual impairment tests. Most other intangible assets will continue to be amortized over their estimated useful lives. In accordance with the provisions of SFAS 142, effective August 1, 2002 we transferred the net balance of $1.9 million for assembled workforce to goodwill and will no longer amortize that intangible asset. See Note 1.

We summarize the following expenses on the "acquisition-related charges" line of our statement of operations:

	Fiscal		
	2000	2001	2002
(In thousands)			
Amortization of goodwill	$110,628	$139,455	$122,629
Amortization of intangibles	26,133	24,649	28,112
Acquisition-related amortization of deferred compensation	4,019	4,938	8,654
Acquisition-related impairment charges	—	78,686	22,006
Other	9,428	78	—
	$150,208	$247,806	$181,401

As discussed in Note 1, we regularly perform reviews to determine if the carrying values of our goodwill and intangible assets may be impaired. We look for the existence of facts and circumstances, either internal or external, which indicate that the carrying value of the asset may not be recovered.

Fiscal 2001

During fiscal 2001, events and circumstances indicated possible impairment of certain long-lived assets, consisting principally of acquired intangible assets and goodwill recorded in connection with our acquisitions of Venture Finance Software Corp. in August 2000, SecureTax.com in August 1999 and Hutchison Avenue Software Corporation in August 1999. These indicators included the deterioration in the business climate for Web-based companies and management's intentions relating to the continuation of certain services provided by our Personal Finance segment.

We measured the impairment loss related to long-lived assets based on the amount by which the carrying amount of such assets exceeded their fair values. Our measurement of fair value was based on an analysis of the future discounted cash flows, as discussed in Note 1. In performing this analysis, we used the best information available in the circumstances, including reasonable and supportable assumptions and projections. The discounted cash flow analysis considered the likelihood of possible outcomes and was based on our best estimate of projected future cash flows. For VFSC, we considered the terminal value cash flows expected to result from the disposition of the assets at the end of their useful lives. The consideration from the disposition of a portion of VFSC, our Quicken Bill Manager business, assisted management in the determination of the fair value of the remaining assets. Based on our analysis as described above, we recorded impairment charges of $51.0 million, $26.0 million, and $1.7 million, to reduce the carrying value of the goodwill associated with VFSC, SecureTax and Hutchison, respectively. In the second quarter of fiscal 2002, we reduced the carrying value of the remaining VFSC goodwill to zero (see *Fiscal 2002* below).

Fiscal 2002

During the second quarter of fiscal 2002, events and circumstances indicated impairment of goodwill and intangible assets that we received in connection with our acquisitions of an Internet-based advertising business from VFSC in August 2000 (part of our Personal Finance segment) and the Site Solutions business that we acquired from Boston Light Corp. in August 1999 (part of our Small Business segment).

Indicators of impairment for our Internet-based advertising business included a steep decline in demand for online advertising reflecting the industry-wide decline in Internet advertising spending, as well as management's assessment that revenues and profitability would continue to decline in the future based on analyses and forecasts completed during the second quarter of fiscal 2002. The primary indicator of impairment for our Site Solutions business was management's decision to transition the customer base of Site Solutions and collaborate with a third party to provide the website building service. This collaboration, which began in the second quarter of fiscal 2002, eliminated our use of technology purchased from Boston Light.

In each case, we measured the impairment loss based on the amount by which the carrying amount of the assets exceeded their fair value based on lower projected profits and decreases in cash flow. Our measurement of fair value was based on an analysis of the future discounted cash flows as discussed in Note 1. Based on our analyses, in the second quarter of fiscal 2002 we recorded charges of $22.6 million ($17.4 million to acquisition-related charges

and $5.2 million to amortization of purchased software) to reduce the carrying value of the assets associated with our Internet-based advertising business to zero, and a charge of $4.7 million ($4.6 million to acquisition-related charges and $0.1 million to amortization of purchased software) to reduce the carrying value of assets relating to our Site Solutions business to zero.

6. Comprehensive Net Income (Loss)

SFAS 130, "*Reporting Comprehensive Income,*" establishes standards for reporting and displaying comprehensive net income (loss) and its components in stockholders' equity. SFAS 130 requires the components of other comprehensive income (loss) such as changes in the fair value of available-for-sale securities and foreign translation adjustments to be added to our net income (loss) to arrive at comprehensive income (loss). Other comprehensive income (loss) items have no impact on our net income (loss) as presented in our statement of operations.

The components of accumulated other comprehensive income (loss), net of income taxes, were as follows:

	Marketable Securities	Short-term Investments	Foreign Currency Translation	Total
(In thousands)				
Fiscal 2000				
Beginning balance, net of income taxes	$ 81,621	$ —	$ (2,477)	$ 79,144
Unrealized gain, net of income tax provision of $191,594	287,391	—	—	287,391
Reclassification adjustment for realized gain included in net income, net of income tax benefit of $206,967	(310,451)	—	—	(310,451)
Translation adjustment	—	—	(498)	(498)
Other comprehensive loss	(23,060)	—	(498)	(23,558)
Ending balance, net of income taxes	$ 58,561	$ —	$ (2,975)	$ 55,586
Fiscal 2001				
Beginning balance, net of income taxes	$ 58,561	$ —	$ (2,975)	$ 55,586
Unrealized gain (loss), net of income tax benefit of $18,289 and provision of $3,124	(27,433)	4,686	—	(22,747)
Reclassification adjustment for realized gain included in net loss, net of income tax benefit of $4,780	(7,170)	—	—	(7,170)
Translation adjustment	—	—	2,511	2,511
Other comprehensive loss	(34,603)	4,686	2,511	(27,406)
Ending balance, net of income taxes	$ 23,958	$ 4,686	$ (464)	$ 28,180
Fiscal 2002				
Beginning balance, net of income taxes	$ 23,958	$ 4,686	$ (464)	$ 28,180
Unrealized loss, net of income tax benefits of $18,082 and $1,752	(27,123)	(2,628)	—	(29,751)
Reclassification adjustment for realized gain included in net income, net of income tax benefit of $1,120	(1,680)	—	—	(1,680)
Translation adjustment	—	—	(424)	(424)
Other comprehensive loss	(28,803)	(2,628)	(424)	(31,855)
Ending balance, net of income taxes	$ (4,845)	$ 2,058	$ (888)	$ (3,675)

7. Deferred Stock-based Compensation

When we assume unvested stock options in connection with acquisitions, we record deferred stock compensation as a reduction of stockholders' equity. The amount recorded is equal to the difference between the exercise price of the options related to future vesting periods and the fair market value of Intuit stock as of the closing date of the acquisition. When we grant restricted stock to employees that is subject to vesting, we also record deferred stock compensation equal to the difference between the purchase price and the fair market value of the stock at the date of grant. Deferred stock compensation is amortized straight-line over the vesting term of these options and restricted stock grants.

The following table summarizes the activity in deferred stock-based compensation:

	Fiscal		
	2000	2001	2002
(In thousands)			
Beginning balance	$ —	$26,522	$ 21,720
Deferred stock compensation	31,807	2,667	1,620
Amortization:			
General and administrative expense	(1,266)	(2,531)	(2,534)
Acquisition-related charges	(4,019)	(4,938)	(8,654)
Total amortization	(5,285)	(7,469)	(11,188)
Other	—	—	476
Ending balance	$26,522	$21,720	$ 12,628

8. Per Share Data

We compute basic income or loss per share using the weighted average number of common shares outstanding during the period. We compute diluted income or loss per share using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of the shares issuable upon the exercise of stock options under the treasury stock method. In loss periods, basic and dilutive loss per share are identical since the effect of common equivalent shares is anti-dilutive and therefore excluded.

The following table presents the numerators and denominators and the computation of basic and diluted income or loss per share for fiscal 2000, 2001 and 2002:

	Fiscal		
	2000	2001	2002
(In thousands, except per share data)			
Numerator:			
Numerators for basic and diluted net income (loss) per share:			
Income (loss) from continuing operations before cumulative effect of accounting change	$325,691	$(124,656)	$ 53,615
Net income (loss) from discontinued operations, net of income taxes	(20,030)	27,549	86,545
Cumulative effect of accounting change, net of income taxes	—	14,314	—
Net income (loss)	$305,661	$ (82,793)	$140,160
Denominator:			
Denominator for basic net income (loss) per share:			
Weighted average common shares outstanding	200,770	207,959	211,794
Equivalent shares issuable upon exercise of options	10,501	—	6,103
Denominator for diluted net income (loss) per share	211,271	207,959	217,897
Basic:			
Income (loss) from continuing operations before cumulative effect of accounting change	$ 1.62	$ (0.60)	$ 0.25
Net income (loss) from discontinued operations, net of income taxes	(0.10)	0.13	0.41
Cumulative effect of accounting change, net of income taxes	—	0.07	—
Basic net income (loss) per share	$ 1.52	$ (0.40)	$ 0.66
Diluted:			
Income (loss) from continuing operations before cumulative effect of accounting change	$ 1.54	$ (0.60)	$ 0.24
Net income (loss) from discontinued operations, net of income taxes	(0.09)	0.13	0.40
Cumulative effect of accounting change, net of income taxes	—	0.07	—
Diluted net income (loss) per share	$ 1.45	$ (0.40)	$ 0.64

The effect of options to purchase 2.3 million and 8.3 million shares of common stock were not included in the computation of diluted income per share for fiscal 2000 and fiscal 2002, respectively, because the option exercise prices were greater than the average market price of common stock. For fiscal 2001, we excluded options to purchase 14.6 million shares of common stock in our diluted loss per share computation because we experienced a net loss for the year.

9. Acquisitions

In December 1999, we acquired all of the outstanding stock of Rock Financial Corporation ("RFC"), a provider of consumer mortgages, and Title Source Inc., a title insurance and escrow company affiliated with RFC, in exchange for the issuance of approximately $370.0 million or 8.8 million shares of Intuit common stock. RFC subsequently changed its name to Quicken Loans Inc. These acquisitions were accounted for as pooling of interests in accordance with APB 16. In July 2002 we sold our Quicken Loans mortgage business and accounted for the sale as discontinued operations. See Note 11.

The acquisitions described below have been accounted for as purchase transactions and, accordingly, the results of operations and financial position of the acquired businesses are included in Intuit's consolidated financial statements from the date of acquisition. We allocate the difference between the purchase price and the net book value of

acquired tangible assets between identified tangible assets and goodwill. Identified intangible assets consist of customer lists, covenants not to compete, purchased technology, assembled workforce and trade names and logos.

Fiscal 2000

In fiscal 2000, we acquired Boston Light Software Corp., SecureTax.com, and Turning Mill Software, Inc. We purchased all of the outstanding common and Series A preferred stock of Boston Light, a developer of software and Web-based products for small businesses based in Massachusetts, for approximately $33.5 million in Intuit common stock. In connection with the agreement, Intuit also assumed 482,910 of Boston Light's outstanding employee stock options, which were converted into options to purchase 160,970 shares of Intuit common stock. We acquired all of the outstanding common stock of SecureTax, a developer of online tax preparation and electronic filing services based in Georgia, for approximately $52.0 million in cash. We also acquired all of the outstanding common stock of Turning Mill, a developer of software and Web-based products headquartered in Massachusetts, for approximately $22.1 million in Intuit common stock.

Fiscal 2001

In fiscal 2001, we purchased all of the outstanding securities of Venture Finance Software Corp. which were not already held by Intuit (approximately 51%) for approximately $118.0 million in cash (including approximately $4.5 million in option exercise and tax payments in connection with VFSC options exercised immediately prior to the purchase). We also purchased all of the outstanding stock of EmployeeMatters, Inc., in exchange for approximately $41.9 million in Intuit common stock, the elimination of approximately $8.0 million in bridge loans we extended to EmployeeMatters prior to the closing, and the assumption of approximately $3.4 million in liabilities. We acquired substantially all of the assets of Tax Accounting and Software Corporation for $63.0 million in cash and the assumption of approximately $7.8 million in liabilities.

Fiscal 2002

In November 2001, we acquired substantially all of the assets of OMware, Inc. for $35.5 million or 924,973 shares of Intuit common stock, approximately $2.1 million in the assumption of debt and bridge loans and up to $8 million in Intuit common stock to be issued contingent upon the achievement of future performance objectives by the business unit. OMware provides business management software solutions for construction companies. Pursuant to separate agreements, Intuit will pay up to $2 million in cash over two years as part of a senior management performance program. These amounts will be recorded as compensation expense as amounts are earned. With the assistance of a professional valuation services firm, we allocated approximately $27.1 million of the purchase price to goodwill and $8.5 million of the purchase price to identified intangible assets. The identified intangible assets are being amortized over five years.

In May 2002, we purchased all of the outstanding stock of The Flagship Group for approximately $23.3 million or 455,259 shares of Intuit common stock, the assumption of $4.7 million in debt and $3.3 million in cash. Flagship is the parent company of American Fundware, Inc., which offers financial accounting solutions for nonprofit organizations. In connection with the agreement, we also assumed Flagship's outstanding employee stock options for 1,204,000 shares of Flagship common stock, which were converted into options to purchase 130,316 shares of Intuit common stock. With the assistance of a professional valuation services firm, we allocated approximately $29.6 million of the purchase price to goodwill and $4.2 million of the purchase price to identified intangible assets. The identified intangible assets are being amortized over terms ranging from three to twelve years.

In June 2002, we acquired all of the outstanding stock of CBS Employer Services, Inc. for approximately $75.3 million in cash (of which $25.4 million is unpaid but accrued at July 31, 2002) and $3.2 million or 73,795 shares of Intuit common stock. CBS is a provider of full-service outsourced payroll functions for small businesses. In connection with the agreement, we also assumed CBS's outstanding employee stock options for 665,504 shares of CBS common stock, which were converted into options to purchase 193,891 shares of Intuit common stock. With the assistance of a professional valuation services firm, we allocated approximately $74.8 million of the purchase price to goodwill and $9.3 million of the purchase price to identified intangible assets. The identified intangible assets are being amortized over terms ranging from five to six years.

In July 2002, we purchased all of the outstanding stock of Management Reports, Inc. for approximately $92.2 million in cash. MRI provides business management software solutions for commercial and residential property managers. We recorded the transaction in the fourth quarter of fiscal 2002 based on estimated financial information, which was not materially different from the final information that became available in the first quarter of fiscal 2003. With the assistance of a professional valuation services firm, we allocated approximately $73.4 million of the

purchase price to goodwill and $14.0 million of the purchase price to identified intangible assets. The identified intangible assets are being amortized over terms ranging from five to seven years.

In July 2002, we acquired substantially all of the assets of Eclipse, Inc. for approximately $88.3 million in cash. Eclipse provides business management software solutions for wholesale durable goods distributors. We recorded the transaction in the fourth quarter of fiscal 2002 based on estimated financial information, which was not materially different from the final information that became available in the first quarter of fiscal 2003. With the assistance of a professional valuation services firm, we allocated approximately $41.4 million of the purchase price to goodwill and $35.8 million of the purchase price to identified intangible assets. The identified intangible assets are being amortized over terms ranging from one to seven years.

The following table shows net revenue, income (loss) from continuing operations before cumulative effect of accounting change, net income (loss) and basic and diluted net income (loss) per share as they would have been if we had completed the fiscal 2002 acquisitions on August 1, 2000. Because the pro forma acquisition date is prior to June 30, 2001, these figures include the effects of amortization of goodwill and other identified intangible assets from the date of acquisition through July 31, 2002. Under the provisions of SFAS 142, goodwill amortization would cease on August 1, 2002. This unaudited summary information is presented for illustrative purposes and is not necessarily indicative of results that would have actually occurred had these acquisitions taken place at the beginning of fiscal 2001.

	Fiscal 2001		**Fiscal 2002**	
	As Reported	**Pro Forma**	**As Reported**	**Pro Forma**
(In thousands, except per share data)		*(unaudited)*		*(unaudited)*
Net revenue:				
Intuit, as reported	$1,096,062	$1,096,062	$1,312,228	$1,312,228
Fiscal 2002 acquisitions		107,520		97,663
Pro forma		$1,203,582		$1,409,891
Income (loss) from continuing operations before cumulative effect of accounting change:				
Intuit, as reported	$ (124,656)	$ (124,656)	$ 53,615	$ 53,615
Fiscal 2002 acquisitions		8,118		5,763
Amortization of goodwill and intangibles		(61,631)		(59,774)
Pro forma		$ (178,169)		$ (396)
Net income (loss):				
Intuit, as reported	$ (82,793)	$ (82,793)	$ 140,160	$ 140,160
Fiscal 2002 acquisitions		8,118		5,763
Amortization of goodwill and intangibles		(61,631)		(59,774)
Pro forma		$ (136,306)		$ 86,149
Basic net income (loss) per share	$ (0.40)	$ (0.66)	$ 0.66	$ 0.41
Diluted net income (loss) per share	(0.40)	(0.66)	0.64	0.40

Purchase prices for the acquisitions described above have been allocated on the basis of their fair values on the acquisition dates as follows:

	Fiscal		
	2000	2001	2002
(In thousands)			
Intangible assets:			
Goodwill	$ 88,748	$181,758	$246,542
Customer lists	2,900	16,489	38,395
Covenant not to compete	1,200	—	1,595
Purchased technology	714	45,113	30,197
Assembled workforce	622	2,940	—
Trade names and logos	—	1,308	7,251
Deferred stock compensation	6,823	855	1,620
	$101,007	$248,463	$325,600

Deferred stock compensation is recorded in stockholders' equity and is being amortized over the vesting period of the applicable options using the straight-line method. Until July 31, 2002, goodwill was amortized over estimated useful lives which ranged from three to five years. We implemented SFAS 142 on August 1, 2002. As a result, goodwill will no longer be amortized but will be subject to annual impairment tests. Most other intangible assets will continue to be amortized over their estimated useful lives, which range from one to fifteen years. In accordance with the provisions of SFAS 142, effective August 1, 2002 we transferred the net balance of $1.9 million for assembled workforce to goodwill and will no longer amortize that intangible asset. See Notes 1 and 5.

Of the total goodwill acquired in fiscal 2000, none was deductible for income tax purposes. Of the total goodwill acquired in fiscal 2001 and 2002, $148,950 and $115,031, respectively, were deductible for income tax purposes.

The following table presents acquired goodwill by reportable business segment:

	Fiscal		
	2000	2001	2002
(In thousands)			
Small Business	$40,480	$ —	$ —
Employer Services	—	32,808	—
Consumer Tax	48,268	—	—
Professional Accounting Solutions	—	53,801	—
Personal Finance	—	95,149	—
Global Business	—	—	2,395
Small Business Verticals and Other	—	—	244,147
	$88,748	$181,758	$246,542

10. Divestitures

In January 2001, we sold certain assets of our Quicken Insurance business to InsWeb Corporation for approximately $10.8 million of InsWeb common stock. As a result of the divestiture, we recorded a pre-tax gain of $1.6 million and a related tax provision of $0.6 million in fiscal 2001.

In May 2001, we sold the stock of Venture Finance Software Corp., which held the technology assets of our Quicken Bill Manager business, to Princeton eCom Corporation. In exchange for these assets, Intuit was entitled to receive, at Princeton eCom's election, either approximately 20% of Princeton eCom fully diluted common stock or cash payments of a minimum of $37 million or a combination of stock and cash. In connection with this disposition, we recorded a pre-tax loss of $16.9 million and a related tax benefit of $6.4 million in fiscal 2001. At July 31, 2001, our contractual right to receive payment was valued at $27 million. In fiscal 2002, we determined that this asset was impaired and recorded a charge to reduce the carrying value of our investment to its fair value of zero. See Note 12.

In March 2002, we paid $12.0 million to terminate our $20.3 million obligation under an interactive services agreement related to our Quicken Bill Manager business. When we terminated this agreement, we recorded a pre-tax non-operating gain of $8.3 million and related tax expense of $2.7 million in fiscal 2002.

11. Discontinued Operations

Quicken Loans

We acquired our Quicken Loans mortgage business segment in a transaction accounted for as a pooling of interests in December 1999. See Note 9. On July 31, 2002, we sold that business to a company called BRFC LLC. We transferred all of our capital stock in Quicken Loans Inc. and Title Source, Inc. to Rock Acquisition Corporation ("Rock"), a newly-created corporation, then subsequently sold all of the voting stock of Rock to BRFC. The voting stock represented 87.5% of Rock's total outstanding common stock. We retain a 12.5% non-voting equity interest in Rock and our investment will be accounted for on a cost basis since we do not have the ability to exercise significant influence.

Prior to July 31, 2002, Quicken Loans Inc. and Title Source, Inc. repaid all outstanding intercompany balances and the net tangible shareholders' equity in excess of $33.0 million to Intuit. We received $33.0 million from BFRC and a five-year secured promissory note in the principal amount of $23.3 million from Rock as consideration. The note will be repayable earlier if Rock achieves certain financial performance targets. We will earn market interest rates on the promissory note, which is recorded as a long-term note receivable in other assets on the balance sheet.

Rock continues to offer loans under the Quicken Loans brand and is licensing from Intuit the use of the Quicken Loans trademark for its residential home loan and home equity loan products. We will receive a minimum royalty of $1.8 million a year for each of the next five years under this licensing agreement. In addition, we entered into a five-year distribution agreement under which Quicken Loans will provide mortgage services on Quicken.com. We will receive a minimum fee of $0.8 million a year under this distribution agreement. The royalties from the licensing agreement and the fees from the distribution agreement will be recorded as earned and included in other income on our statement of operations. We have also agreed to continue providing a line of credit of up to $375.0 million to fund mortgage loans for a transition period of up to six months. The line expires on January 31, 2003. The line of credit is secured by the related mortgage loans and the interest rate is based on the six-month LIBOR rate plus 1.5%. The balance outstanding on this line of credit of $245.6 million at July 31, 2002 is included on our balance sheet under amounts due from discontinued operations entities.

We accounted for the sale of Quicken Loans as discontinued operations. In accordance with APB Opinion No. 30, the net assets, operating results and cash flows of Quicken Loans have been segregated from continuing operations in our balance sheets, statements of operations and statements of cash flows. The sale resulted in a pretax gain of $23.3 million in the fourth quarter of fiscal 2002. We did not record the tax benefit related to the gain on the transaction because we cannot be assured that we will realize the tax benefit. We recorded the transaction based on preliminary financial information, which is subject to change based on an audit of the final tangible shareholders' equity balance of Quicken Loans.

Intuit KK

On February 7, 2003, we sold our wholly-owned Japanese subsidiary, Intuit KK, to Advantage Partners, Inc., a private equity investment firm located in Japan. Under the terms of the agreement, Advantage Partners purchased 100 percent of the outstanding Intuit KK stock for 9.5 billion yen or approximately $79 million as of February 7, 2003.

In accordance with the provisions of SFAS 144, *"Accounting for the Impairment or Disposal of Long-lived Assets,"* we determined that Intuit KK became a long-lived asset held for sale during the second quarter of fiscal 2003 because management put a plan in place to sell this asset which met the conditions specified in the pronouncement. SFAS 144 provides that a long-lived asset classified as held for sale should be measured at the lower of its carrying amount or fair value less cost to sell. Since the carrying value of Intuit KK at January 31, 2003 was significantly lower than the fair value, no adjustment to the carrying value of this long-lived asset was necessary during the second quarter of fiscal 2003. Also in accordance with the provisions of SFAS 144, we determined that Intuit KK became a discontinued operation during the second quarter of fiscal 2003. The net assets, operating results and cash flows of Intuit KK have therefore been segregated from continuing operations in our balance sheets, statements of operations and statements of cash flows for all periods presented.

In December 2002, in order to minimize the impact of foreign currency exchange rates on the sale proceeds during the period between the announcement of the sale of Intuit KK and the closing of the transaction, we entered into a foreign currency hedge contract to sell 9.5 billion Japanese yen in February 2003.

Discontinued Operations Net Revenue and Income (Loss) from Discontinued Operations Before Income Taxes

Net revenue and income (loss) from discontinued operations before income taxes for the periods presented were as follows:

	Fiscal		
(In thousands)	2000	2001	2002
Net revenue from discontinued operations			
Quicken Loans	$ 56,476	$113,056	$189,222
Intuit KK	55,631	52,343	46,120
Total net revenue from discontinued operations	$112,107	$165,399	$235,342
Income (loss) from discontinued operations before income taxes			
Quicken Loans	$(26,018)	$ 34,010	$ 73,610
Intuit KK	(3,513)	6,581	14,390
Total discontinued operations before income taxes	$(29,531)	$ 40,591	$ 88,000

12. Loss on Impairment of Long-lived Asset

In connection with the sale of our Quicken Bill Manager business in May 2001, we acquired a $27.0 million long-term asset related to future consideration from Princeton eCom which was recorded as other assets on the balance sheet at July 31, 2001. See Note 10.

As discussed in Note 1, we regularly perform reviews to determine if the carrying values of our long-lived assets are impaired. We look for facts or circumstances, either internal or external, that indicate that the carrying value of an asset cannot be recovered. During fiscal 2002, events and circumstances indicated impairment of this asset. These indicators included the deterioration of Princeton eCom's financial position (including cash flows and liquidity) and the decreased likelihood that it would receive future funding. We considered the implied fair value of our investment based on Princeton eCom's most recent round of planned funding, as well as the fair value of our investment if funding were received. Based on our analysis we recorded a charge of $27.0 million in fiscal 2002 to reduce the carrying value of this asset to its fair value of zero.

13. Charge for Vacant Facilities

During the third quarter of fiscal 2002, we concluded that we would not occupy two vacant leased buildings in Mountain View, California and that we would be unable to recover a substantial portion of our lease obligations by subleasing the vacant space. The resulting $13.2 million charge was equal to the remaining future lease commitments for these facilities, net of estimated future sublease income. The estimated costs of abandoning these leased facilities reflected management's best estimates based on market information and trend analyses compiled by our facilities management team with the help of a commercial real estate brokerage firm retained by Intuit.

During the fourth quarter of fiscal 2002, we made cash lease payments for these two buildings of $0.6 million, reducing the original $13.2 million reserve to a balance of $12.6 million at July 31, 2002. The short-term portion of the reserve is in other current liabilities and the long-term portion is in long-term obligations on our balance sheet. The total reserve is expected to be utilized by the end of fiscal 2010. Our actual future cash payments may exceed the total reserve balance by a maximum of $3.7 million if we are unable to sublease either of the properties.

14. Industry Segment and Geographic Information

SFAS 131, "*Disclosures about Segments of an Enterprise and Related Information,*" establishes standards for the way in which public companies disclose certain information about operating segments in the company's financial reports. Due to the sale of our Quicken Loans mortgage business segment as well as to several acquisitions during fiscal 2002, we have reevaluated our operating segments. Consistent with SFAS 131, we have defined seven operating segments, described below, based on factors such as how we manage our operations and how our chief operating decision maker views results. All operating segments except Global Business are based in the United States and sell primarily to customers located there. We have reclassified prior year financial information to conform to the current year presentation for comparability.

Small Business product revenue is derived primarily from QuickBooks desktop software products and financial supplies. Small Business services revenue is derived primarily from QuickBooks support plans.

Employer Services product revenue is derived primarily from our Do-It-Yourself Payroll offering. Employer Services services revenue is derived primarily from our Assisted Payroll Service and Intuit Payroll Services – Complete Payroll services.

Consumer Tax product revenue is derived primarily from TurboTax federal and state consumer desktop tax preparation products. Consumer Tax services revenue is derived primarily from TurboTax for the Web online tax preparation services and electronic filing services.

Professional Accounting Solutions product revenue is derived primarily from ProSeries and Lacerte professional tax preparation products. Professional Accounting Solutions services revenue is derived primarily from electronic filing and tax advice services.

Personal Finance product revenue is derived primarily from Quicken desktop products. Personal Finance services revenue is minimal. Other revenue consists of Quicken.com advertising revenue and royalties from online transactions revenue.

Global Business product revenue is derived primarily from QuickBooks, Quicken and QuickTax desktop software products in Canada. Global Business services revenue consists primarily of revenue from software maintenance contracts sold with QuickBooks in Canada.

Small Business Verticals and Other revenue is derived primarily from four businesses that we acquired in fiscal 2002 that provide small business management software solutions for vertical industries. Those businesses are Intuit Construction Business Solutions (formerly OMware, Inc.); Intuit Public Sector Solutions (formerly The Flagship Group); Intuit MRI Real Estate Solutions (formerly Management Reports, Inc.); and Intuit Eclipse Distribution Management Solutions (formerly Eclipse, Inc.). See Note 9.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in Note 1. Intuit does not track assets by operating segments and, consequently, does not disclose assets by operating segments. The following results for the fiscal years ended July 31, 2000, 2001 and 2002 are broken out by our operating segments.

Fiscal 2000	Small Business	Employer Services	Consumer Tax	Professional Accounting Solutions	Personal Finance	Global Business	Small Business Verticals and Other (1)	Consolidated
(In thousands)								
Product revenue	$275,313	$30,613	$170,432	$161,413	$ 98,815	$38,730	$ —	$ 775,316
Service revenue	20,215	44,754	40,915	9,107	—	—	—	114,991
Other revenue	15,969	—	4,803	—	70,639	—	—	91,411
Total net revenue	311,497	75,367	216,150	170,520	169,454	38,730	—	981,718
Segment operating income (loss)	130,280	(3,878)	99,032	82,092	35,528	10,338	(874)	352,518
Common expenses	—	—	—	—	—	—	(181,581)	(181,581)
Sub-total	130,280	(3,878)	99,032	82,092	35,528	10,338	(182,455)	170,937
Acquisition-related costs	—	—	—	—	—	—	(158,523)	(158,523)
Realized net gains on marketable securities	—	—	—	—	—	—	481,130	481,130
Interest and other income	—	—	—	—	—	—	48,697	48,697
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	$130,280	$ (3,878)	$ 99,032	$ 82,092	$ 35,528	$10,338	$ 188,849	$ 542,241

Fiscal 2001	Small Business	Employer Services	Consumer Tax	Professional Accounting Solutions	Personal Finance	Global Business	Small Business Verticals And Other (1)	Consolidated
(In thousands)								
Product revenue	$277,992	$ 60,098	$168,169	$177,356	$ 80,182	$41,887	$ —	$ 805,684
Service revenue	32,635	58,103	100,536	11,060	13,136	979	95	216,544
Other revenue	17,952	—	3,423	—	49,685	2,774	—	73,834
Total net revenue	328,579	118,201	272,128	188,416	143,003	45,640	95	1,096,062
Segment operating income (loss)	123,600	13,175	145,975	90,671	21,415	5,605	(18,640)	381,801
Common expenses	—	—	—	—	—	—	(200,166)	(200,166)
Sub-total	123,600	13,175	145,975	90,671	21,415	5,605	(218,806)	181,635
Acquisition-related costs	—	—	—	—	—	—	(262,993)	(262,993)
Realized net losses on marketable securities	—	—	—	—	—	—	(98,053)	(98,053)
Interest and other income	—	—	—	—	—	—	57,593	57,593
Net loss on divestitures	—	—	—	—	—	—	(15,315)	(15,315)
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	$123,600	$ 13,175	$145,975	$ 90,671	$ 21,415	$ 5,605	$(537,574)	$ (137,133)

Fiscal 2002	Small Business	Employer Services	Consumer Tax	Professional Accounting Solutions	Personal Finance	Global Business	Small Business Verticals and Other (1)	Consolidated
(In thousands)								
Product revenue	$318,764	$ 81,731	$219,403	$219,252	$ 71,567	$57,896	$ 8,915	$ 977,528
Service revenue	51,453	72,380	128,354	6,495	8,035	1,115	5,743	273,575
Other revenue	4,400	219	3,340	—	50,683	2,483	—	61,125
Total net revenue	374,617	154,330	351,097	225,747	130,285	61,494	14,658	1,312,228
Segment operating income (loss)	141,346	19,061	214,095	115,162	33,856	15,690	(14,048)	525,162
Common expenses	—	—	—	—	—	—	(251,687)	(251,687)
Sub-total	141,346	19,061	214,095	115,162	33,856	15,690	(265,735)	273,475
Acquisition-related costs	—	—	—	—	—	—	(195,975)	(195,975)
Loss on impairment of long-lived asset	—	—	—	—	—	—	(27,000)	(27,000)
Realized net losses on marketable securities	—	—	—	—	—	—	(15,535)	(15,535)
Interest and other income	—	—	—	—	—	—	27,276	27,276
Net gain on divestiture	—	—	—	—	—	—	8,308	8,308
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	$141,346	$ 19,061	$214,095	$115,162	$ 33,856	$15,690	$(468,661)	$ 70,549

(1) Other includes revenue and segment operating income (loss) related to our vertical business operations as well as reconciling items such as acquisition-related costs, including amortization of purchased software and charges for purchased research and development, and other common costs not allocated to specific segments. Certain indirect operating costs were no longer allocated to our reporting segments beginning in fiscal 2002. As a result, segment operating income (loss) and common expenses for fiscal 2000 and 2001 have been reclassified to conform to the fiscal 2002 presentation for comparability.

15. Other Current Liabilities

Other current liabilities at July 31, 2001 and 2002 were as follows:

	July 31,	
	2001	2002
(In thousands)		
Reserve for product returns	$27,899	$32,095
Future cash payments due for CRI acquisition	23,969	—
Future cash payments due for CBS Payroll acquisition	—	25,359
Other acquisition and disposition related items	18,001	4,667
Rebates	9,994	8,169
Other accruals	12,247	11,505
	$92,110	$81,795

16. Commitments

Intuit leases office facilities and equipment under various operating lease agreements. The leases provide for annual rent increases of up to 10%. Annual minimum commitments under these leases are shown in the table below. The table includes leases for two vacant facilities in Mountain View, California and excludes any potential future sublease income for those facilities. See Note 13.

Fiscal Year	Commitments
(Dollars in thousands)	
2003	$ 28,984
2004	26,305
2005	24,052
2006	22,245
2007	19,597
Thereafter	29,524
	$150,707

Total lease expense for the years ended July 31, 2000, 2001 and 2002 was approximately $18.6 million, $23.2 million, and $23.9 million, respectively. Lease expense for fiscal 2002 does not include a charge of $13.2 million for the two vacant facilities referred to above. See Note 13.

In connection with the sale of our Quicken Loans mortgage business in July 2002, we agreed to continue providing a line of credit of up to $375.0 million to fund mortgage loans for the purchasing company for a transition period of up to six months. The line of credit is secured by the related mortgage loans. The balance outstanding on this line of credit of $245.6 million at July 31, 2002 is included on our balance sheet under amounts due from discontinued operations entities. See Note 11.

17. Stockholders' Equity

Stock Option Plans

On February 1, 1993, our stockholders adopted the 1993 Equity Incentive Plan. The 1993 Plan terminated on January 18, 2002 when our stockholders approved our 2002 Equity Incentive Plan. In connection with our adoption of the 2002 Plan (described below), we transferred 1,900,000 of the shares remaining available for grant under the 1993 Plan to the 2002 Plan and we ceased making new grants under the 1993 Plan. We removed the remaining 1,909,906 shares available for grant under the 1993 Plan from the pool of options available for grant when the plan terminated. All outstanding options under the 1993 Plan remain in effect in accordance with their terms. Under the 1993 Plan, we were permitted to grant incentive and non-qualified stock options, restricted stock awards and stock bonuses to employees, directors, consultants, and independent contractors of and advisors to Intuit. The Compensation Committee of the Board of Directors or its delegees determined who would receive grants, exercisability, exercise price and other terms. The option exercise price was generally the fair market value at the date of grant. The outstanding options generally vest over four years based on continued service and expire after ten years.

On October 7, 1996, we adopted the 1996 Directors Stock Option Plan. This plan provides for non-qualified stock options for a specified number of shares to be granted to all non-employee directors of Intuit. As of December 2001, Board members who serve on the Audit Committee and Compensation Committee receive additional annual grants. The option exercise price equals the fair market value at the date of grant. Most options are subject to vesting over time based on continued service, with vesting periods ranging from two to four years. All options expire after ten years.

On November 11, 1998, we adopted the 1998 Option Plan for Mergers and Acquisitions. Under the 1998 Plan, we may grant non-qualified stock options to individuals who we hire as a result of our acquisitions of, or mergers with, other companies. The 1998 Plan was designed to meet the "broadly based plans" exemption from the stockholder approval requirement for stock option plans under the Nasdaq Stock Market listing requirements at the time the plan was adopted and, accordingly, has not been submitted to Intuit stockholders for approval. Options under the 1998 Plan can only be granted to eligible individuals within 18 months following the completion of the relevant acquisition or merger. Options granted under the 1998 Plan have an exercise price not less than the fair market value of Intuit's common stock on the date of grant. During fiscal 2002, Intuit changed its standard option vesting schedule so that future options granted generally become exercisable over a three-year period based on continued service and expire seven years after the grant date. Prior to that change, options generally vested over four years and

expired ten years after the grant date. Options granted to officers hired as a result of a merger or acquisition cannot exceed 45% of all shares reserved for grant under the 1998 Plan.

On January 18, 2002, our stockholders approved the 2002 Equity Incentive Plan. Under the 2002 Plan, we may grant incentive and non-qualified stock options, restricted stock awards and stock bonuses to employees, directors, consultants, and independent contractors of and advisors to Intuit. The Compensation Committee of the Board of Directors or its delegees determines who will receive grants, exercisability, exercise price and other terms. The option exercise price is generally the fair market value at the date of grant. During fiscal 2002, Intuit changed its standard option vesting schedule so that future options granted generally become exercisable over a three-year period based on continued service and expire seven years after the grant date. Prior to that change, options vested over four years and expired ten years after the grant date.

In addition, in several instances we have assumed the outstanding options of companies that we acquired. Intuit granted no further options under the acquired companies' option plans after the date of acquisition. We assumed options in connection with our acquisitions of Boston Light Software Corp. and Hutchison Avenue Software Corporation in August 1999, Rock Financial Corporation in December 1999, EmployeeMatters, Inc. in January 2001, The Flagship Group in May 2002 and CBS Employer Services, Inc. in June 2002.

A summary of activity under all option plans is as follows:

	Shares Available for Grant	Options Outstanding		
		Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price Per Share
Balance at July 31, 1999	7,929,742	31,695,232	$ 0.02-$31.21	$ 16.13
Additional shares authorized	9,000,000	—	—	—
Options assumed related to acquisitions	964,941	—	—	—
Options converted related to acquisitions	(964,941)	964,941	0.003 – 51.69	5.21
Options granted	(9,887,734)	9,887,734	2.50 – 72.31	34.44
Options exercised	—	(6,651,954)	0.003 – 33.53	11.49
Options canceled or expired:				
Options canceled or expired and returned to option pool	4,051,948	(4,051,948)	7.25 – 64.81	22.92
Options canceled from expired plans	571,780	(571,780)	0.39 – 29.11	15.69
Options removed from shares available for grant	(571,780)	—	—	—
Balance at July 31, 2000	11,093,956	31,272,225	$0.003 - $72.31	$ 23.43
Additional shares authorized	9,825,000	—	—	—
Options assumed related to acquisitions	74,235	—	—	—
Options converted related to acquisitions	(74,235)	74,235	0.18 – 71.92	9.19
Options granted	(12,556,801)	12,556,801	24.88 – 67.50	40.94
Options exercised	—	(5,201,860)	0.003 – 51.06	15.69
Options canceled or expired:				
Options canceled or expired and returned to option pool	2,676,348	(2,676,348)	7.25 – 67.50	34.65
Options canceled from expired plans	191,220	(191,220)	0.18 – 51.69	33.33
Options removed from shares available for grant	(191,220)	—	—	—
Balance at July 31, 2001	11,038,503	35,833,833	$ 0.003-$72.31	$ 29.77
Additional shares authorized	8,090,000	—	—	—
Options assumed related to acquisitions	324,207	—	—	—
Options converted related to acquisitions	(324,207)	324,207	6.93 – 43.10	26.26
Options granted	(8,887,021)	8,887,021	7.29 – 67.50	39.03
Options exercised	—	(5,961,223)	0.03 – 49.31	19.07
Options and shares canceled or expired:				
Options canceled or expired and returned to option pool	2,061,912	(2,061,912)	7.25 – 67.50	38.09
Options canceled from expired plans	2,364,140	(2,364,140)	0.18 – 67.50	36.58
Options and shares removed from shares available for grant (1)	(4,274,046)	—	—	—
Balance at July 31, 2002	10,393,488	34,657,786	$ 0.003-$72.31	$ 32.99

(1) Includes 2,364,140 shares reflecting options that were canceled and not returned to any option pool because they were granted under expired plans, and 1,909,906 shares that were eliminated from shares available for grant in connection with the termination of the 1993 Plan.

We define net option grants as options granted less options canceled or expired and returned to the pool of options available for grant. For fiscal 2000, net option grants were 5,835,786 shares or 2.9% of the 204,299,955 shares outstanding at July 31, 2000. Net option grants for fiscal 2001 were 9,880,453 shares or 4.7% of the 210,526,239 shares outstanding at July 31, 2001. Net option grants for fiscal 2002 were 6,825,109 shares or 3.2% of the 211,163,641 shares outstanding at July 31, 2002. If net option grants are calculated by subtracting both canceled or expired options that were returned to the pool of options available for grant and options canceled from expired plans, net option grants were 5,264,006 shares or 2.6% of outstanding shares in fiscal 2000, 9,689,233 shares or 4.6% of outstanding shares in fiscal 2001 and 4,460,969 shares or 2.1% of outstanding shares in fiscal 2002.

There were 11,608,020, 15,551,666 and 18,264,940 options exercisable under the various plans at July 31, 2000, 2001 and 2002, respectively. At July 31, 2002, there were 171,875 shares available for grant under the 1996 Directors Stock Option Plan, 2,134,701 shares available for grant under the 1998 Plan and 8,086,912 shares available for grant under the 2002 Plan.

The following table summarizes information about stock options outstanding as of July 31, 2002:

	Options Outstanding			Options Exercisable	
Exercise Price	**Number**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Number**	**Weighted Average Exercise Price**
$0.003-$9.00	3,487,650	4.66	$ 7.90	3,420,182	$ 7.96
$9.10-$16.58	3,621,057	5.80	$ 14.38	3,481,270	$ 14.37
$16.94-$27.25	3,541,319	6.92	$ 25.25	2,649,635	$ 25.09
$27.71-$29.38	3,628,234	7.71	$ 29.08	1,959,459	$ 28.94
$29.85-$35.00	4,957,399	8.12	$ 32.85	2,471,646	$ 32.71
$35.31-$37.26	4,723,441	8.93	$ 36.91	598,286	$ 36.08
$38.05-$43.36	4,081,544	8.67	$ 40.62	782,320	$ 39.66
$43.73-$54.06	3,535,537	7.71	$ 47.79	1,256,301	$ 49.56
$57.75-$71.92	3,059,105	7.86	$ 63.86	1,623,341	$ 63.64
$72.31-$72.31	22,500	7.57	$ 72.31	22,500	$ 72.31
$0.003-$72.31	34,657,786	7.47	$ 32.99	18,264,940	$ 27.44

Stock Split

Intuit's Board of Directors authorized a three-for-one stock split on September 8, 1999. This was effected by distributing a 200% stock dividend on September 30, 1999 to stockholders of record on September 20, 1999. We have restated all share and per share amounts referred to in the financial statements and notes to reflect this stock split.

Stock Repurchase Program

In May 2001, Intuit's Board of Directors authorized the company to repurchase up to $500.0 million of common stock from time to time over a three-year period. In July 2002, our Board of Directors increased the authorized purchase amount by $250.0 million. Shares of stock repurchased under the program become treasury shares. During the fourth quarter of fiscal 2001, we repurchased 238,500 shares of our common stock under this program for an aggregate cost of approximately $8.4 million. During fiscal 2002, we repurchased 7,361,839 shares of our common stock under this program for an aggregate cost of approximately $318.4 million. During fiscal 2002, we reissued 4,621,793 million shares of treasury stock in connection with employee stock plans.

When we reissue treasury shares, 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.

Repurchases through July 31, 2002 have had no significant impact on our net income or loss per share. Intuit intends to continue using its cash and cash equivalents to fund these repurchases.

Employee Stock Purchase Plan

In October 1996, Intuit adopted an Employee Stock Purchase Plan under Section 423 of the Internal Revenue Code. A total of 3,800,000 shares of common stock are reserved for issuance under the plan. The plan allows eligible employees to purchase Intuit's stock at 85% of the lower of the fair market value at the beginning of each 12-month offering period or at the end of the applicable six-month purchase period. During fiscal 2000, 2001 and 2002 employees purchased 355,281, 469,873 and 583,990 shares, respectively. At July 31, 2002, there were 1,261,479 shares available for issuance under this plan.

Stock-Based Compensation

We follow APB Opinion No. 25, "*Accounting for Stock Issued to Employees*," in accounting for stock-based compensation. Accordingly, we are not required to record compensation expense when stock options are granted to employees, as long as the exercise price is not less than the fair market value of the stock when the option is granted,

and we are not required to record compensation expense in connection with the Employee Stock Purchase Plan as long as the purchase price is not less than 85% of the lower of the fair market value at the beginning of each 12-month offering period or at the end of each applicable six-month purchase period. In October 1995, the FASB issued SFAS 123, "*Accounting for Stock Based Compensation*." Although SFAS 123 allows us to continue to follow the present APB 25 guidelines, we are required to disclose pro forma net income (loss) and net income (loss) per share as if we had adopted SFAS 123. The pro forma impact of applying SFAS 123 in fiscal 2000, 2001 and 2002 will not necessarily be representative of the pro forma impact in future years.

We have elected to use the Black-Scholes model to estimate the fair value of options granted. This valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model requires the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect this estimate, we believe the Black-Scholes model does not necessarily provide a reliable single measure of the fair value of our employee stock options. Inputs used for the valuation model are as follows:

	Options			Employee Stock Purchase Plan		
	Fiscal			Fiscal		
	2000	2001	2002	2000	2001	2002
Expected life (years)	1.75–4.75	1.73–4.73	1.89–4.89	0.50	0.50	1.00
Expected volatility factor	0.73	0.76	0.74	0.73	0.76	0.74
Risk-free interest rate (%)	5.61–6.80	3.51–6.03	1.23–5.47	5.57–5.77	3.47–5.84	1.80–2.70
Expected dividend yield (%)	—	—	—	—	—	—

Our pro forma net income (loss) and diluted net income (loss) per share would have been as follows if we had adopted SFAS 123 and recorded compensation expense for our stock option plans and Employee Purchase Plan in accordance with its provisions:

	Fiscal		
	2000	2001	2002
(In thousands, except per share data)			
Net income (loss)			
As reported	$305,661	$ (82,793)	$140,160
Pro forma	210,376	(185,469)	50,626
Diluted net income (loss) per share			
As reported	$ 1.45	$ (0.40)	$ 0.64
Pro forma	1.00	(0.89)	0.23

The weighted average fair values of options granted during fiscal 2000, 2001 and 2002 were approximately $23.27, $21.77 and $20.31, respectively.

18. Performance Sharing and Benefit Plans

Performance Sharing Plan

Eligible employees participate in Intuit's performance sharing plan. The Compensation Committee of the Board of Directors determines aggregate amounts to be paid under the plan. Performance-sharing expense for fiscal 2000, 2001 and 2002 was approximately $20.7 million, $21.9 million and $17.6 million, respectively.

Executive Deferred Compensation Plan

Intuit adopted the Executive Deferred Compensation Plan effective March 15, 2002. The plan allows executives who meet minimum compensation requirements to defer up to 50% of their salaries and up to 100% of their bonuses and commissions. We have agreed to credit the participants' contributions with earnings that reflect the performance of certain independent investment funds. We may also make discretionary employer contributions to participant accounts. The timing, amounts and vesting schedules of employer contributions are at our sole discretion. The benefits under this plan are unsecured and are general assets of Intuit. Participants are generally eligible to receive payment of their vested benefit at the end of their elected deferral period or after termination of their employment with Intuit for any reason. Discretionary company contributions and the related earnings vest

completely upon the participant's disability, death or a change of control of Intuit. We made no employer contributions to the plan during fiscal 2002.

Benefit Plans

Employees who participate in the Intuit 401(k) Plan may contribute up to 20% of pre-tax salary to the plan, subject to IRS limitations. Intuit matches a specified portion of the employee contributions up to a maximum amount per employee per year. The amount is subject to change on an annual basis. At July 31, 2001 and 2002, the match was 75%, up to $2,500. Matching contributions were approximately $6.6 million, $6.9 million and $8.4 million, respectively, for the years ended July 31, 2000, 2001 and 2002. Participating employees age 50 or older may make catch-up contributions. These contributions are not matched.

19. Stockholder Rights Plan

On April 29, 1998, the Board of Directors adopted a stockholder rights plan designed to protect the long-term value of Intuit for its stockholders during any future unsolicited acquisition attempt. In connection with the plan, the Board declared a dividend of one preferred share purchase right for each share of Intuit's common stock outstanding on May 11, 1998 (the "Record Date") and further directed the issuance of one such right with respect to each share of Intuit's common stock that is issued after the Record Date, except in certain circumstances. If a person or a group (an "Acquiring Person") acquires 20% or more of Intuit's common stock, or announces an intention to make a tender offer for Intuit's common stock, the consummation of which would result in a person or group becoming an Acquiring Person, then the rights will be distributed (the "Distribution Date"). After the Distribution Date, each right may be exercised for 1/3000th of a share of a newly designated Series B Junior Participating Preferred stock at an exercise price of approximately $83.33 per share. The preferred stock has been structured so that the value of 1/3000th of a share of such preferred stock will approximate the value of one share of common stock. The rights will expire on May 1, 2008. In July 2002, we adopted a policy that requires an independent committee of our Board of Directors to review the rights plan at least once every three years to consider whether maintaining the rights plan continues to be in the best interests of Intuit and its stockholders.

20. Income Taxes

Income (loss) from continuing operations before income taxes included income (loss) from foreign operations of $7.9 million, $4.6 million and $8.0 million for fiscal 2000, 2001 and 2002, respectively. The provision (benefit) for income taxes from continuing operations consisted of the following:

	Fiscal		
(In thousands)	**2000**	**2001**	**2002**
Current:			
Federal	$ 285,320	$ 46,025	$ 29,970
State	62,041	10,200	7,917
Foreign	2,771	4,699	3,752
	350,132	60,924	41,639
Deferred:			
Federal	(110,490)	(63,900)	(21,617)
State	(23,092)	(9,501)	(3,088)
	(133,582)	(73,401)	(24,705)
Total provision (benefit) for income taxes	$ 216,550	$(12,477)	$ 16,934

Differences between income taxes calculated using the federal statutory income tax rate of 35% and the provision (benefit) for income taxes from continuing operations were as follows:

(In thousands)	Fiscal 2000	Fiscal 2001	Fiscal 2002
Income (loss) from continuing operations before income taxes	$542,241	$(137,133)	$ 70,549
Statutory federal income tax	$189,784	$ (47,997)	$ 24,692
State income tax, net of federal benefit	25,317	699	4,829
Federal research and experimental credits	(5,000)	(4,000)	(4,000)
Non-deductible merger related charges	11,263	49,407	16,759
Tax exempt interest	(8,204)	(13,633)	(8,710)
Tax benefit related to divestiture	—	—	(25,770)
Other, net	3,390	3,047	9,134
Total	$216,550	$ (12,477)	$ 16,934

Tax savings from deductions associated with our various stock option plans are not reflected in the current federal and state provisions. Savings were approximately $93.5 million in fiscal 2000, $59.5 million in fiscal 2001 and $53.2 million in fiscal 2002. These amounts were credited to stockholders' equity and reduced taxes payable.

Significant deferred tax assets and liabilities were as follows:

(In thousands)	July 31, 2001	July 31, 2002
Deferred tax assets:		
Accruals and reserves not currently deductible	$ 39,005	$ 48,494
NOL and tax credits carryforward	—	25,594
State income taxes	38,194	—
Unrealized loss on marketable securities	—	9,326
Merger charges	121,197	141,950
Fixed asset adjustments	29,656	18,735
Other, net	8,084	7,012
Total deferred tax assets	236,136	251,111
Deferred tax liabilities:		
Unrealized gain on marketable securities	(1,948)	—
Total deferred tax liabilities	(1,948)	—
Total net deferred tax assets	234,188	251,111
Valuation reserve	(11,411)	(6,759)
Total net deferred tax assets (liabilities), net of valuation reserve	$222,777	$244,352

We have provided a valuation reserve related to the benefits of losses in our foreign subsidiaries and certain state capital loss carryforwards that we believe are unlikely to be realized. The valuation allowance decreased by $0.2 million in fiscal 2000, did not change in fiscal 2001 and decreased by $4.7 million in fiscal 2002.

At July 31, 2002, we had U.S. federal and foreign net operating loss carryforwards of approximately $26.1 million and $1.4 million, respectively. These net operating losses will expire at various dates beginning in fiscal 2005 if not utilized. At July 31, 2002, we also had various state tax credit carryforwards totaling approximately $13.8 million. The state credit carryforwards have no expiration date. Utilization of the net operating loss carryforwards may be subject to substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code of 1986, as amended. The annual limitation may result in the expiration of net operating losses before utilization.

21. Litigation

On March 3, 2000, a class action lawsuit, Bruce v. Intuit Inc., was filed in the United States District Court, Central District of California, Eastern Division. Two virtually identical lawsuits were later filed: Rubin v. Intuit Inc., was filed on March 8, 2000 in the United States District Court, Southern District of New York and Newby v. Intuit Inc. was filed on April 27, 2000, in the United States District Court, Central District of California, Eastern Division. The Bruce and Newby lawsuits were consolidated into one lawsuit, In re Intuit Privacy Litigation, filed on July 28, 2000 in the United States District Court, Central District of California, Eastern Division. Following Intuit's successful motion to dismiss several of the claims, an amended complaint was filed on May 2, 2001. A similar lawsuit, Almanza v. Intuit Inc. was filed on March 22, 2000 in the Superior Court of the State of California, San Bernardino

County, Rancho Cucamonga Division. An amended complaint in the Almanza suit was filed on October 26, 2000. These purported class actions alleged violations of various federal and California statutes and common law claims for invasion of privacy based upon the alleged intentional disclosure to third parties of personal and private customer information entered at Intuit's Quicken.com Web site. The complaints sought injunctive relief, orders to disgorge profits related to the alleged acts, and statutory and other damages. In August 2001, Intuit and the plaintiffs' counsel in all of the cases except Rubin reached an agreement in principle to resolve the cases, subject to court approval, based on terms that are not material to Intuit. The Rubin case was dismissed on November 19, 2001.

Intuit is subject to other routine legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of our business. 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 liquidity. However, the ultimate outcome of any litigation is uncertain, and either unfavorable or favorable outcomes could have a material negative impact. Regardless of outcome, litigation can have an adverse impact on Intuit because of defense costs, diversion of management resources and other factors.

22. Related Party Transactions

We participated in the formation of Venture Finance Software Corp. in May 1998 in order to facilitate the development of certain Web-oriented finance products. At July 31, 2000, we held a 49% non-voting equity interest in VFSC. We entered into agreements with VFSC to provide it with services related to on-going development of Web-oriented finance products and received cost reimbursements of approximately $23.8 million in fiscal 2000 for development and administrative services provided in connection with this agreement. In August 2000, we acquired all of the outstanding securities of VFSC. See Note 9. In May 2001, we sold certain technology assets acquired from VFSC to Princeton eCom Corporation. See Note 10.

Loans to executive officers and other employees at July 31, 2001 and 2002 were as follows:

	July 31,	
	2001	**2002**
(In thousands)		
Loans to executive officers	$ 9,502	$14,865
Loans to other employees	3,357	6,405
	$12,859	$21,270

Loans to executive officers are primarily relocation loans. Of the total loans to executive officers at July 31, 2002, $9.5 million accrue no interest for either the term of the note or for up to four years. The remaining loans to executive officers at July 31, 2002 accrue interest at rates equal to the applicable federal rates in effect at the time the loans were made. Of the total outstanding loans to executive officers and other employees at July 31, 2002, loans with a remaining principal balance of $20.2 million are secured by real property. The loans have terms which range from one to ten years.

23. Selected Quarterly Consolidated Financial Data (Unaudited)

The following tables contain selected quarterly consolidated financial data for fiscal years 2001 and 2002. We accounted for the July 2002 sale of our Quicken Loans mortgage business segment and the February 2003 sale of our Japanese subsidiary, Intuit KK, as discontinued operations. As a result, the operating results of Quicken Loans and Intuit KK have been segregated from continuing operations in our consolidated financial statements and in these tables. See Note 11.

	Fiscal 2001 Quarter Ended			
	October 31	January 31	April 30	July 31
(In thousands, except per share data)				
Total net revenue	$159,953	$420,032	$377,204	$138,873
Cost of revenue	61,243	96,480	70,606	56,480
All other costs and expenses	190,095	231,305	283,276	187,935
Income (loss) from continuing operations before cumulative effect of accounting change	(48,245)	24,562	(24,728)	(76,245)
Net income from discontinued operations	166	2,000	10,427	14,956
Net income (loss)	(33,765)	26,562	(14,301)	(61,289)
Basic net income (loss) per share from continuing operations before cumulative effect of accounting change	$ (0.23)	$ 0.12	$ (0.12)	$ (0.36)
Diluted net income (loss) per share from continuing operations before cumulative effect of accounting change	(0.23)	0.11	(0.12)	(0.36)
Basic net income per share from discontinued operations	0.00	0.01	0.05	0.07
Diluted net income per share from discontinued operations	0.00	0.01	0.05	0.07

	Fiscal 2002 Quarter Ended			
	October 31	January 31	April 30	July 31
(In thousands, except per share data)				
Total net revenue	$ 158,318	$475,908	$491,152	$186,850
Cost of revenue	61,711	113,421	69,006	57,658
All other costs and expenses	233,625	267,180	243,740	215,387
Income (loss) from continuing operations before cumulative effect of accounting change	(103,306)	99,896	132,702	(75,677)
Net income from discontinued operations	10,879	19,972	11,779	43,915
Net income (loss)	(92,427)	119,868	144,481	(31,762)
Basic net income (loss) per share from continuing operations before cumulative effect of accounting change	$ (0.49)	$ 0.47	$ 0.63	$ (0.36)
Diluted net income (loss) per share from continuing operations before cumulative effect of accounting change	(0.49)	0.46	0.62	(0.36)
Basic net income per share from discontinued operations	0.05	0.09	0.05	0.21
Diluted net income per share from discontinued operations	0.05	0.09	0.05	0.21

24. Subsequent Event (Unaudited)

On September 13, 2002, we completed the purchase of Blue Ocean Software, Inc. for approximately $170.0 million in cash. Blue Ocean offers software solutions that help businesses manage their information technology resources and assets. Intuit plans to operate Blue Ocean as a separate business unit under its Small Business division led by Blue Ocean’s chief executive officer and headquartered in Tampa, Florida.

Schedule II

INTUIT INC.

VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Additions Charged to Expense/ Revenue	Deductions	Balance at End of Period
(In thousands)				
Year ended July 31, 2000				
Allowance for doubtful accounts	$11,215	$ 4,884	$ (7,462)	$ 8,637
Reserve for product returns	$60,670	$48,077	$(52,951)	$55,796
Year ended July 31, 2001				
Allowance for doubtful accounts	$ 8,637	$10,593	$ (3,379)	$15,851
Reserve for product returns	$55,796	$53,660	$(81,557)	$27,899
Year ended July 31, 2002			)	
Allowance for doubtful accounts	$15,851	$ 3,494	$(13,649)	$ 5,696
Reserve for product returns	$27,899	$92,798	$(88,602)	$32,095

Note: Additions to the allowance for doubtful accounts are charged to expense. Additions to the reserve for product returns are charged against revenue.