UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended **July 31, 2004** or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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.)*

2700 Coast Avenue, Mountain View, CA 94043

(Address of principal executive offices, including zip code)

(650) 944-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:	None
Securities registered pursuant to Section 12(g) of the Act:	Common Stock, $0.01 par value Preferred Stock Purchase Rights

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No o

The aggregate market value of the outstanding common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter (based on the closing price of $50.37) was $9.1 billion. There were 189,097,553 shares of voting common stock with a par value of $0.01 outstanding at August 31, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its Annual Meeting of Stockholders to be held on December 9, 2004 are incorporated by reference in Parts II and III of this report on Form 10-K.

INTUIT INC.
FISCAL 2004 FORM 10-K

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This report contains forward-looking statements that involve risks and uncertainties. Please see the section entitled *“Caution Regarding Forward-Looking Statements”* in Item 7 of this report for important information to consider when evaluating such statements.

PART I

ITEM 1
BUSINESS

CORPORATE BACKGROUND

General

Intuit Inc. is a leading provider of business and financial management solutions for small businesses, accounting professionals and consumers. Our flagship products and services, including QuickBooks, TurboTax, ProSeries, Lacerte and Quicken, simplify small business management, tax preparation and filing, and personal finance. Founded in 1983 and headquartered in Mountain View, California, we had revenue of $1.9 billion in fiscal 2004. We have approximately 6,700 employees in offices across the United States and internationally in Canada, the United Kingdom and several other locations.

Intuit was incorporated in California in March 1984. In March 1993, we reincorporated in Delaware and completed our initial public offering. Our principal executive offices are located at 2700 Coast Avenue, Mountain View, California, 94043, and our telephone number at that location is (650) 944-6000. We maintain our corporate Web site at http://www.intuit.com. When we refer to “we,” “our” or “Intuit” in this Form 10-K, we mean the current Delaware corporation (Intuit Inc.) and its California predecessor, as well as all of our consolidated subsidiaries.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and all other reports, and amendments to these reports, required of public companies with the SEC. The public may read and copy the materials we file with the SEC at the SEC’s Public Reference Room at 450 Fifth Street NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a Web site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Through a link to the SEC Web site, we make available free of charge on the Investor Relations section of our corporate Web site all of the reports we file with the SEC as soon as reasonably practicable after the reports are filed. Copies of Intuit’s fiscal 2004 Form 10-K may also be obtained without charge by contacting Investor Relations, Intuit Inc., P.O. Box 7850, Mountain View, California 94039-7850 or by calling (650) 944-6000.

BUSINESS OVERVIEW

Intuit’s Mission: Transforming Business and Financial Management

Intuit’s mission is to transform the way people run their businesses and manage their financial lives. Our goal is to create solutions so profound and simple that customers wouldn’t dream of going back to their old ways of keeping their books, managing their businesses, preparing their or their clients’ taxes, or organizing their personal finances.

We have three business portfolios: Small Business, Tax and Other. These three portfolios contain a total of five business segments, as discussed below.

Small Business. Our Small Business portfolio consists of two segments, QuickBooks-Related and Intuit-Branded Small Business.

- QuickBooks-Related includes our QuickBooks accounting and business management software as well as the products and services that people add on to QuickBooks. These include financial supplies, Do-It-Yourself Payroll, technical support and merchant services.
- Intuit-Branded Small Business products and services are designed primarily for small businesses but do not carry the QuickBooks brand or require the use of QuickBooks. Intuit-Branded Small Business offerings

include outsourced payroll, information technology management solutions and solutions designed to meet the specialized needs of businesses in four selected industries.

Tax. Our Tax portfolio consists of two segments, Consumer Tax and Professional Tax.

- Consumer Tax includes our TurboTax consumer tax return preparation products and services.
- Professional Tax includes our ProSeries and Lacerte professional tax products and services.

Other. Our Other portfolio contains one business segment, Other Businesses. This segment consists primarily of our Quicken personal finance products and services and our Canadian business.

Company Growth Strategy

Intuit has a tradition of successful customer-driven invention — applying technology to address complex customer problems and develop solutions that make tasks simpler. This tradition has allowed us to build a strong portfolio of businesses that are dedicated to satisfying a variety of customer needs. By applying strategic and operational rigor to this foundation, we believe we can continue to deliver solid revenue and profit growth.

Three key fundamentals support our growth strategy:

- We carefully choose the businesses we’re in, focusing primarily on small business and tax. We choose to be in businesses with large, underserved market opportunities where we believe we have the strategic and durable advantage to produce long-term profitable growth. We’ve made a number of acquisitions and divestitures in the past several years to adjust our business portfolio so that it remains consistent with this focus.
- We expand our tradition of customer-driven invention by looking for significant new customer problems and challenging conventional wisdom to create solutions for customers and generate profitable growth for Intuit.
- We use operational rigor and process excellence methodology, tools and resources to execute more effectively on a daily basis. Our goal is better customer experiences at lower cost.

Customer-Driven Product Strategy

Our focus on customer needs is embodied in our overarching Right for Me product strategy. This strategy is carried out through a number of business-specific initiatives. Using the Right for Me approach, we seek to gain a deep understanding of a broad range of customer needs in our targeted markets. Building on this knowledge, we then develop products and services to meet those specific needs. For example, in December 2001 we launched our small business Right for Me product strategy, taking a customer-driven rather than a “one size fits all” approach to small business product development. As a result, we have expanded our QuickBooks product line to offer industry-specific versions of QuickBooks for small businesses as well as versions of QuickBooks designed for bigger, more complex companies, addressing the market opportunity for businesses with up to 250 employees. Similarly, we are pursuing multi-year, customer-driven strategies in our Consumer Tax, Professional Tax and Other Businesses segments. See *“Products and Services”* below for more information on these business-specific initiatives.

PRODUCTS AND SERVICES

Intuit offers products and services in five business segments: QuickBooks-Related, Intuit-Branded Small Business, Consumer Tax, Professional Tax and Other Businesses. Our primary products and services are sold mainly in the United States and are described below. For financial information about these businesses, see *“Management’s Discussion and Analysis of Financial Condition and Results of Operations”* and Note 11 to the financial statements.

Classes of similar products or services that accounted for 10% or more of total net revenue in fiscal 2002, 2003 and 2004 were as follows:

	Fiscal 2002	Fiscal 2003	Fiscal 2004
QuickBooks	15%	15%	15%
Consumer Tax products and services	27%	26%	26%
Professional Tax products and services	17%	15%	13%

QuickBooks-Related

QuickBooks. Our QuickBooks product line brings bookkeeping capabilities and business management tools to small business users in an easy-to-use design that does not require them to be familiar with debit/credit accounting. As part of our Right for Me strategy, we offer a range of products to suit the needs of different types of small businesses. These include QuickBooks Basic, which provides accounting functionality suitable for smaller, less complex businesses; QuickBooks Pro, which supports up to five simultaneous users; QuickBooks Premier, for small businesses needing more advanced accounting functionality; and QuickBooks Enterprise Solutions Business Management Software, designed for businesses with up to 250 employees. Our Premier and Enterprise products also come in a range of industry-specific editions, including Accountant, Manufacturing and Wholesale, Retail, Non-Profit, Contractor, and Professional Services. QuickBooks Online Edition provides Web-based financial management tools that link multiple users and locations.

As part of our Right for Me strategy, we also offer the following business solutions that go beyond accounting software to address a variety of small business needs.

QuickBooks Point of Sale. Our QuickBooks Point of Sale offering helps retailers manage customer transactions. The Basic version is suitable for single stores that want to ring up sales using barcodes and track inventory and customer purchases. The Pro version offers more advanced functionality such as serial number tracking and the ability to process layaways and special orders while the Pro Multi-Store version allows the transfer of information between stores.

Financial Supplies. We offer a range of financial supplies designed for small businesses and individuals. These include paper checks, envelopes, invoices, deposit slips, stationery and business cards. We also offer tax forms, tax return presentation folders and other supplies for professional tax preparers. Our customers can personalize many products to incorporate their logos and use a variety of color, font and design options.

QuickBooks Do-It-Yourself Payroll. Provides payroll tax tables, forms and electronic tax payment and filing on a subscription basis to small businesses that prepare their own payrolls.

QuickBooks Technical Support. We offer several technical support options to our QuickBooks customers. These include a free self-help information section on our QuickBooks.com Web site as well as support plans that are sold separately and priced based on the level of personal assistance and response time the customer requires.

Innovative Merchant Solutions. We offer a full range of merchant services to small businesses nationwide. These include credit and debit card processing services and Web-based transaction processing services for online merchants.

Intuit Developer Network. The Intuit Developer Network is an initiative that encourages third-party software developers to build applications that exchange data with QuickBooks and other Intuit products by giving them access to certain application programming interfaces. At the end of fiscal 2004, there were approximately 30,700 registered IDN developers and 345 third-party applications available for QuickBooks and other Intuit products.

Intuit-Branded Small Business

We offer Intuit-branded business management solutions for small and medium-sized businesses that include outsourced payroll, information technology management solutions and accounting and business management solutions designed to meet the specialized requirements of businesses in four selected industries.

Outsourced Payroll. Our outsourced payroll services consist of QuickBooks Assisted Payroll Service, Complete Payroll and Premier Payroll Service. QuickBooks Assisted Payroll Service provides the back-end aspects of payroll processing, including tax payments and filings, for customers who process their payrolls using QuickBooks. Complete Payroll provides traditional, full service payroll processing, direct deposit, check delivery and tax payment services. We offer Complete Payroll with QuickBooks integration or on a standalone basis. We also continue to provide full service outsourced payroll to our Premier Payroll Service customers.

Intuit Information Technology Solutions. Our Intuit Track-It! products and services offer small and medium-sized businesses robust tools to track and support their information technology assets and resources. Intuit Track-It! provides information technology managers with comprehensive asset management and help desk solutions. Intuit Information Technology Solutions also offers network management solutions and consulting and training services.

Intuit Distribution Management Solutions (IDMS). IDMS offers Intuit Eclipse software and related technical support, consulting and training services for small and medium-sized companies in the wholesale durable goods industry.

Intuit Real Estate Solutions (IRES). IRES offers MRI Residential software for residential property managers, MRI Commercial software for commercial property managers and CRE Manager software for corporate property managers. IRES also offers technical support, consulting and training services for these software products. IRES has subsidiaries in five international locations.

Intuit Construction Business Solutions (ICBS). ICBS offers Intuit MasterBuilder software and related technical support, consulting and training services for small and medium-sized businesses in the construction industry.

Intuit Public Sector Solutions (IPSS). IPSS offers Intuit Fundware software and related technical support, consulting and training services for nonprofit organizations, universities and government agencies. In August 2004, management formally approved a plan to sell IPSS.

Consumer Tax

Our Right for Me strategy in Consumer Tax strives to offer tax return preparation products and services that appeal to customers who are in a variety of life stages. Our current solutions include:

Consumer Tax Return Preparation Offerings. Our TurboTax products and services are designed to enable individuals and small business owners to prepare their own federal and state personal and business income tax returns easily, quickly and accurately. They are designed to be easy to use, yet sophisticated enough for complex tax returns. We offer a range of desktop software products as well as TurboTax for the Web, an interactive tax preparation service that enables individual taxpayers to prepare their federal and state income tax returns entirely online. One of our premium offerings, TurboTax Premier, addresses the unique income tax needs of investors, those planning for retirement and rental property owners. In addition, our innovative Instant Data Entry feature enables taxpayers to import data directly into their tax returns from Form W-2s (wages), Form 1098s (mortgage interest) and Form 1099s (interest, dividends and stock transactions) from approximately 65 participating financial institutions and payroll service companies. This feature saves TurboTax users time and increases accuracy.

Electronic Filing Services. Through our electronic filing center, our desktop and Web-based tax preparation customers can electronically file their federal income tax returns, as well as state returns in all states that support electronic filing. For the 2001, 2002 and 2003 tax years, we provided online tax preparation services on the Yahoo!® Finance Tax Center. For the 2003 tax year our online tax services were offered through the Web sites of approximately 1700 financial institutions, electronic retailers and other merchants.

Intuit Tax Freedom Project. Under the Intuit Tax Freedom Project, a philanthropic public service initiative of the Intuit Financial Freedom Foundation, we provide online federal income tax return preparation and electronic filing services at no charge to disadvantaged and underserved federal taxpayers. We are a member of the Free File Alliance, a consortium of private sector companies that signed a three-year agreement with the federal government in October 2002 under which a number of private sector companies, rather than the federal government, are providing Web-based federal tax preparation and filing services at no cost through voluntary public service initiatives. Unless the government or the consortium elect to terminate the agreement, it will renew every two years in perpetuity after the October 2005 expiration of the initial term. We donated approximately 724,000 federal units under this program in fiscal 2004.

Professional Tax

Our Professional Tax segment provides a variety of software and services for accountants in public practice who serve multiple clients. We design, create, sell and support offerings that help professional accountants provide accounting, tax planning and tax compliance services to their individual and business clients and that help them manage their own practices more effectively. Our current tax software products include ProSeries and Lacerte. For the 2004 tax year, we will offer two new products: ProSeries Basic Edition, designed for the needs of smaller tax practices, and ProSeries Express Edition, designed for tax practices that focus on helping taxpayers obtain their tax refunds quickly. Customers can elect to license professional tax products for a flat fee for unlimited annual use, or use them on a “pay-per-return” basis. ProSeries, ProSeries Basic, ProSeries Express and Lacerte customers can file their clients’ tax returns using Intuit’s electronic filing services. In addition, Intuit® EasyACCT® Professional Accounting Series (which allows accountants to create financial statements and prepare tax forms such as W-2s and 940s for their clients), Lacerte Tax Planner and ProSeries Fixed Asset Manager help accountants provide a fuller spectrum of services to their clients.

Other Businesses

Quicken Software. Our Quicken line of desktop software products helps users organize, understand and manage their personal finances. Quicken allows customers to reconcile bank accounts, record credit card and other transactions, write checks, and track investments, mortgages and other assets and liabilities. Quicken also allows customers to flag their tax-related financial transactions and download that information into our TurboTax consumer tax software. We offer basic and deluxe versions of the product as well as Quicken Premier, which offers more robust investment and tax planning tools; Quicken Premier Home and Business, which allows customers to manage both personal and small business finances in one application; and Quicken for Mac.

Quicken.com and Other Online Services. Our Quicken.com personal finance Web site allows visitors to learn more about and acquire our offerings. The site also gives visitors access to Web-based financial tools, resources and objective information from Intuit and third-party providers about a variety of personal finance topics, including mortgages, insurance, taxes, banking and retirement, and allows Quicken personal finance software users to monitor their investments online. We offer other online services that we sell separately for a fee, including Quicken-branded bill payment via the Web or the Quicken desktop product. In addition, Quicken offers access to online banking services provided by various financial institutions and Intuit markets a Quicken-branded affinity credit card. Any visitor to Quicken.com can also link directly to third-party providers of other services, such as insurance and mortgages. We receive revenue from financial institutions and other companies that sell their products and services via Quicken.com or the Quicken desktop product.

Canada and the United Kingdom. In Canada, we offer versions of QuickBooks that we have “localized,” that is, customized to meet the unique needs of customers in that specific international location. These include QuickBooks software offerings, payroll offerings and service plans. We also offer QuickTax™ and TaxWiz consumer tax return preparation software; ProFile™ Financial Application Suite professional tax preparation products and ProFile Advisor memberships for accountants; and localized versions of Quicken in Canada. In the United Kingdom, we offer localized versions of QuickBooks (including products and services sold in partnership with banks) and Quicken, as well as TaxCalc consumer tax return preparation software.

Other Locations. We license localized versions of QuickBooks and Quicken products in selected European markets through local distributors and agents. We also license localized versions of QuickBooks and Quicken products in Australia, New Zealand and Singapore through a development, marketing and distribution arrangement with

Australia-based Reckon Limited. In addition, we have a branding agreement for QuickBooks in China and a distribution arrangement for QuickBooks and Quicken in South Africa.

PRODUCT DEVELOPMENT

Since the personal computer and software industries are characterized by rapid technological change, shifting customer needs and frequent new product introductions and enhancements, a continuous high level of investment is required for the enhancement of existing products and the development of new products. We develop the majority of our products internally. We may also supplement our internal development efforts by acquiring strategically important products and technology from third parties, or establishing other relationships that enable us to expand our offerings more rapidly.

Our core desktop software products (QuickBooks, TurboTax, ProSeries, Lacerte and Quicken) tend to have fairly predictable, structured development cycles of about a year, with annual product releases. These businesses also develop new products whose development cycles are less predictable. Developing consumer and professional tax software presents unique challenges because of the demanding development cycle required to accurately incorporate tax law and tax form changes within a rigid timetable. The development timing for our outsourced payroll offerings is determined by business needs and regulatory requirements and the length of the development cycle depends on the scope and complexity of each particular project. The product development cycles for the other businesses in our Intuit-Branded Small Business segment also vary, and can be longer than one year for major product releases.

Over the next few years, we expect that we will be developing more versions of more complex products than ever before. In addition, we anticipate that these products will offer increased ease of use, be customized for specific customer categories and feature improved integration with other Intuit products and services and with our internal information systems. Our research and development efforts will be focused on developing new products and services to address customer needs in our more broadly defined markets as well as adding complementary products and services to drive additional, recurring revenue from our core products. Our research and development expenses were $198.5 million in fiscal 2002, $255.8 million in fiscal 2003 and $281.1 million in fiscal 2004 and represented 15% of total net revenue in each of those periods.

SEASONALITY

Our QuickBooks, Consumer Tax and Professional Tax businesses are highly seasonal. Some of our other offerings are seasonal, but to a lesser extent. Revenue from upgrades for many of our small business software products tend to be concentrated around calendar year end. Sales of income 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 quarter ending January 31 and third quarter ending April 30. We typically report losses in our first quarter ending October 31 and fourth quarter ending July 31, when revenue from our tax businesses is minimal while operating expenses to develop new products and services continue at relatively consistent levels.

MARKETING, SALES AND DISTRIBUTION

Markets

Our primary target markets are small businesses with up to 20 employees, professional accountants and individuals. In addition, we have acquired several companies that offer business management solutions to small and medium-sized businesses. These include Innovative Merchant Solutions, Intuit Information Technology Solutions, Intuit Distribution Management Solutions, Intuit Real Estate Solutions, Intuit Construction Business Solutions and Intuit Public Sector Solutions.

Many of the markets in which we compete are characterized by rapidly shifting customer demands, continuous technological change and frequent new product introductions by competitors. Market and industry changes can quickly render existing products and services obsolete, so our success depends on our ability to respond rapidly to these changes with new business models, updated competitive strategies, new or enhanced products and services, alternative distribution methods and other changes to the way we do business.

Marketing Programs

We use a variety of marketing programs to generate software orders, stimulate demand and generally maintain and increase customer awareness of our products. These programs include mail, email and telephone solicitations, direct-response newspaper and magazine advertising, and television and radio advertising. We also use workflow-integrated in-product messaging in several of our software products to market other related products and services, including third-party products and services. Customers who respond to direct marketing campaigns and in-product messaging purchase products and services from us by telephone or through our Web sites.

Distribution Channels

Direct Sales Channel. We sell many of our products and services directly to our customers through our Web sites, call centers and direct sales force. Over the past three years, we have introduced more sophisticated, higher-priced software products and business management solutions. These include broader outsourced payroll offerings and business solutions for information technology managers and businesses in selected industries. As a result, we have been enhancing our direct sales capabilities to support revenue growth in these areas.

Retail Distribution Channel. We market our QuickBooks, TurboTax and Quicken desktop software at retail in North America primarily through office supply superstores, warehouse clubs, consumer electronics retailers, food and drug retailers, catalogers and general mass merchandisers. In international markets, we also rely on distributors, value-added resellers and other third parties, who sell products into the retail channel.

We continue to benefit from strong relationships with a number of major North American retailers, which allows us to minimize our dependence on any specific retailer. We deliver products to larger retailers through a combination of direct to store deliveries and shipments to central warehouse locations. We also ship products for many of our smaller retail customers through distributors. See *"Manufacturing and Distribution."* We continue to aggressively manage our inventory to optimize in-stock presence and ensure good product placement within retail stores. In response to current retail trends, we are also placing a greater proportion of inventory with retailers on a consignment basis.

As we continue to execute on the Right for Me strategies in each of our businesses, we are offering software products that are more complex and have higher prices than our traditional retail software products. Our recent tailoring of some of these software products to specific customer needs, including industry-specific versions of QuickBooks, is also resulting in a greater number of Intuit products. We produce and place in-store displays and other retail merchandising aids that educate customers about product functionality and benefits.

OEM Channel. We have relationships with a number of personal computer "original equipment manufacturers," or OEMs, including Apple Computer Inc., Dell Inc. and Hewlett-Packard. Although aggregate revenue from our OEM channel is much less significant than revenue from our other distribution channels, OEM relationships help us to generate sales of our core desktop software products in two ways. First, certain OEMs "pre-bundle" new-user versions of certain desktop software products on the computer systems that the OEMs sell to their customers. These pre-bundled OEM sales are a good source of new customers and future revenues. The second source of revenue from the OEM channel is "after-market" programs, in which customers who are purchasing computers can select and purchase software products at the same time.

Third-Party "Value-Added" Distribution Arrangements. We supplement our direct sales capabilities and our retail and OEM distribution relationships with selected third-party distribution arrangements. We believe these relationships will enhance the growth opportunities for our higher-end product and service offerings by allowing us to benefit from the value-added marketing and sales expertise of these third parties. We currently have arrangements with third parties who have specialized expertise in marketing, selling and providing post-sale implementation services for Innovative Merchant Solutions and some of our Intuit-Branded Small Business solutions. During fiscal 2005 and beyond, we expect to continue to optimize and support our network of third-party relationships.

COMPETITION

Overview

We face intense competition in all of our businesses, both domestically and internationally. Competitive interest and expertise in many of the markets we serve, particularly small business and consumer tax, has grown markedly over the past few years and we expect this trend to continue. Some of our existing competitors have significantly greater financial, technical and marketing resources than we do. As we implement our customer-driven strategies, we face increased competitive threats from larger companies in more diverse markets than we have historically faced. In addition, the competitive landscape can shift rapidly as new companies enter markets in which we compete.

Consumer Tax. We also face potential competitive challenges in our Consumer Tax business from publicly funded government entities that offer electronic tax preparation and filing services at no cost to individual taxpayers. We are a member of the Free File Alliance, a consortium of private sector companies that signed a three-year agreement with the federal government in October 2002. Under this agreement, a number of private sector companies, rather than the federal government, are providing Web-based federal tax preparation and filing services at no cost to disadvantaged and underserved federal taxpayers through voluntary public service initiatives such as our Intuit Tax Freedom Project. Unless the government or the consortium elect to terminate the agreement, it will renew every two years in perpetuity after the October 2005 expiration of the initial three-year term. A number of states have adopted similar public-private agreements modeled after the Free File Alliance. However, many other states have taken the opposite approach and offer some form of directly sponsored tax preparation and filing services free to qualified taxpayers. We continue to actively work with others in the private and public sectors to advance the goals of the Free File Alliance policy initiative and to support successful public-private partnership. However, future administrative, regulatory or legislative activity in this area could adversely affect our Consumer Tax business.

QuickBooks, TurboTax, ProSeries, Lacerte and Quicken desktop software. We believe the most important competitive factors for our desktop software products are product features, ease of use, size of the installed customer base, brand name recognition, price, and product and support quality. Access to distribution channels is also important for our QuickBooks, TurboTax and Quicken products. We believe we compete effectively on these factors as QuickBooks, TurboTax and Quicken products are the leading products in the retail sales channel for their respective categories.

Products and services other than desktop software. We believe the most important competitive factors for products and services other than desktop software are features and ease of use, brand name recognition, speed in getting new products and services to market, the ability to distribute them effectively and quality of implementation and support. We believe we compete effectively on these factors. For our service offerings such as outsourced payroll, service reliability and scalability of operations are also important factors. Due to the size of our principal competitors in these service businesses, we will need to scale our businesses to compete effectively over the long term. Significant competitive factors for our financial supplies business include ordering convenience, product quality, speed of delivery and price. We believe that our convenient access to our large QuickBooks and Quicken customer bases is a significant competitive advantage for our financial supplies business.

Competitors

The following table shows the significant competitors for each of our major products and services.

Intuit		Significant Competitors	
Segment	**Product or Service**	**Name**	**Product or Service**
QuickBooks-Related	QuickBooks	The Sage Group PLC	Best/Peachtree Software
		Microsoft	Microsoft Business Solutions offerings
		MYOB Limited	MYOB product line
	Financial supplies	Deluxe Business Systems	Business forms and checks
		Financial institutions	Printed checks, online bill payment services
		Kinko's, Office Depot, Staples	Business forms
		Direct mail check printers	Printed checks
		Internet-based printing companies	Business forms and checks
	Do-It-Yourself Payroll	Various companies, including The Sage Group PLC	Tax table subscription and electronic filing services
Intuit-Branded Small Business	Assisted Payroll	Various companies	Payroll solutions integrated with QuickBooks
	Complete Payroll	ADP, Paychex	Full-service payroll solutions
		Ceridian	Full-service payroll solutions
		Regional and local payroll services	Full-service payroll solutions
	Intuit Information Technology Solutions	Altiris, FrontRange, Layton, BMC	Asset management, help desk and network management solutions
Consumer Tax	TurboTax	H&R Block	TaxCut
		Professional tax preparers	
		Publicly funded government entities	
Professional Tax	ProSeries and Lacerte	CCH Incorporated	ProSystem fx product line
		Kleinrock Publishing	ATX product line
		Thomson Corporation	Creative Solutions, GoSystem
Other Businesses	Quicken	Microsoft Corporation	Microsoft Money
		Banks and financial institutions	

CUSTOMER SERVICE AND TECHNICAL SUPPORT

We provide customer service and technical support by telephone, online chat, fax, e-mail and our customer service and technical support Web sites. We have full-time and outsourced customer service and technical support staffs, which we supplement with seasonal employees and additional outsourcing during periods of peak call volumes, such as during the tax return filing season or following a major product launch. We outsource to several firms domestically and internationally. Most of our internationally outsourced customer service and technical support personnel are located in India.

We offer free self-help information through our technical support Web sites for our main product lines. For example, customers can use our Web sites to find answers to commonly asked questions and check on the status of product orders. Under support plans, customers can also use our Web sites to receive product updates electronically. Support alternatives and fees vary by product.

MANUFACTURING AND DISTRIBUTION

Desktop Software and Supplies

The major steps involved in manufacturing desktop software are manufacturing CDs, printing boxes and related materials, and assembling and shipping the final products. We have a manufacturing agreement with Modus Link under which Modus provides substantially all outsourced manufacturing related to our retail launches of QuickBooks, TurboTax and Quicken, as well as for day-to-day retail order fulfillment after product launches. Although Modus has operations in multiple locations that can provide redundancy if necessary, we have centralized the manufacturing for our retail products in one of their facilities which is co-located with our primary retail fulfillment vendor, Ingram Micro Logistics. We also outsource the product manufacturing and distribution for all of our direct sales orders to Arvato Services, Inc., a subsidiary of Bertelsmann. We use John H. Harland Company exclusively to fulfill orders for all of our printed checks and most other products for our financial supplies business.

Our retail product launches are operationally complex. Our model for product delivery for retail launches and replenishment is a hybrid of direct to store deliveries and shipments to central warehouse locations. This allows improved inventory management by our retailers. We also ship products for many of our smaller retail customers through distributors. We have an agreement with Ingram Micro Logistics under which Ingram handles all logistics, fulfillment and similar functions for our retail sales.

We have multiple sources for all of our raw materials and availability has historically not been a significant problem for us. Prior to major product releases for our core desktop software products we tend to have significant levels of backlog, but at other times backlog is minimal and we typically ship products within a few days of receiving an order. Because of this fluctuation in backlog, we believe that backlog is not a reliable predictor of our future core desktop software sales.

Internet-based Products and Services

Intuit's data centers house most of the systems, networks and databases required to operate and deliver our Internet-based products and services. These include QuickBooks Online Edition, QuickBooks Assisted Payroll Service, TurboTax for the Web, consumer and professional electronic tax filing services and Quicken.com. Through our data centers, we connect customers to products and services and we store the vast amount of data that represents the content on our Web sites. Our data centers consist of approximately 3,500 servers and 1,100 databases located in several sites across the United States. In an effort to reduce unavailability, or "down time," for our Internet-based products and services, we generally follow industry-standard practices for creating a fault-tolerant environment, but we do not have complete redundancy. We have back-up processing capabilities that are designed to protect us against site-related disasters for most of our mission-critical applications. Despite our efforts to maintain continuous and reliable server operations, we occasionally experience unplanned outages or technical difficulties.

PRIVACY AND SECURITY OF CUSTOMER INFORMATION

Customers are concerned about the privacy and security of the personal information they provide to companies. This concern applies to information they provide in connection with Internet-based products and services, as well as information they provide through more traditional methods, such as product registration cards. In addition to customer concerns, we are subject to various federal and state laws and regulations relating to privacy and security. We are also subject to laws and regulations that apply to telemarketing and email activities. Additional laws in both areas are likely to be passed in the future, which could result in significant limitations on the ways in which we can communicate with our customers and significantly increase our compliance costs.

We comply with Federal guidelines and practices to help ensure that customers are aware of, and can control, how we use information about them. All publicly-accessible, Intuit-owned and operated consumer Web sites at which customer data is collected (including QuickBooks.com, TurboTax.com and Quicken.com) have been certified by TRUSTe, an independent, non-profit privacy organization that operates a Web site certification program to alleviate users' concerns about online privacy. We use privacy statements to provide notice to customers of our privacy practices, as well as provide them the opportunity to furnish instructions with respect to use of their data.

To address security concerns, we use industry-standard security safeguards to help protect the information customers give to us from loss, misuse and unauthorized alteration. Whenever customers transmit sensitive information, such as a credit card number or tax return data, to us through one of our Web sites, we provide them access to our servers that allow encryption of the information as it is transmitted to us. We work to protect personally identifiable information stored on the Web site's servers from unauthorized access using commercially available computer security products, such as firewalls, as well as internally developed security procedures and practices.

GOVERNMENT REGULATION

We offer certain products and services, such as outsourced payroll, which are subject to special regulatory requirements. As we expand our small business products and services, we may become subject to additional government regulation, particularly in the areas of retirement planning and other employer services. We continually analyze new business opportunities, and new businesses that we pursue may require additional costs for regulatory compliance.

INTELLECTUAL PROPERTY

We generally rely on a combination of copyrights, trademarks, trade secret laws and patents as well as employee and third-party nondisclosure and license agreements to protect our software products, services and other proprietary technology. We do not own all of the software and other technologies used in our products and services, but we have the licenses from third parties that we believe are necessary and appropriate for using that technology in our current offerings.

We consider our principal trademarks (including Intuit, QuickBooks, TurboTax and Quicken) to be important assets and have registered these and other trademarks and service marks in the United States and, depending on the relevance of each brand to other markets, in many foreign countries. The initial duration of trademark registrations varies from country to country and is 10 years in the United States. Most registrations can be renewed perpetually at 10-year intervals.

EMPLOYEES

As of August 31, 2004, we had approximately 6,700 employees located in the United States and internationally in Canada, the United Kingdom and several other locations. We believe our future success and growth will depend on our ability to attract and retain qualified employees in all areas of our business. We do not currently have any collective bargaining agreements with our employees, and we believe employee relations are generally good. Although we have employment-related agreements with a number of key employees, these agreements do not guarantee continued service. We believe we offer competitive compensation and a good working environment. We were selected as one of *Fortune* magazine's "100 Best Companies to Work For" in April 2002, 2003 and 2004. However, we face intense competition for qualified employees, and we expect to face continuing challenges in recruiting and retention.

ITEM 2
PROPERTIES

Our principal locations, their purposes and the expiration dates for the leases on facilities at those locations are shown in the table below. We have renewal options on many of our leases.

Location	Purpose	Approximate Square Feet	Lease Expiration Dates
Mountain View, California	Principal offices and corporate headquarters	470,000	2004 - 2015
San Diego, California	Headquarters for Consumer Tax business, general office space and data center	330,000	2004 - 2007
Tucson, Arizona	Primary customer call center	185,000	2005 - 2009
Plano, Texas	Headquarters for Professional Tax business and data center	165,000	2011
Reno, Nevada	Headquarters for outsourced payroll business	140,000	2004 - 2009

In addition, our financial supplies business owns their principal facilities in Fredericksburg, Virginia. Our Innovative Merchant Solutions business leases their principal facilities in Calabasas, California and our Intuit Information Technology Solutions business leases their principal facilities in Tampa, Florida. Our four industry solutions businesses lease their principal facilities in Santa Rosa, California; Denver, Colorado; Boulder, Colorado; Shelton, Connecticut; West Yarmouth, Massachusetts; and Beachwood, Ohio. They also lease sales and service offices across the United States and in selected international locations. Finally, we lease or own facilities in a number of other domestic locations and internationally in Canada, the United Kingdom and several other locations.

We believe our facilities are adequate for our current and near-term needs, and that we will be able to locate additional facilities as needed. See Note 13 to the financial statements for more information about our lease commitments.

ITEM 3
LEGAL PROCEEDINGS

1) Muriel Siebert & Co., Inc. v. Intuit Inc., Index No. 03-602942, Supreme Court of the State of New York, County of New York.

On September 17, 2003, Muriel Siebert & Co., Inc. filed a complaint against Intuit alleging various claims for breach of contract, breach of express and implied covenants of good faith and fair dealing, breach of fiduciary duty, misrepresentation and/or fraud, and promissory estoppel. The allegations relate to Quicken Brokerage powered by Siebert, a strategic alliance between the two companies. The complaint seeks compensatory, punitive, and other damages. On September 22, 2003, Intuit filed an arbitration demand against Siebert & Co., Inc. in San Jose, California seeking arbitration of all claims asserted by both parties. The Appellate Division of the Supreme Court of the State of New York has stayed the matter while it determines whether it will proceed in New York state court or in arbitration. Intuit believes this lawsuit is without merit and intends to defend the litigation vigorously.

2) Intuit/Quicken Sunsetting Litigation, Master File No. 1-04-CV-016394, Superior Court of California, County of Santa Clara (Anthony Flannery v. Intuit Inc., et al, Civil No. 1-04-CV-016394 and Daniel J. Mason v. Intuit Inc. et al, Civil No. 1-04-CV-018345).

On or about March 19, 2004, plaintiff Anthony Flannery, on his behalf and on behalf of a class of persons allegedly similarly situated, filed a complaint against Intuit in Santa Clara Superior Court, alleging that Intuit's retirement of certain services and live technical support associated with its Quicken 1998, Quicken 1999 and Quicken 2000 products constituted a breach of express and implied warranties and violated sections 17200 and 17500 of the California Business and Professions Code, as well as the Consumer Legal Remedies Act ("CLRA"). The complaint seeks certification as a class action, as well as unspecified compensatory and punitive damages, disgorgement of profits, restitution, injunctive relief and attorneys' fees from Intuit.

On or about April 21, 2004, plaintiff Daniel Mason, on his behalf and on behalf of a class of persons allegedly similarly situated, filed a complaint against Intuit in Santa Clara Superior Court making allegations virtually identical to those of Anthony Flannery. On July 14, 2004, the Court consolidated the two cases pursuant to stipulation of the parties.

On July 29, 2004, plaintiffs filed a consolidated First Amended Complaint. Intuit's response to that Complaint is due on October 8, 2004. The parties have only recently initiated discovery. No trial date is set. Intuit believes this lawsuit is without merit and intends to defend the litigation vigorously.

3) Cynthia Belotti v. Intuit Inc., et al, Civil No. 1-04-CV-020277, Superior Court of California, County of Santa Clara.

On or about May 24, 2004, plaintiff Cynthia Belotti, on her behalf and on behalf of a class of persons allegedly similarly situated, filed a complaint against the Company in Santa Clara Superior Court, alleging that Intuit's retirement of certain add-on business services and live technical support associated with its QuickBooks 2001and QuickBooks 2002 products constituted a breach of express and implied warranties and violated sections 17200 and 17500 of the California Business and Professions Code. The complaint sought certification as a class action, as well as damages, disgorgement of profits, restitution, injunctive relief and attorney's fees from Intuit.

On or about July 13, 2004, plaintiff filed a First Amended Complaint that added Ental Precision Machining, Inc., as plaintiff; plaintiffs' counsel has also dismissed without prejudice all claims on behalf of Cynthia Belotti. Intuit's response to that Complaint is due on October 8, 2004. The parties have only recently initiated discovery. No trial date is set. Intuit believes this lawsuit is without merit and intends to defend the litigation vigorously.

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

ITEM 4
SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 4A
EXECUTIVE OFFICERS OF THE REGISTRANT

The following table shows Intuit's executive officers as of September 15, 2004 and their areas of responsibility. Their biographies follow the table.

Name	Age	Position
Stephen M. Bennett	50	President, Chief Executive Officer and Director
William V. Campbell	64	Chairman of the Board of Directors
Scott D. Cook	52	Chairman of the Executive Committee of the Board of Directors
Lorrie M. Norrington	44	Executive Vice President, Office of the Chief Executive Officer
Robert B. Henske	43	Senior Vice President and Chief Financial Officer
Richard William Ihrie	54	Senior Vice President and Chief Technology Officer
Brad D. Smith	40	Senior Vice President, Consumer Tax Group
Raymond G. Stern	43	Senior Vice President, Strategy and Chief Marketing Officer
Caroline F. Donahue	43	Vice President, Sales
Laura A. Fennell	43	Vice President, General Counsel and Corporate Secretary
Karl K. Grass	48	Vice President and General Manager, Professional Tax Products Group
Dorothy D. Hayes	53	Vice President, Corporate Controller
Daniel J. Levin	40	Vice President, Product Management

Mr. Bennett has been President and Chief Executive Officer and a member of the Board of Directors since January 2000. Prior to joining Intuit, Mr. Bennett spent 23 years with General Electric Corporation. From December 1999 to January 2000, Mr. Bennett was an Executive Vice President and a member of the board of directors of GE Capital, the financial services subsidiary of General Electric Corporation. From July 1999 to November 1999, he was President and Chief Executive Officer of GE Capital e-Business, and he was President and Chief Executive Officer of GE Capital Vendor Financial Services from April 1996 through June 1999. Mr. Bennett also serves on the board of directors of Sun Microsystems, Inc. He holds a Bachelor of Arts degree in Finance and Real Estate from the University of Wisconsin.

Mr. Campbell has been an Intuit director since May 1994. He has served as Chairman of the Board since August 1998 and was Acting Chief Executive Officer from September 1999 until January 2000. He also served as Intuit's President and Chief Executive Officer from April 1994 through July 1998. Mr. Campbell also serves on the board of directors of Apple Computer, Inc. and Opsware, Inc. (a provider of Internet infrastructure services). Mr. Campbell holds a Bachelor of Arts degree in Economics and a Masters of Science degree from Columbia University, where he has been appointed to the Board of Trustees.

Mr. Cook, a founder of Intuit, has been an Intuit director since March 1984 and is currently Chairman of the Executive Committee of the Board. He served as Intuit's Chairman of the Board from February 1993 through July 1998. From April 1984 to April 1994, he served as Intuit's President and Chief Executive Officer. Mr. Cook also serves on the board of directors of eBay Inc. and The Procter & Gamble Company. Mr. Cook holds a Bachelor of Arts degree in Economics and Mathematics from the University of Southern California and a Masters degree in Business Administration from Harvard Business School, where he serves on the board of visitors of the Harvard Business School Foundation.

Ms. Norrington has been Executive Vice President, Office of the Chief Executive Officer, since June 2003. She served as Executive Vice President, Small Business and Personal Finance from January 2002 until June 2003. Ms. Norrington joined Intuit in August 2001 after leaving General Electric, where she held a variety of leadership positions over a 20-year career, most recently as president and CEO of GE FANUC, a global manufacturing automation solutions business. Ms. Norrington holds a Bachelor of Science degree in Business Administration from the University of Maryland and a Masters degree in Business Administration from Harvard Business School.

Mr. Henske has served as Senior Vice President and Chief Financial Officer of Intuit since January 2003. He served as Senior Vice President and Chief Financial Officer of Synopsys, Inc., a supplier of electronic design automation software, from May 2000 until January 2003. From January 1997 to December 1999, Mr. Henske was at Oak Hill Capital Management, a Robert M. Bass Group private equity investment firm, where he was a partner. Mr. Henske holds a Bachelor of Science degree in Chemical Engineering from Rice University and an MBA in finance and strategic management from The Wharton School, University of Pennsylvania.

Mr. Ihrie has been Senior Vice President and Chief Technology Officer since joining Intuit in November 2000. He was Acting Chief Information Officer from January 2001 to August 2001. Prior to joining Intuit, Mr. Ihrie served as Senior Vice President of Technology for ADP Claims Solutions Group (an automated information company) from July 1996 to October 2000. Mr. Ihrie holds Bachelor of Science degrees in Mathematics and Management from Massachusetts Institute of Technology and a Master of Arts in Computer Science from the University of California, Berkeley.

Mr. Smith has been Senior Vice President, Consumer Tax Group since March 2004. He joined Intuit in February 2003. Prior to this role, Mr. Smith was Vice President and General Manager of Intuit's accountant central and developer network. Mr. Smith came to Intuit from ADP, where he was the Senior Vice President of Marketing and Business Development. In addition to his role at ADP, Mr. Smith has held various sales, marketing and general management positions with Pepsi, 7-Up and ADVO, Inc. Mr. Smith earned his Bachelor of Business Administration from Marshall University, and a Masters of Management from Aquinas College.

Mr. Stern has been Senior Vice President, Strategy since December 2000. In addition, he has served as Intuit's Chief Marketing Officer since January 2004. Prior to that, he was Senior Vice President, Corporate Strategy and Marketing from March 2000 to December 2000 and he was Senior Vice President, Strategy, Corporate Development and Administration from March 1999 until March 2000. He joined Intuit in January 1998 as Senior Vice President of Strategy, Finance and Administration. Prior to joining Intuit, Mr. Stern spent over ten years with The Boston Consulting Group (a business consulting firm), where he was the partner responsible for the firm's West Coast high technology practice from May 1994 to December 1997. Mr. Stern holds a Bachelor of Science degree in Mechanical Engineering from Stanford University and a Masters in Business Administration from Harvard Business School.

Ms. Donahue has been Vice President, Sales since September 1997. She joined Intuit as Director of Sales in May 1995. Prior to joining Intuit, Ms. Donahue served as Director of Sales at Knowledge Adventure (an educational software company), and she worked in various sales and channel management positions at Apple Computer and Next, Inc. Ms. Donahue holds a Bachelor of Arts degree from Northwestern University.

Ms. Fennell joined Intuit as Vice President, General Counsel and Corporate Secretary in April 2004. Prior to joining Intuit, Ms. Fennell spent nearly eleven years at Sun Microsystems, Inc., most recently as Vice President of Corporate Legal Resources, as well as Acting General Counsel. Prior to joining Sun, she was an associate attorney at Wilson Sonsini, Goodrich & Rosati PC. Ms. Fennell has a Bachelor of Science degree in Business Administration from California State University, Chico and a Juris Doctor from the University of Santa Clara.

Mr. Grass joined Intuit in March 2003 as Vice President and General Manager, Professional Tax Products Group and brings to the company over 20 years of experience in the tax software industry. He held executive roles at CCH Incorporated and at Andersen Tax Technology Enterprises, where he was responsible for the growth and success of the business. Mr. Grass earned his Bachelor's Degree in Accounting from Duke University and is a licensed CPA in the state of Florida.

Ms. Hayes joined Intuit in April 2003 as Vice President, Corporate Controller. Prior to joining Intuit, she served as Vice President and Controller at Agilent Technologies, Inc., a technology company serving the communications, electronics, life sciences and chemical analysis industries, from August 1999 to April 2003. From May 1989 until Agilent Technologies separated from Hewlett-Packard Company in 1999, Ms. Hayes served Hewlett-Packard in several finance positions, including as Transition General Manager from March 1999 to July 1999, and as Director of Internal Audit from July 1997 to June 1999. Ms. Hayes holds Bachelor of Arts in Education and Master of Science in Business Administration with Accounting Concentration degrees from the University of Massachusetts at Amherst, and a Master of Science in Finance degree from Bentley College.

Mr. Levin has been Vice President, Product Management since August 2004. From June 2003 to August 2004, he served as Senior Vice President, QuickBooks Group. Mr. Levin joined Intuit in January 2001 as Vice President of QuickBooks Financial Solutions. Prior to joining Intuit, he served as Senior Vice President of Corporate Development and Chief Technology Officer of ReplayTV, Inc., a provider of personal television technology and systems, from December 1999 to December 2000, and as Vice President of Engineering from December 1998 to December 1999. Mr. Levin earned his Bachelor of Arts degree, with an independent concentration in computer graphics, from Princeton University.

PART II

ITEM 5
MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Intuit's common stock is quoted on the Nasdaq Stock Market under the symbol "INTU." The following table shows the range of high and low sale prices reported on the Nasdaq Stock Market for the periods indicated. The closing price of Intuit's common stock on August 31, 2004 was $42.29.

	High	Low
Fiscal year ended July 31, 2003		
First quarter	$53.48	$38.86
Second quarter	55.04	43.29
Third quarter	51.50	33.30
Fourth quarter	49.18	38.10
Fiscal year ended July 31, 2004		
First quarter	$51.24	$41.67
Second quarter	53.89	45.68
Third quarter	50.44	40.89
Fourth quarter	43.88	35.84

Stockholders

As of September 1, 2004, we had about 1,100 record holders and approximately 108,000 beneficial holders of our common stock.

Dividends

Intuit has never paid any cash dividends on its common stock. From time to time we consider the advisability of paying a cash dividend. We currently anticipate that we will retain all future earnings for use in our business and for repurchases of stock under our stock repurchase programs. We do not anticipate paying any cash dividends in the foreseeable future.

Recent Sales of Unregistered Securities

Not applicable.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Stock repurchase activity during the fourth quarter of fiscal 2004 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans
May 1, 2004 through May 31, 2004	650,000	$38.36	650,000	$573,857,312
June 1, 2004 through June 30, 2004	1,833,556	$40.22	1,833,556	$500,000,000
July 1, 2004 through July 31, 2004	—	n/a	—	$500,000,000
Total	2,483,556	$39.73	2,483,556	

Notes:

1. All shares purchased as part of publicly announced plans in the fourth quarter of fiscal 2004 were purchased under Repurchase Plan III, which was announced on August 19, 2003. Repurchase Plan III was concluded in June 2004 when the authorized purchase amount under the program of $500.0 million was reached. For additional information about Intuit’s historical stock repurchase activities, see Note 15 and Note 19 to the financial statements.
2. As of the date of this Report, Intuit has one active common stock repurchase plan, Repurchase Plan IV. This plan was announced on May 19, 2004 and expires on May 17, 2007. At July 31, 2004, all $500.0 million of the funds approved for repurchases under this plan were available. During August 2004 we used $50.4 million of these funds to purchase 1.2 million shares of Intuit common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding securities authorized for issuance under equity compensation plans is incorporated by reference from our Proxy Statement to be filed for our December 2004 Annual Meeting of Stockholders.

ITEM 6
SELECTED FINANCIAL DATA

The following tables show Intuit's selected consolidated financial information for the past five fiscal years. The comparability of the information is affected by a variety of factors, including acquisitions and divestitures of businesses, gains and losses related to marketable securities and other investments, acquisition-related charges and repurchases under our stock repurchase programs. We adopted Statement of Financial Accounting Standards, or SFAS, No. 142, *"Goodwill and Other Intangible Assets,"* on August 1, 2002 and stopped amortizing goodwill on that date. Fiscal years prior to fiscal 2003 reflect significant goodwill amortization charges.

In fiscal 2002 we sold our Quicken Loans mortgage business and in fiscal 2003 we sold our wholly owned Japanese subsidiary, Intuit KK. We accounted for the sales of these businesses as discontinued operations and, accordingly, we have reclassified the selected financial data for all periods prior to the sales to reflect Quicken Loans and Intuit KK as discontinued operations. To better understand the information in the tables, investors should read *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* in Item 7, and the Consolidated Financial Statements and related Notes in Item 8.

FIVE-YEAR SUMMARY

Consolidated Statement of Operations Data *(In thousands, except per share amounts)*	Fiscal Year				
	2000	**2001**	**2002**	**2003**	**2004**
Total net revenue	$ 981,718	$ 1,096,062	$ 1,312,228	$ 1,650,743	$ 1,867,663
Total costs and expenses	969,304	1,177,420	1,261,728	1,307,511	1,447,336
Income (loss) from continuing operations	12,414	(81,358)	50,500	343,232	420,327
Net income (loss) from continuing operations before cumulative effect of accounting change	325,691	(124,656)	53,615	263,202	317,030
Net income (loss) from discontinued operations	(20,030)	27,549	86,545	79,832	—
Cumulative effect of accounting change, net of income taxes (a)	—	14,314	—	—	—
Net income (loss)	305,661	(82,793)	140,160	343,034	317,030
Net income (loss) per common share:					
Basic net income (loss) per share from continuing operations before cumulative effect of accounting change	$ 1.62	$ (0.60)	$ 0.25	$ 1.28	$ 1.62
Basic net income (loss) per share from discontinued operations	(0.10)	0.13	0.41	0.39	—
Cumulative effect of accounting change	—	0.07	—	—	—
Basic net income (loss) per share	$ 1.52	$ (0.40)	$ 0.66	$ 1.67	$ 1.62
Diluted net income (loss) per share from continuing operations before cumulative effect of accounting change	$ 1.54	$ (0.60)	$ 0.24	$ 1.25	$ 1.58
Diluted net income (loss) per share from discontinued operations	(0.09)	0.13	0.40	0.38	—
Cumulative effect of accounting change	—	0.07	—	—	—
Diluted net income (loss) per share	$ 1.45	$ (0.40)	$ 0.64	$ 1.63	$ 1.58

(a) We adopted SFAS 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. If we had adopted SFAS 133 at the beginning of fiscal 2000, pro forma net income would have been $299.1 million and pro forma diluted net income would have been $1.42 per share. 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.

Consolidated Balance Sheet Data *(In thousands)*	**July 31,**				
	2000	**2001**	**2002**	**2003**	**2004**
Cash, cash equivalents and short-term investments	$1,399,351	$1,186,215	$1,224,290	$1,206,801	$1,019,220
Working capital	1,321,957	1,359,960	1,274,898	872,705	659,176
Total assets	2,726,295	2,803,479	2,928,005	2,790,267	2,696,178
Long-term obligations	538	12,150	32,592	29,265	16,394
Total stockholders' equity	2,071,289	2,161,326	2,215,639	1,964,837	1,822,419

ITEM 7
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We begin our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a discussion of the Critical Accounting Policies that we believe are important to understanding the assumptions and judgments underlying our financial statements. This is followed by a discussion of our Results of Operations that begins with an Overview followed by a more detailed discussion of our revenue and expenses. We then provide an analysis of our Liquidity and Capital Resources with a discussion of key aspects of our statements of cash flows, changes in our balance sheets, and our financial commitments. Following these discussions is the section entitled Risks That Could Affect Future Results which details some important factors that may significantly impact our future financial performance. You should also note that this MD&A discussion contains forward-looking statements that involve risks and uncertainties. Please see the section entitled *"Caution Regarding Forward-Looking Statements"* at the end of this Item 7 for important information to consider when evaluating such statements.

You should read this MD&A in conjunction with the Consolidated Financial Statements and related Notes in Item 8. As discussed below, we sold our Quicken Loans mortgage business in fiscal 2002 and our Japanese subsidiary, Intuit KK, in fiscal 2003 and accounted for the sales of these businesses as discontinued operations. Accordingly, we have reclassified our financial statements for all periods prior to the sales to reflect these businesses as discontinued operations. Unless otherwise noted, the following discussion pertains only to our continuing operations.

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 or loss and net income or loss, as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Senior management has discussed the development and selection of these critical accounting policies and their disclosure in this Report with the Audit Committee of our Board of Directors.

- *Net Revenue – Revenue Recognition*. Intuit derives revenues from the sale of packaged software products, license fees, product support, professional services, outsourced payroll services, transaction fees and multiple element arrangements that may include any combination of these items. We follow the appropriate revenue recognition rules for each type of revenue. See Note 1 to the financial statements, *"Net Revenue."* We generally recognize revenue when persuasive evidence of an arrangement exists, we have delivered the product or performed the service, the fee is fixed or determinable and collectibility is probable. However, determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report. For example, for multiple element arrangements we must make assumptions and judgments in order to allocate the total price among the various elements we must deliver, to determine whether undelivered services are essential to the functionality of the delivered products and services, to determine whether vendor-specific evidence of fair value exists for each undelivered element and to determine whether and when each element has been delivered. If we were to change any of these assumptions or judgments, it could cause a material increase or decrease in the amount of revenue that we report in a particular period. Amounts for fees collected or invoiced and due relating to arrangements where revenue cannot be recognized are reflected on our balance sheet as deferred revenue and recognized when the applicable revenue recognition criteria are satisfied.

- *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 at the time of sale based on these estimates. Our return policy allows distributors and retailers, subject to certain contractual limitations, to return purchased products. Product returns by distributors and retailers relate primarily to the return of obsolete products. In determining our product returns reserves, we consider the volume and price mix of products in the retail channel, historical return rates for prior releases of the product, trends in retailer inventory and economic trends that might impact customer demand for our products (including the competitive environment and the timing of new releases of our products). 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 we typically establish annually. Our reserves for end-user rebates are estimated based on the terms and conditions of the specific promotional rebate program, actual sales during the promotion, the amount of redemptions received and historical redemption trends by product and by type of promotional program.

In the past, actual returns and rebates have approximated and not generally exceeded the reserves that we have established. 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. For example, if we had increased our fiscal 2004 returns reserves by 1% of non-consignment sales to retailers for QuickBooks, TurboTax and Quicken, our fiscal 2004 total net revenue would have been $4.0 million lower.

- *Allowance for Doubtful Accounts*. 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 reliably 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.

- *Goodwill, Purchased Intangible Assets and Other Long-Lived Assets – Impairment Assessments*. We make judgments about the recoverability of purchased intangible assets and other long-lived assets whenever events or changes in circumstances indicate that an other-than-temporary impairment in the remaining value of the assets recorded on our balance sheet may exist. We test the impairment of goodwill annually in our fourth fiscal quarter or more frequently if indicators of impairment arise. The timing of the formal annual test may result in charges to our statement of operations in our fourth fiscal quarter that could not have been reasonably foreseen in prior periods. In order to estimate the fair value of long-lived assets, we typically make various assumptions about the future prospects for the business that the asset relates to, consider market factors specific to that business and estimate future cash flows to be generated by that business. We evaluate cash flows at the lowest operating level and the number of reporting units that we have identified may make impairment more probable than it would be at a company with fewer reporting units and integrated operations following acquisitions. Based on these assumptions and estimates, we determine whether we need to record 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 could result in impairment charges, which would decrease net income and result in lower asset values on our balance sheet. Conversely, less conservative assumptions could result in smaller or no impairment charges, higher net income and higher asset values. We recorded impairment charges for goodwill and purchased intangible assets of $27.3 million in fiscal 2002 and $18.7 million in fiscal 2004. At July 31, 2004, we had $670.0 million in goodwill and $107.3 million in net purchased intangible assets on our balance sheet.

- *Accounting for Stock-Based Incentive Programs*. We currently measure compensation expense for our stock-based incentive programs using the intrinsic value method prescribed by Accounting Principles Board, or APB, Opinion No. 25, *"Accounting for Stock Issued to Employees."* Under this method, we do not record compensation expense when stock options are granted to eligible participants as long as the exercise price is not less than the fair market value of the stock when the option is granted. We also do not record compensation expense for shares purchased in connection with our Employee Stock Purchase Plan as long as the purchase price of the stock is not less than 85% of the lower of the fair market value of the stock at the beginning of each offering period or at the end of each purchase period. In accordance with SFAS 123, *"Accounting for Stock-Based Compensation,"* and SFAS 148, *"Accounting for Stock-Based Compensation – Transition and Disclosure,"* we disclose our pro forma net income or loss and net income or loss per share as if the fair value-based method had been applied in measuring compensation expense for our stock-based incentive programs. We have elected to follow APB 25 because the fair value accounting provided for under SFAS 123 requires the use of option valuation models that were not developed for use in valuing incentive stock options and employee stock purchase plan shares.

On March 31, 2004, the Financial Accounting Standards Board issued its exposure draft, *"Share-Based Payment,"* which is a proposed amendment to SFAS 123. The exposure draft would require all share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized in the statement of operations based on their fair values. The FASB expects to issue a final standard late in 2004 that would be effective for public companies for fiscal years beginning after December 15, 2004. We have not yet assessed the impact of adopting this new standard.

We monitor progress at the FASB and other developments with respect to stock-based incentive compensation. We may have to recognize substantially more compensation expense in future periods if we are required or elect to expense the value of stock-based incentive compensation or if we decide to alter our current employee compensation programs to provide other benefits in place of incentive stock options.

- *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. Significant judgment is required in determining our worldwide income tax provision. We recognize liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. We record an additional amount in our provision for income taxes in the period in which we determine that our recorded tax liability is less than we expect the ultimate tax assessment to be. If in a later period we determine that payment of this additional amount is unnecessary, we reverse the liability and recognize a tax benefit in that later period. As a result, our ongoing assessments of the probable outcomes of the audit issues and related tax positions require judgment and can materially increase or decrease our effective tax rate as well as impact our operating results. This also requires us to estimate our current tax exposure and to assess temporary differences that result from differing treatments 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 realized. To the extent we believe that realization is not likely, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance in an accounting period, we record a corresponding tax expense on our statement of operations.

Our net deferred tax asset at July 31, 2004 was $167.2 million, net of the valuation allowance of $7.5 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 realizable. While we have considered future taxable income in assessing the need for the valuation allowance, we could be required to increase the valuation allowance to take into account additional deferred tax assets that we may be unable to realize. An increase in the valuation allowance would have an adverse impact, which could be material, on our income tax provision and net income in the period in which we make the increase.

Results of Operations

Overview

(Dollars in millions, except per share amounts)	Fiscal 2002	Fiscal 2003	Fiscal 2004	2002-2003 % Change	2003-2004 % Change
Total net revenue	$ 1,312.2	$ 1,650.7	$ 1,867.7	26%	13%
Income from continuing operations	50.5	343.2	420.3	580%	22%
Net income from continuing operations	53.6	263.2	317.0	391%	20%
Diluted net income per share from continuing operations	$ 0.24	$ 1.25	$ 1.58	421%	26%
Net cash provided by operating activities	$ 351.6	$ 570.2	$ 574.6	62%	1%

In fiscal 2004 we revised our reportable segments to reflect the way we currently manage our operations and view our results. Our five business segments are now QuickBooks-Related, Intuit-Branded Small Business, Consumer Tax, Professional Tax and Other Businesses. Total net revenue increased in fiscal 2004 compared with fiscal 2003 primarily due to growth in our QuickBooks-Related and Consumer Tax segments. Fiscal 2004 growth in our QuickBooks-Related segment was driven by sales of higher-priced versions of QuickBooks and by continuing growth in the QuickBooks Do-It-Yourself Payroll, or DIY, customer base and average selling prices, which resulted in higher DIY revenue. Total net revenue increased in fiscal 2003 compared with fiscal 2002 primarily due to growth in our QuickBooks-Related and Consumer Tax segments, with the QuickBooks-Related revenue increase fueled by sales of higher-priced versions of QuickBooks and by DIY revenue. Fiscal 2003 revenue also increased compared with fiscal 2002 because of acquisitions in our Intuit-Branded Small Business segment.

The markets for many of our products are maturing and as a result we believe that our revenue growth is slowing. We continue to develop new products and services to mitigate the impact of this slowing growth in the long term.

Income from continuing operations grew faster than revenue in fiscal 2004 primarily due to an increase in revenue from higher-margin products, such as industry-specific versions of QuickBooks and DIY, and to the fact that we reduced costs while revenue grew in our Quicken business. Income from continuing operations grew faster than revenue in fiscal 2003 primarily due to an increase in revenue from higher-margin products, efficiencies in customer service and technical support, significantly lower acquisition-related charges in fiscal 2003 and fiscal 2002 charges for vacant facilities, impairment of goodwill and intangible assets, and impairment of long-lived assets that did not recur in fiscal 2003. Fiscal 2003 acquisition-related charges were significantly lower compared with fiscal 2002 because due to our adoption of SFAS 142 fiscal 2003 acquisition-related charges do not include amortization of goodwill.

Net income (after tax) from continuing operations grew faster than revenue in fiscal 2004 primarily due to the factors cited above and the reversal of $35.7 million in reserves related to potential income tax exposures that were resolved, partially offset by lower interest and other income and lower gains on marketable securities and other investments. Net income (after tax) from continuing operations grew faster than revenue in fiscal 2003 primarily due to the factors cited above and to higher interest and other income and gains on marketable securities and other investments in fiscal 2003, partially offset by a fiscal 2002 gain on divestiture of businesses that did not recur in fiscal 2003 and a higher effective tax rate in fiscal 2003 than in fiscal 2002.

Diluted net income per share from continuing operations grew faster than net income (after tax) from continuing operations for fiscal 2004 and 2003 primarily due to the net reduction of average shares outstanding resulting from repurchases of stock under our stock repurchase programs.

At July 31, 2004, our cash, cash equivalents and short-term investments totaled $1.0 billion. In fiscal 2004 we generated cash primarily from continuing operations and the issuance of common stock under employee stock plans and we used cash primarily for our stock repurchase programs, acquisitions and capital expenditures. In fiscal 2004 we bought 13.5 million shares of our common stock under our stock repurchase programs at an average price of $45.01 for a total price of $609.4 million. We completed our third stock repurchase program in June 2004 and at July 31, 2004 authorized funds of $500.0 million remained available under our fourth program.

Total Net Revenue

The table below and the discussion of total net revenue that follows it are categorized by our five reportable business segments. In the fourth quarter of fiscal 2004 we revised our reportable segments to reflect the way we currently manage our operations and view our results. We combined our fiscal 2003 QuickBooks segment with the businesses from our fiscal 2003 Small Business Products and Services segment that relate to and support QuickBooks to form the fiscal 2004 segment called QuickBooks-Related. We also combined our outsourced payroll and information technology businesses with our fiscal 2003 Vertical Business Management Solutions segment to form the fiscal 2004 segment called Intuit-Branded Small Business. We made no changes to our Consumer Tax, Professional Tax and Other Businesses segments. We have reclassified previously reported fiscal 2003 and 2002 segment results to be consistent with the fiscal 2004 presentation.

We reclassified a total of $28.1 million for certain fiscal 2003 electronic filing revenue in our Consumer Tax and Professional Tax segments from product revenue to service revenue to be consistent with our fiscal 2004 presentation. Total fiscal 2003 revenue for each of these segments did not change as a result of these reclassifications. See Note 11 to the financial statements for additional information about our business segments.

(Dollars in millions)	Fiscal 2002	% Total Net Revenue	Fiscal 2003	% Total Net Revenue	Fiscal 2004	% Total Net Revenue	2002-2003 % Change	2003-2004 % Change
QuickBooks-Related								
Product	$ 396.6		$ 465.1		$ 534.1			
Service	50.1		70.5		97.1			
Other	13.4		17.0		22.7			
Subtotal	460.1	35%	552.6	33%	653.9	35%	20%	18%
Intuit-Branded Small Business								
Product	9.1		63.0		72.3			
Service	77.6		173.4		195.0			
Other	0.3		3.5		5.1			
Subtotal	87.0	7%	239.9	15%	272.4	15%	176%	14%
Consumer Tax								
Product	219.4		231.1		231.7			
Service	128.4		189.2		257.9			
Other	3.3		2.6		0.4			
Subtotal	351.1	27%	422.9	26%	490.0	26%	20%	16%
Professional Tax								
Product	219.2		223.8		226.1			
Service	6.5		19.6		25.8			
Other	—		—		—			
Subtotal	225.7	17%	243.4	15%	251.9	13%	8%	3%
Other Businesses								
Product	129.5		141.2		148.2			
Service	7.3		4.5		7.8			
Other	51.5		46.2		43.5			
Subtotal	188.3	14%	191.9	11%	199.5	11%	2%	4%
Total net revenue	$ 1,312.2	100%	$ 1,650.7	100%	$ 1,867.7	100%	26%	13%

Fiscal 2004 total net revenue increased compared with fiscal 2003 primarily due to growth in DIY revenue in our QuickBooks-Related segment and to growth in TurboTax for the Web and electronic filing services in our Consumer Tax segment. Fiscal 2003 total net revenue increased over fiscal 2002 primarily due to higher revenue in our QuickBooks-Related, Consumer Tax and Intuit-Branded Small Business segments. In fiscal 2003 our Intuit-Branded Small Business segment included revenue from the date of acquisition for three companies we acquired in the fourth quarter of fiscal 2002 and one company we acquired in the first quarter of fiscal 2003.

Total Net Revenue by Business Segment

QuickBooks-Related

QuickBooks-Related product revenue is derived primarily from QuickBooks desktop software products; QuickBooks Do-It-Yourself Payroll, or DIY, which offers payroll tax tables, forms and electronic tax payment and filing on a subscription basis to small businesses that prepare their own payrolls; and financial supplies such as paper checks, envelopes and invoices. QuickBooks-Related service revenue is derived primarily from QuickBooks Online Edition, QuickBooks support plans and merchant services. Other revenue for this segment consists primarily of royalties from small business online services.

Fiscal 2004 Compared with Fiscal 2003. QuickBooks-Related total net revenue grew in fiscal 2004 compared with fiscal 2003 due to increased sales of higher-priced industry-specific versions of QuickBooks and higher DIY revenue driven by growth in the average customer base, an increase in QuickBooks-related services and the full impact in fiscal 2004 of a December 2002 price increase. Our October 2003 acquisition of Innovative Merchant Solutions also contributed to the higher fiscal 2004 total net revenue.

Fiscal 2003 Compared with Fiscal 2002. QuickBooks-Related total net revenue increased in fiscal 2003 compared with fiscal 2002, reflecting higher QuickBooks unit sales as well as higher average selling prices driven by the introduction of certain higher-priced QuickBooks products and a shift in revenue mix toward those products. DIY revenue increased due to growth in the average customer base and higher average selling prices driven by price increases. QuickBooks support revenue grew due to an increase in the number of support plans sold and strength in the higher-priced support plans for higher-end QuickBooks products.

Intuit-Branded Small Business

Intuit-Branded Small Business product revenue is derived primarily from business management software for information technology and four selected industries: wholesale durable goods; residential, commercial and corporate property management; construction; and nonprofit organizations, universities and government agencies. In August 2004 management formally approved a plan to sell our Intuit Public Sector Solutions business. Intuit-Branded Small Business service revenue is derived from technical support, consulting and training services for those software products and from outsourced payroll services. Service revenue for this segment also includes interest earned on funds held for payroll customers.

Fiscal 2004 Compared with Fiscal 2003. Intuit-Branded Small Business total net revenue increased in fiscal 2004 compared with fiscal 2003 primarily due to new client acquisition in our wholesale durable goods and property management solutions businesses as well as higher average selling prices from increased customer use of support and other services in these businesses and in our information technology business.

Fiscal 2003 Compared with Fiscal 2002. Intuit-Branded Small Business total net revenue was higher in fiscal 2003 compared with fiscal 2002 due to our acquisition of several businesses. Higher outsourced payroll revenue in fiscal 2003 was primarily a result of our acquisition of CBS Employer Services, Inc. in the fourth quarter of fiscal 2002. We also acquired our wholesale durable goods, property management and nonprofit businesses in the fourth quarter of fiscal 2002. They contributed $80.6 million in revenue for fiscal 2003 compared with $3.4 million in fiscal 2002. Finally, we acquired Intuit Information Technology Solutions in the first quarter of fiscal 2003.

Consumer Tax

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

Fiscal 2004 Compared with Fiscal 2003. Consumer Tax total net revenue increased in fiscal 2004 compared with fiscal 2003 as a result of TurboTax for the Web and retail desktop unit growth, higher attach rates for electronic filing services and higher average selling prices.

Fiscal 2003 Compared with Fiscal 2002. Consumer Tax total net revenue grew in fiscal 2003 compared with fiscal 2002 due to an increase in desktop revenue that was driven by unit growth and higher average selling prices for federal tax offerings with enhanced functionality; higher TurboTax for the Web revenue due to unit growth and higher average selling prices; and an increase in electronic filing revenue due to higher federal desktop unit sales and higher average state electronic filing prices.

Professional Tax

Professional Tax product revenue is derived primarily from ProSeries and Lacerte professional tax preparation software products. Professional Tax service revenue consists of electronic filing and training services.

Fiscal 2004 Compared with Fiscal 2003. Professional Tax total net revenue grew slightly in fiscal 2004 compared with fiscal 2003 due to additional sales to existing customers, higher average selling prices related to product enhancements and increased sales of our unlimited electronic filing product as a result of new government rules requiring the electronic filing of certain professionally prepared 2003 income tax returns. However, revenue growth in fiscal 2004 was negatively impacted by competition from lower-priced professional tax preparation software products. Although we have revised our product strategy to address this competition for the 2004 tax year, it is possible that this competition may continue to negatively affect revenue growth rates for our Professional Tax segment in the future.

Fiscal 2003 Compared with Fiscal 2002. Professional Tax total net revenue grew in fiscal 2003 compared with fiscal 2002 due to price increases related to product enhancements, new customer acquisition initiatives and successful cross-sell efforts to the existing tax client base. Renewal rates for our existing customer base remained strong during fiscal 2003.

Other Businesses

Other Businesses consist primarily of Quicken and Canada. Quicken product revenue is derived primarily from Quicken desktop software products. Quicken other revenue consists primarily of fees from consumer online transactions and from Quicken-branded credit card and bill payment offerings that we provide through our partners. We exited the online advertising business in the fourth quarter of fiscal 2004. In Canada, product revenue is derived primarily from localized versions of QuickBooks and Quicken as well as QuickTax and TaxWiz consumer desktop tax return preparation software and ProFile professional tax preparation products. Service revenue in Canada consists primarily of revenue from software maintenance contracts sold with QuickBooks.

Fiscal 2004 Compared with Fiscal 2003. Other Businesses total net revenue grew slightly in fiscal 2004 compared with fiscal 2003 primarily due to higher Quicken revenue.

In fiscal 2004 Quicken direct unit sales increased in response to direct mail campaigns for upgrades due to the discontinuation of support for older versions of the product and for TurboTax cross-selling offers. Retail unit sales also increased. Aggregate average selling prices for Quicken were higher in fiscal 2004 compared with fiscal 2003 due to a shift in demand to our higher-priced Quicken Premier and Quicken Home and Business products. Partially offsetting these increases, Quicken other revenue declined in fiscal 2004 due to the expiration or termination of contracts with several significant online advertising customers. We exited the online advertising business in the fourth quarter of fiscal 2004.

Canadian revenue in U.S. dollars was slightly higher in fiscal 2004 compared with fiscal 2003 due to the favorable effect of the strengthening Canadian dollar in fiscal 2004. Total net revenue in Canadian dollars decreased in fiscal 2004 compared with fiscal 2003, primarily due to lower demand for QuickBooks in Canada. QuickTax revenue was also down in fiscal 2004 due to a decline in unit sales that was partially offset by higher average selling prices related to a shift in demand toward the higher-priced specialty versions of that product.

Fiscal 2003 Compared with Fiscal 2002. Other Businesses total net revenue increased slightly in fiscal 2003 compared with fiscal 2002. Quicken revenue decreased while Canadian revenue grew.

Quicken product revenue decreased due to lack of growth in the market for personal finance desktop software and slow consumer spending. Lower unit sales for all Quicken products more than offset higher average selling prices for Quicken Premier and Quicken Home and Business. Quicken other revenue also decreased due to continuing slowness in Internet advertising and our exit from certain online businesses in fiscal 2002.

Total net revenue from Canada grew in fiscal 2003 compared with fiscal 2002, due partially to slightly higher revenue from QuickTax. Higher average selling prices and higher unit sales for this product were fueled by the introduction of Right for Me consumer tax products targeted at taxpayers who maintain home offices or who are preparing for retirement. Our new TaxWiz consumer tax preparation software also contributed to fiscal 2003 revenue growth. Canadian QuickBooks revenue for fiscal 2003 declined due to lack of growth in the software category and decreases in the level of inventory purchasing by retailers.

Cost of Revenue

(Dollars in millions)	Fiscal 2002	% of Related Revenue	Fiscal 2003	% of Related Revenue	Fiscal 2004	% of Related Revenue	2002-2003 % Change	2003-2004 % Change
Cost of product revenue	$ 157.4	16%	$ 173.8	15%	$ 172.1	14%	10%	-1%
Cost of service revenue	107.6	40%	149.5	33%	162.2	28%	39%	8%
Cost of other revenue	24.4	36%	20.6	30%	27.4	38%	-16%	33%
Amortization of purchased software	7.2	n/a	13.8	n/a	13.5	n/a	92%	-2%
Total cost of revenue	$ 296.6	23%	$ 357.7	22%	$ 375.2	20%	21%	5%

Our cost of revenue has four components: (1) cost of product revenue, which includes the direct costs of manufacturing and shipping our software products; (2) cost of service revenue, which reflects direct costs associated with providing services, including data center costs related to delivering Internet-based services; (3) cost of other revenue, which includes costs associated with generating advertising and marketing and online transaction revenue; and (4) amortization of purchased software, which represents the cost of amortizing developed technologies that we obtained through acquisitions over their useful lives.

Fiscal 2004 Compared with Fiscal 2003. Cost of product revenue as a percentage of product revenue decreased slightly in fiscal 2004 compared with fiscal 2003. This was primarily due to a continuing shift toward sales of our higher-priced QuickBooks products and to lower royalties incurred for our Consumer Tax and Quicken products.

Cost of service revenue as a percentage of service revenue decreased in fiscal 2004 compared with fiscal 2003. This decrease was due to growth in our Consumer Tax service revenue, which had minimal incremental costs. Cost of service revenue as a percentage of service revenue also decreased in fiscal 2004 due to growth in revenue from the higher-margin businesses we acquired during fiscal 2003 and 2004, notably Intuit Information Technology Solutions and Innovative Merchant Solutions.

Cost of other revenue as a percentage of other revenue increased in fiscal 2004 compared with fiscal 2003. This was primarily due to declining Quicken other revenue resulting from the fiscal 2004 expiration or termination of contracts with several significant online advertising customers, which had minimal associated costs. We exited the online advertising business in the fourth quarter of fiscal 2004.

Fiscal 2003 Compared with Fiscal 2002. Cost of product revenue as a percentage of product revenue decreased slightly in fiscal 2003 compared with fiscal 2002. This was primarily due to a shift toward sales of our new higher-priced QuickBooks products, which have higher margins per unit, and to cost reductions due to improvements in packaging design and manufacturing processes during fiscal 2003.

Cost of service revenue as a percentage of service revenue decreased in fiscal 2003 compared with fiscal 2002 primarily as a result of growth in our outsourced payroll business during fiscal 2003. In addition, starting in the third quarter of fiscal 2003 we no longer paid royalties to Wells Fargo Bank for our Premier Payroll Service. Although we amortized the $29.2 million purchase price of the right to market to this customer base to cost of service revenue in fiscal 2003, the amortization expense was less than the royalties that would have been incurred under the old agreement.

Cost of other revenue as a percentage of other revenue decreased in fiscal 2003 compared with fiscal 2002. In the first quarter of fiscal 2002, we moved a large number of servers that supported our Quicken.com Web site from an external hosting company to our own data center and streamlined the infrastructure. Over time, this led to decreased cost of other revenue for this business.

Operating Expenses

(Dollars in millions)	Fiscal 2002	% Total Net Revenue	Fiscal 2003	% Total Net Revenue	Fiscal 2004	% Total Net Revenue	2002-2003 % Change	2003-2004 % Change
Customer service and technical support	$ 164.9	13%	$ 178.9	11%	$ 195.1	10%	8%	9%
Selling and marketing	263.7	20%	324.4	20%	369.1	20%	23%	14%
Research and development	198.5	15%	255.8	15%	281.1	15%	29%	10%
General and administrative	109.1	8%	148.9	9%	183.1	10%	36%	23%
Total core operating expenses	736.2	56%	908.0	55%	1,028.4	55%	23%	13%
Charge for purchased research and development	2.2	—	8.9	1%	—	—	305%	—
Charge for vacant facilities	13.2	1%	(1.1)	—	0.7	—	NM	NM
Acquisition-related charges	159.4	12%	33.9	2%	24.5	1%	-79%	-28%
Loss on impairment of goodwill and purchased intangible assets	27.3	2%	—	—	18.7	1%	-100%	—
Loss on impairment of long-lived asset	27.0	2%	—	—	—	—	-100%	—
Total operating expenses	$ 965.3	73%	$ 949.7	58%	$ 1,072.3	57%	-2%	13%

Overview of Operating Expenses

We define core operating expenses as the controllable costs of running our business. Total core operating expenses increased in fiscal 2004 compared with fiscal 2003 and in fiscal 2003 compared with fiscal 2002. Individually and in the aggregate, core operating expenses as a percentage of total net revenue were generally consistent in these periods. Operating expenses that changed by more than 1% of total net revenue from fiscal 2002 to fiscal 2004 are discussed below.

Customer Service and Technical Support

Customer service and technical support expenses declined as a percentage of total net revenue in fiscal 2004 compared with fiscal 2003 and in fiscal 2003 compared with fiscal 2002. We continued to increase our efficiency in these periods by improving our utilization of internal customer service representatives and by outsourcing some of our seasonal call center capabilities. We also increased 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. These benefits were partially offset by higher demand for customer service and technical support due to the increased number of our offerings.

General and Administrative

General administrative expenses increased as a percentage of total net revenue in fiscal 2004 compared with fiscal 2003 and in fiscal 2003 compared with fiscal 2002 due to increased spending for infrastructure and new information systems.

Acquisition-Related Charges

Fiscal 2004 and 2003 acquisition-related charges declined significantly compared with fiscal 2002. Fiscal 2002 acquisition-related charges included the amortization of goodwill. Due to our adoption of SFAS 142, fiscal 2004 and fiscal 2003 acquisition-related charges did not include the amortization of goodwill.

Loss on Impairment of Goodwill and Purchased Intangible Assets

During the fourth quarter of fiscal 2004, events and circumstances indicated impairment of goodwill that we recorded in connection with our acquisition of Intuit Public Sector Solutions. IPSS became part of our Intuit-Branded Small Business segment. The primary indicator of impairment was the fact that actual sales levels did not meet initial projections. Based on our analysis, in the fourth quarter of fiscal 2004 we recorded a charge of $18.7 million to reduce the carrying value of the goodwill to $10.9 million. In August 2004 management formally approved a plan to sell IPSS. See Note 4 to the financial statements.

The fiscal 2002 loss on impairment of goodwill and purchased intangible assets related to certain Internet-based businesses in our Intuit-Branded Small Business and Other Businesses segments. Indicators of impairment included a steep decline in demand for online advertising reflecting the industry-wide decline in Internet advertising spending and our decision to eliminate the use of certain technology purchased from one of the businesses. Based on our analyses, in the second quarter of fiscal 2002 we recorded charges totaling $27.3 million to reduce the carrying value of the goodwill and purchased intangible assets associated with these businesses to zero. See Note 4 to the financial statements.

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 the buyer. During fiscal 2002, events and circumstances indicated impairment of this asset and we recorded a charge of $27.0 million to reduce its carrying value to zero. See Note 10 to the financial statements.

Segment Operating Income (Loss)

Segment operating income or loss is segment net revenue less segment cost of revenue and operating expenses. Segment expenses do not include certain costs, such as corporate general and administrative expenses that are not allocated to specific segments. In addition, segment expenses do not include acquisition-related costs, which include acquisition-related charges, goodwill and purchased intangible asset impairment charges, amortization of purchased software and charges for purchased research and development. Segment expenses also do not include realized net gains or losses on marketable securities and other investments, and interest and other income. See Note 11 to the financial statements for reconciliations of total segment operating income to income from operations for each fiscal year presented.

(Dollars in millions)	Fiscal 2002	% of Related Revenue	Fiscal 2003	% of Related Revenue	Fiscal 2004	% of Related Revenue	2002-2003 % Change	2003-2004 % Change
QuickBooks-Related	$ 207.8	45%	$ 247.6	45%	$ 289.0	44%	19%	17%
Intuit-Branded Small Business	(29.6)	(34%)	(0.2)	—	11.7	4%	-99%	NM
Consumer Tax	218.0	62%	271.6	64%	320.3	65%	25%	18%
Professional Tax	121.9	54%	141.4	58%	138.5	55%	16%	-2%
Other Businesses	38.5	20%	57.8	30%	66.0	33%	50%	14%
Total segment operating income	$ 556.6	42%	$ 718.2	44%	$ 825.5	44%	29%	15%

QuickBooks-Related

Fiscal 2004 Compared with Fiscal 2003. The increase in QuickBooks-Related segment operating income in fiscal 2004 compared with fiscal 2003 was primarily due to 18% higher revenue that included strong growth in our high-margin DIY payroll business. In addition, fiscal 2004 operating income for this segment included operating income for Innovative Merchant Solutions, which we acquired in the first quarter of fiscal 2004. These factors were partially offset by increases in spending for QuickBooks product development, technical support, marketing programs and direct sales personnel and infrastructure.

Fiscal 2003 Compared with Fiscal 2002. The increase in QuickBooks-Related segment operating income in fiscal 2003 compared with fiscal 2002 was primarily due to 20% higher revenue that included strong growth in our high-margin DIY payroll business. These factors were partially offset by increases in spending for product development, marketing, sales and technical support for industry-specific versions of QuickBooks that launched late in fiscal 2002 and throughout fiscal 2003.

Intuit-Branded Small Business

Fiscal 2004 Compared with Fiscal 2003. Our Intuit-Branded Small Business segment had operating income in fiscal 2004 after it broke even in fiscal 2003 because revenue for this segment grew 14% while we held costs steady in our information technology and industry solutions businesses. Partially offsetting these improvements, outsourced payroll operating income was lower in fiscal 2004 because we incurred expenses for additional sales and service personnel during the first half of the year that were not completely offset by increased revenue.

Fiscal 2003 Compared with Fiscal 2002. Intuit-Branded Small Business broke even in fiscal 2003 after experiencing an operating loss in fiscal 2002. The primary reasons for the improvement in operating margin were growth in our outsourced payroll business and our acquisition of Intuit Information Technology Solutions in the first quarter of fiscal 2003.

Consumer Tax

Fiscal 2004 Compared with Fiscal 2003. Consumer Tax segment operating income growth in fiscal 2004 was slightly above revenue growth for that period because gross margin improvements due to higher average selling prices and growing high-margin service revenues were only partially offset by additional costs incurred for national television and radio advertising in fiscal 2004.

Fiscal 2003 Compared with Fiscal 2002. Consumer Tax segment operating income growth in fiscal 2003 was above revenue growth for that period as improvements in average selling prices were partially offset by additional costs incurred for higher partner royalties and infrastructure.

Professional Tax

Fiscal 2004 Compared with Fiscal 2003. Professional Tax segment operating income declined slightly on a 3% revenue increase in fiscal 2004 compared with fiscal 2003. Segment operating income did not grow in fiscal 2004 because of increased spending on product development and customer service.

Fiscal 2003 Compared with Fiscal 2002. Professional Tax segment operating income grew in fiscal 2003 compared with fiscal 2002 due to streamlining of training and materials costs that produced higher gross margins on 8% revenue growth. Operating expenses for this segment remained relatively flat in fiscal 2003 due to staffing efficiencies achieved in customer service.

Other Businesses

Fiscal 2004 Compared with Fiscal 2003. Other Businesses segment operating income grew faster than revenue due primarily to Quicken revenue increases on relatively flat costs and our exit from the online brokerage business in the first quarter of fiscal 2004. Partially offsetting the Quicken improvements, Canadian operating income was down in fiscal 2004.

Fiscal 2003 Compared with Fiscal 2002. Other Businesses segment operating income grew during fiscal 2003 compared with fiscal 2002 as a result of reduced spending in our Quicken online advertising business and reduction of other Quicken operating expenses as operational efficiencies were introduced. Canadian operating income was also slightly higher in fiscal 2003.

Non-Operating Income and Expenses

Interest and Other Income

	Fiscal 2002	Fiscal 2003	Fiscal 2004
Interest income	$ 31.7	$ 22.1	$ 14.0
Quicken Loans royalties and fees	—	10.1	10.2
Net foreign exchange gain	0.1	5.4	3.1
Interest expense	(1.5)	(0.9)	(0.3)
Other	(3.0)	2.0	3.8
	$ 27.3	$ 38.7	$ 30.8

Total interest and other income declined in fiscal 2004 compared with fiscal 2003 but increased in fiscal 2003 compared with fiscal 2002. The interest income that we earn on our cash and short-term investment balances decreased $8.1 million in fiscal 2004 compared with fiscal 2003 and $9.6 million in fiscal 2003 compared with fiscal 2002 due to our reinvestment of maturing instruments in new instruments that generally yielded lower current market interest rates. In addition, due to the Company's continued investment in its stock repurchase programs and in acquisitions, average invested balances were lower in fiscal 2004 than in fiscal 2003 and were lower in fiscal 2003 than in fiscal 2002.

Fiscal 2004 and 2003 interest and other income included royalties from trademark license and distribution agreements that we entered into when we sold our mortgage business in July 2002. See Note 9 to the financial statements. This is the primary reason for the increase in total interest and other income in fiscal 2003 compared with fiscal 2002. Interest and other income also includes net gains resulting from foreign exchange transactions that were due primarily to the effect of the weakening U.S. dollar on intercompany balances with our Canadian subsidiary.

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

We recorded pre-tax net gains relating to marketable securities and other investments in fiscal 2004 and 2003 while we recorded a pre-tax net loss relating to marketable securities and other investments in fiscal 2002. The fiscal 2003 net gain and fiscal 2002 net loss included charges totaling $2.8 million and $9.5 million to write down certain long-term investments for which the decline in fair value below carrying value was other-than-temporary.

Gain on Divestiture of Business

In March 2002 we paid $12.0 million to terminate our remaining $20.3 million obligation under an interactive services agreement related to our Quicken Bill Manager business, which we sold in May 2001. We recorded a pre-tax gain of $8.3 million in connection with the termination of this agreement.

Income Taxes

Our effective tax rate was 30% for fiscal 2004, 33% for fiscal 2003 and 24% for fiscal 2002. Our effective tax rate for fiscal 2004 differed from the federal statutory rate primarily due to the net effect of reversals of $35.7 million in reserves related to potential income tax exposures that have been resolved and to the benefit received from tax-exempt interest income and various tax credits offset by state taxes, acquisition-related charges and deferred tax adjustments. Our effective tax rate for fiscal 2003 differed from the federal statutory rate primarily due to the net effect of the benefit received from tax-exempt interest income and various tax credits offset by state taxes and acquisition-related charges. Our effective tax rate for fiscal 2002 differed from the federal statutory rate primarily due to a tax benefit related to a divestiture that became available during the year and to tax-exempt interest income offset by non-deductible merger related charges. See Note 14 to the financial statements.

At July 31, 2004, we had net deferred tax assets of $167.2 million, which included a valuation allowance of $7.5 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 14 to the financial statements.

Discontinued Operations

Intuit KK

In February 2003 we sold our wholly owned Japanese subsidiary, Intuit KK, and accounted for the sale as discontinued operations. In accordance with SFAS 144, we have segregated the operating results of Intuit KK from continuing operations on our statement of operations for all periods prior to the sale. We recorded a gain on disposal of these discontinued operations of $71.0 million, net of income taxes of $5.1 million, in the third quarter of fiscal 2003. See Note 9 to the financial statements.

Quicken Loans

In July 2002 we sold 87.5% of our Quicken Loans mortgage business segment and accounted for the sale as discontinued operations. In accordance with APB 30, we have segregated the operating results of Quicken Loans from continuing operations on our statement of operations for all periods prior to the sale. We recorded a net gain on disposal of these discontinued operations of $23.3 million in the fourth quarter of fiscal 2002. In October 2002, we sold our residual equity interest in the purchasing company and recognized a net gain of $5.6 million on the transaction. We receive royalties and fees under certain licensing and distribution agreements that relate to our former Quicken Loans business. We record these amounts as other income on our statement of operations. See Note 9 to the financial statements.

Liquidity and Capital Resources

Statements of Cash Flows

At July 31, 2004 our cash, cash equivalents and short-term investments totaled $1.0 billion, a decrease of $187.6 million from July 31, 2003. In fiscal 2004, we generated cash primarily from continuing operations and the issuance of common stock under employee stock plans and we used cash primarily for our stock repurchase programs, acquisitions and capital expenditures. The following table summarizes selected items from our statements of cash flows for fiscal 2004, 2003 and 2002. See the financial statements for complete statements of cash flows for those periods.

(In millions)	Fiscal 2002	Fiscal 2003	Fiscal 2004
Net cash provided by operating activities	**$ 351.6**	**$ 570.2**	**$ 574.6**
Net income from continuing operations	53.6	263.2	317.0
Acquisition-related costs	196.0	56.6	56.6
Depreciation	58.8	73.8	77.6
Net cash used in investing activities	**(38.4)**	**(492.7)**	**(211.0)**
Acquisitions of businesses, net of cash acquired	(284.1)	(214.8)	(123.6)
Net liquidation (purchases) of available-for-sale debt securities	295.1	(230.6)	(64.3)
Purchases of property and equipment	(42.1)	(50.4)	(61.1)
Capitalization of internal use software	(21.3)	(34.3)	(57.1)
Net cash used in financing activities	**(196.1)**	**(661.8)**	**(506.5)**
Purchase of treasury stock	(318.4)	(814.3)	(610.2)
Net proceeds from issuance of common stock	133.6	155.9	119.1
Net cash provided by discontinued operations	**225.2**	**341.4**	**—**
Net increase (decrease) in cash and cash equivalents	**342.0**	**(238.9)**	**(142.8)**

We generated cash from our operations during fiscal 2004, 2003 and 2002, including net income from continuing operations in each of those years. Acquisition-related costs were significantly higher in fiscal 2002 than in fiscal 2003 and 2004 primarily because we amortized goodwill in fiscal 2002. Due to our adoption of SFAS 142, we stopped amortizing goodwill in fiscal 2003. Acquisition-related costs also included impairments of goodwill and purchased intangible assets of $27.3 million in fiscal 2002 and $18.7 million in fiscal 2004.

We used cash for investing activities during fiscal 2004, 2003 and 2002. Our primary use of cash for investing activities was for business acquisitions. On a net basis, we invested cash in available-for-sale debt securities in fiscal 2004 and 2003 while we drew cash from them in fiscal 2002.

We used cash for our financing activities in fiscal 2004, 2003 and 2002, primarily for the repurchase of stock under our stock repurchase programs. See *"Stock Repurchase Programs"* below and Note 15 to the financial statements. This was partially offset by proceeds that we received from the issuance of common stock under employee stock plans in each of these fiscal years.

Cash generated by discontinued operations in fiscal 2003 included collection of $241.6 million in amounts due from Quicken Loans and Intuit KK and a net gain of $71.0 million from the sale of Intuit KK. Cash generated by discontinued operations during fiscal 2002 was primarily from collection of $108.1 million in amounts due from Quicken Loans and Intuit KK, net income from discontinued operations of $63.2 million and a gain of $23.3 million on the sale of Quicken Loans.

Stock Repurchase Programs

Intuit's Board of Directors has initiated a series of common stock repurchase programs. Shares of common stock repurchased under these programs become treasury shares. The following table summarizes our stock repurchase programs at July 31, 2004.

Plan Name	Date Initiated / Increased	Date Concluded	Amount Authorized	Amount Repurchased	Shares Repurchased
(Dollars in millions)					
Repurchase Plan I	May 2001 / July 2002	December 2002	$ 750.0	$ 750.0	16,602,583
Repurchase Plan II	March 2003	November 2003	500.0	500.0	11,280,609
Repurchase Plan III	August 2003	June 2004	500.0	500.0	11,197,779
Repurchase Plan IV	May 2004	Still active	500.0	—	—

Loans to Executive Officers and Other Employees

Outstanding loans to executive officers and other employees totaled $17.1 million at July 31, 2004 and $19.7 million at July 31, 2003. Loans to executive officers are primarily relocation loans that are generally secured by real property and have original maturity dates of up to 10 years. At July 31, 2004, no loans were overdue and all interest payments were current in accordance with the terms of the loan agreements. Consistent with the requirements of the Sarbanes-Oxley Act of 2002, no loans to executive officers have been made or modified since July 30, 2002 and we do not intend to make or modify loans to executive officers in the future. See Note 19 to the financial statements.

Other

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

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.

Contractual Obligations

The following table summarizes our contractual obligations to make future payments at July 31, 2004:

	Payments Due by Period				
	Less than 1 year	1-3 years	3-5 years	After 5 years	Total
(In millions)					
Amounts due under executive deferred compensation plan	$ —	$ 13.2	$ —	$ —	$ 13.2
Short-term portion of capital lease obligations	2.5	—	—	—	2.5
Short-term portion of vacancy reserve	1.4	—	—	—	1.4
Long-term obligations (1)	—	8.1	3.8	4.5	16.4
Purchase obligations (2)	4.7	4.8	3.3	7.6	20.4
Operating leases	27.8	50.4	36.4	61.1	175.7
Total contractual cash obligations	$ 36.4	$ 76.5	$ 43.5	$ 73.2	$ 229.6

(1) Long-term obligations at July 31, 2004 included the $7.6 million long-term portion of our reserve for vacant Mountain View facilities. See Note 13 to the financial statements.

(2) Represents agreements to purchase products and services that are enforceable, legally binding and specify terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the payments.

Recent Accounting Pronouncements

On March 31, 2004, the FASB issued its exposure draft, *"Share-Based Payment,"* which is a proposed amendment to SFAS 123. The exposure draft would require all share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized as expenses in the statement of operations based on their fair values and vesting periods. The FASB expects to issue a final standard late in 2004 that would be effective for public companies for fiscal years beginning after December 15, 2004. We have not yet assessed the impact of adopting this new standard. See Note 1 to the financial statements.

RISKS THAT COULD AFFECT FUTURE RESULTS

We face intense competitive pressures in all of our businesses that may negatively impact our revenue, profitability and market position.

We have formidable competitors and we expect competition to remain intense during fiscal 2005 and beyond. The number, resources and sophistication of the companies with whom we compete has increased as we continue to expand our product and service offerings. Microsoft Corporation, in particular, presents a significant threat to a number of our businesses due to its market position, strategic focus and superior financial resources. Our competitors may introduce new and improved products and services, bundle new offerings with market-leading products, reduce prices, gain better access to distribution channels, advertise aggressively or beat us to market with new products and services. Any of these competitive actions – particularly any prolonged price competition – could diminish our revenue and profitability and could affect our ability to keep existing customers and acquire new customers. Some additional competitive factors that may impact our businesses are as follows:

QuickBooks-Related. Losing existing or potential QuickBooks customers to competitors causes us to lose potential software revenue and limits our opportunities to sell related products and services such as our financial supplies, DIY payroll and merchant service offerings. Many competitors and potential competitors provide, or have expressed significant interest in providing, accounting and business management products and services to small businesses. For example, Microsoft currently offers a number of competitive small business offerings and has indicated part of its growth strategy is to focus on small business offerings. Accordingly, we expect that competition from Microsoft in the small business area will intensify over time with the introduction of small business offerings that directly compete with our QuickBooks and other offerings. Given its market position and resources, if Microsoft launches additional products and services that directly compete with our offerings it may have a significant negative impact on our revenue and profitability.

Consumer Tax. Our consumer tax business faces significant competition from both the public and private sector. In the public sector we face the risk of federal and state taxing authorities developing or contracting to provide software or other systems to facilitate tax return preparation and electronic filing at no charge to taxpayers.

- *Federal Government*. Agencies of the U.S. government have made several attempts during the two most recent presidential administrations to offer taxpayers a form of free tax preparation software and filing service. However, in October 2002 the U.S. Internal Revenue Service agreed not to develop or deploy its own competing tax software product or service so long as participants in an association of private tax preparation software companies, including Intuit, agreed to provide Web-based federal tax preparation and filing services at no cost to qualified taxpayers for a period of three years, subject to recurring two-year extensions. The relationship, called the “Free File Alliance,” is intended to serve lower income, disadvantaged and underserved taxpayers with the objective of making free online tax preparation software and filing services available to at least 60% of taxpayers. Although the Free File Alliance has kept the federal government from being a direct competitor to our tax offerings, it has caused us to lose revenue opportunities for a large percentage of the tax base. In addition, some of our competitors are using the Free File Alliance as a free marketing tool by giving away services at the federal level and attempting to make money from ancillary service offerings. Further, were the federal government to terminate the Free File Alliance and elect to provide its own software and electronic filing services available to taxpayers at no charge it would negatively impact our revenue and profits.
- *State Governments*. State taxing authorities have also actively pursued strategies to provide free online tax return preparation and electronic filing services for state taxpayers. During 2004 at least 15 states participated in Free File Alliance collaborations with private sector software companies to offer free online tax preparation and electronic filing services to qualified taxpayers. However, 22 states, including California, directly offered their own online services to taxpayers. It is possible that other governmental entities that currently do not offer such services will elect to pursue similar competitive offerings in the future. These publicly sponsored programs have caused us to lose potential customers to free offerings and have enabled competitors to gain market share at our expense by using participation in the free alliances as an effective tool to attract customers to ancillary paid offerings. Given the efficiencies that electronic tax filing provides to taxing authorities, we anticipate that governmental competition will present a continued competitive threat to our business for the foreseeable future.

- *Private Sector*. In the private sector we face intense competition primarily from H&R Block, the makers of TaxCut software, and from web-based competitive offerings. We also compete for customers with low-cost assisted tax preparation businesses, such as H&R Block.

Other Segments (Intuit-Branded Small Business, Professional Tax and Other Businesses). Our professional tax offerings face pricing pressure from competitors seeking to obtain our customers through deep product discounts and loss of customers to competitors offering no-frills offerings at low prices. This business also faces competition from competitively-priced integrated accounting solutions that are more complete than our current offerings. The substantial size of our principal competitors in the outsourced payroll services business and our merchant card processing service business benefit from greater economies of scale that may result in pricing pressure for our offerings. The growth of electronic banking and other electronic payment systems is decreasing the demand for checks and consequently causing pricing pressure for our supplies products as competitors aggressively compete for share of this shrinking market. Our Quicken products compete both with Microsoft Money, which is aggressively promoted and priced, and with Web-based electronic banking and personal finance tracking and management tools that are becoming increasingly available at no cost to consumers. These competitive pressures may result in reduced revenue and lower profitability for our Quicken product line and related bill payment service offering.

The growth of some of our businesses is slowing and if we do not continue to introduce new and enhanced products and services our revenues and margins will decline.

We are seeing a slowdown in the revenue growth rate for some of our businesses as they mature. This trend causes our product development efforts to be even more critical to our success. Product and service enhancements are necessary for us to differentiate our offerings from those of our competitors and to motivate our existing customers to purchase upgrades, or annual licenses in the case of our tax offerings. A number of our businesses derive a significant amount of their revenue through one-time upfront license fees and rely on customer upgrades and service offerings that include upgrades to generate a significant portion of their revenues. As our existing products mature, encouraging customers to purchase product upgrades becomes more challenging unless new product releases provide features and functionality that have meaningful incremental value. If we are not able to develop and clearly demonstrate the value of upgraded products to our customers, our upgrade and service revenues will be negatively impacted. Similarly, our business will be harmed if we are not successful in our efforts to develop and introduce new products and services that expand our customer base and revenues per customer.

We are implementing new information systems and problems with the design or implementation of these systems could interfere with our business and operations.

We are in the process of implementing new information systems to replace existing systems that manage our business and finance operations. Due to the size and complexity of our portfolio of businesses, the conversion process is very challenging. We began switching over in large part to the new information systems in September 2004 with the upgrade of significant financial systems, order-taking systems, middleware systems (systems to allow for interoperability of different databases) and network security systems. Although the upgraded systems appear to be functioning in a stable manner and performing tasks at acceptable performance levels for our current business demands, we may still encounter difficulties as our business demands increase and as greater functionality from the systems is required. For example, we have not yet successfully closed a financial reporting period with data generated by the upgraded systems. Similarly, the upgraded systems have not yet been subject to, and may not be able to handle, the demand peaks caused by the seasonal nature of our business. In addition, although the switch over of our more critical systems is underway, we will be continuing to replace existing systems throughout fiscal year 2005. Any disruptions relating to our systems enhancements, particularly any disruptions impacting our operations during our second and third fiscal quarters, could adversely impact our ability to do the following in a timely and accurate manner: take customer orders, ship products, provide services and support to our customers, bill and track our customers, fulfill contractual obligations and otherwise run our business. Even if we do succeed, the implementation may be much more costly than we anticipated. If we are unable to successfully implement new information systems as planned, in addition to adversely impacting our financial position, results of operations, and cash flows in the short and long term, it could also affect our ability to collect the information necessary to timely file our first quarter fiscal 2005 financial reports with the SEC.

Our new product and service offerings may not achieve market success or may cannibalize sales of our existing products, causing our revenues and earnings to decrease.

Our future success depends in large part upon our ability to identify emerging opportunities in our target markets and our capacity to quickly develop, and sell products and services that satisfy these demands in a cost effective manner. Successfully predicting demand trends is difficult and we may expend a significant amount of resources and management attention on products or services that do not succeed in their markets. We have encountered difficulty in launching new products and services in the past. For example, in 2003 we ended our Quicken Brokerage service offering due to lack of customer acceptance. If we misjudge customer needs, our new products and services will not succeed and our revenues and earnings will be negatively impacted. In addition, as we expand our offerings to new customer categories we run the risk of customers shifting from higher priced and higher margin products to newly introduced lower priced offerings.

If we experience significant product quality problems or delays it will harm our revenues, operating income and reputation.

All of our tax products, and many of our non-tax products, have rigid development timetables that increase the risk of errors in our products and the risk of launch delays. Many of our products are highly complex and require interoperability with other software products and services. Our tax preparation software product development cycle is particularly challenging due to the need to incorporate unpredictable tax law and tax form changes each year and because our customers expect high levels of accuracy and a timely launch of these products to prepare and file their taxes by April 15th. Due to this complexity and the condensed development cycles under which we operate our products sometimes contain “bugs” that can unexpectedly interfere with the operation of the software. For example, our software may face interoperability difficulties with software operating systems or programs being used by our customers. When we encounter problems we may be required to modify our code, distribute patches to customers that had already purchased the product and recall or repackage existing product inventory in our distribution channels. If we encounter development challenges or discover errors in our products late in our development cycle it may cause us to delay our product launch date. Any major defects or launch delays could lead to the following:

- loss of customers to competitors, which could also deprive us of future revenue attributable to repeat purchases, product upgrades and purchases of related services;
- negative publicity and damage to our brands;
- customer dissatisfaction;
- reduced retailer shelf space and product promotions; and
- increased operating expenses, such as inventory replacement costs and in our consumer tax business, expenses resulting from our commitment to reimburse penalties and interest paid by customers due solely to calculation errors in our consumer tax preparation products.

If we fail to maintain reliable and responsive service levels for our electronic tax offerings, or if the IRS or other governmental agencies experience difficulties in receiving customer submissions, 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 risks and challenges in maintaining these services and maintaining adequate service levels, particularly during peak volume service times. Similarly, governmental entities receiving electronic tax filings must also handle large volumes of data and may experience difficulties with their systems preventing the receipt of electronic filings. If customers are unable to file their returns electronically they may elect to make paper filings. This would result in reduced electronic tax return preparation and filing revenues and profits and would negatively impact our reputation and ability to keep and attract customers who demand a reliable electronic filing experience. We have experienced relatively brief unscheduled interruptions in our electronic filing and/or tax preparation services during past tax years. For example, on April 15, 2003 we experienced a relatively brief unscheduled interruption in our electronic filing service during which certain users of our professional tax products were unable to receive confirmation from us that their electronic filing had been accepted and on April 15, 2002 we reached maximum capacity for processing e-filings for short period of time. If we experience any prolonged difficulties with our Web-based tax preparation or electronic filing service at any time during the tax season, we could lose current and future 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 and have a negative impact on our near-term and long-term financial results.

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

Several of our businesses are highly seasonal causing significant quarterly fluctuations in our financial results. Revenue and operating results are usually strongest during the second and third fiscal quarters ending January 31 and April 30 due to our tax businesses contributing most of their revenue during those quarters and the timing of the release of our small business software upgrades. We experience lower revenues, and 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 sales mix that affect average selling prices, product release dates, the timing of our discontinuance of support for older product offerings, the timing of sales of our higher-priced Intuit-Branded Small Business offerings, our methods for distributing our products, including the shift to a consignment model for some of our desktop products sold through retail distribution channels, and the timing of acquisitions, divestitures, and goodwill and purchased intangible asset impairment charges.

As our product and service offerings become more complex our revenue streams become less predictable.

Our expanding range of products and services generates more varied revenue streams than our traditional desktop software businesses. The accounting policies that apply to these revenue streams are more complex than those that apply to our traditional products and services. We expect this trend to continue as we acquire additional companies and expand our offerings. For example, as we begin to offer additional features and options as part of multiple-element sales arrangements, we could be required to defer a higher percentage of our product revenue at the time of sale than we do for traditional products. This would decrease recognized revenue at the time products are shipped, but result in increased recognized revenue in fiscal periods after shipment. For example, some of our TurboTax offerings provide for both use of our software and filing of returns electronically, causing some of our revenue to be deferred until the time of the actual filing of tax returns by our customers. In addition, our Intuit-Branded Small Business segment businesses offer products and services with significantly higher prices than we have traditionally offered. Revenue from these offerings tends to be less predictable than revenue from our traditional desktop products, due to longer sales and implementation cycles. These businesses also tend to rely on a relatively small number of large orders for a substantial portion of their revenue in a particular quarter, which could cause our quarterly revenue from these businesses to fluctuate.

Acquisition-related costs and impairment charges 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 intangible assets and deferred compensation (which are reflected in operating expenses). Total acquisition-related costs in the categories identified above were $196.0 million in fiscal 2002, $56.6 million in fiscal 2003 and $56.6 million in fiscal 2004. Fiscal 2003 and 2004 acquisition-related costs have declined primarily because of a change in the accounting treatment of goodwill. However, we may incur less frequent, but larger, impairment charges related to the goodwill already recorded and to goodwill arising out of future acquisitions. We test the impairment of goodwill annually in our fourth fiscal quarter or more frequently if indicators of impairment arise. The timing of the formal annual test may result in charges to our statement of operations in our fourth fiscal quarter that could not have been reasonably foreseen in prior periods. For example, at the end of fiscal 2004 we incurred an impairment charge of $18.7 million related to our acquisition of Intuit Public Sector Solutions. As of July 31, 2004, we had an unamortized goodwill balance of approximately $670.0 million, which could be subject to impairment charges in the future. New acquisitions, and any impairment of the value of purchased assets, could have a significant negative impact on our future operating results.

If we do not respond promptly and effectively to customer service and technical support inquiries we will lose customers and our revenues will decline.

The effectiveness of our customer service and technical support operations are critical to customer satisfaction and our financial success. If we do not respond effectively to service and technical support requests we will lose customers and miss out on potential revenue opportunities, such as paid service and new product sales. In our service offerings, such as our merchant card processing and outsourced payroll businesses, customer service delivery is fundamental to retaining and maintaining existing customer and acquiring new customers. We occasionally experience customer service and technical support problems, including longer than expected waiting times for customers when our staffing and systems are inadequate to handle a higher-than-anticipated volume of requests. We also risk losing service at any one of our customer contact centers and our redundancy systems could prove inadequate to provide backup support. Training and retaining qualified customer service and technical support personnel is particularly challenging due to the expansion of our product offerings and the seasonality of our tax business. For example, in fiscal 2004 the number of our consumer tax service representatives ranged from 10 during off-season months to about 750 at the peak of the season. If we do not adequately train our support representatives our customers will not receive the level of support that they demand and we strive to deliver. To improve our performance in this area, we must eliminate underlying causes of service and support requests through product improvements, better order fulfillment processes, more robust self-help tools, and improved ability to accurately anticipate demand for support. Implementing any of these improvements can be expensive, time consuming and ultimately prove unsuccessful. If we do not deliver the high level of support that our customers expect for any of the reasons stated above we will lose customers and our financial results will suffer.

If we encounter problems with our third-party customer service and technical support providers our business will be harmed and margins will decline.

We outsource a substantial portion of our customer support activities to third-party service providers, most significantly to service providers in India. During fiscal 2004 we greatly increased the number of third-party customer service representatives working on our behalf and we expect to continue to rely heavily on third parties in the future. This strategy provides us with lower operating costs and greater flexibility, but also presents risks to our business, including the following:

- International outsourcing has received considerable negative attention in the media and there are indications that the U.S. Congress may pass legislation that would impact how we operate and impact customer perceptions of our service. For example, in Congress legislators have discussed restricting the flow of personal information to overseas providers and requiring representatives in foreign jurisdictions to affirmatively identify themselves by name and location;
- Customers may react negatively to providing information to and receiving support from overseas organizations;
- We may not be able to impact the quality of support that we provide as directly as we are able to in our company-run call centers;
- In recent years India has experienced political instability and changing policies that may impact our operations. In addition, for a number of years India and Pakistan have been in conflict and an active state of war between the two countries could disrupt our services; and
- We rely on a global communications infrastructure that may be interrupted in a number of ways. For example, in fiscal 2004 we had to reroute calls to India due to an underwater cable being cut in the Mediterranean Sea.

We face significant risks in our retail distribution channel that could result in loss of revenues and reduced margins.

We sell most of our desktop software products through our retail distribution channel and a relatively small number of retailers generate much of our sales volume. Our principal retailers have significant bargaining leverage due to their size and available resources. Any change in principal business terms, termination or major disruption of our relationship with these resellers could result in a potentially significant decline in our revenues and earnings. For example, the sourcing decisions, product display locations and promotional activities that retailers undertake can greatly impact the sales of our products. Due to its seasonal nature, sales of TurboTax are particularly impacted by such decisions and if our principal distribution sources were to elect to carry or promote competitive products our revenues would decline. The fact that we also sell our products directly could cause retailers to reduce their efforts to promote our products or stop selling our products altogether. If any of our retailers run into financial difficulties we may be unable to collect amounts that we are owed.

Selling new products may be more challenging and costlier than selling our historical products, causing our margins to decline.

Because our strategy for some of our products involves the routine introduction of new products at retail, if retailers do not offer our new products we will not be able to grow as planned. An outcome of our "Right for Me" marketing approach is the introduction of additional versions of our products. Retailers may be reluctant to stock unproven products, or products that sell at higher prices, but more slowly. Retailers may also choose to place less emphasis on software as a category within their stores. In addition, it may be costlier for us to market and sell some of our higher priced products due to our need to convey the more customer-specific value of the products to customers rather than communicating more generalized benefits. This may require us to develop other marketing programs that supplement our traditional in-store promotional efforts to sell these products to customers causing our margins to shrink. If retail distribution proves an ineffective channel for certain of our new offerings it could adversely impact our growth, revenue and profitability.

If our manufacturing and distribution suppliers execute poorly our business will be harmed.

We have chosen to outsource the manufacturing and distribution of many of our desktop software products to a small number of third party providers and we use a single vendor to produce and distribute our check and business forms supplies products. Although our reliance on a small number of suppliers, or a single supplier, provides us with efficiencies and enhanced bargaining power, poor performance by or lack of effective communication with these parties can significantly harm our business. This risk is amplified by the fact that we carry very little inventory and rely on just-in-time manufacturing processes. We have experienced problems with our suppliers in the past. For example, during fiscal 2004 one of our suppliers was unable to fulfill orders for some of our software products for a number of days due to operational difficulties and communication errors. Although together we were able to mitigate the impact of that delay with minimal disruption to our business, if we experience longer delays, delays during a peak demand period or significant quality issues our business will be significantly harmed.

Failure of our information technology systems or those of our service providers could adversely affect our future operating results.

We rely on a variety of internal technology systems and technology systems maintained by our outside manufacturing and distribution suppliers to take and fulfill customer orders, handle customer service requests, host our Web-based activities, support internal operations, and store customer and company data. These systems could be damaged or interrupted, preventing us or our service providers from accepting and fulfilling customer orders or otherwise interrupting our business. In addition, these systems could suffer security breaches, causing company and customer data to be unintentionally disclosed. Any of these occurrences could adversely impact our operations. We have experienced system challenges in the past. For example, during fiscal 2004 some of our non-critical systems were interrupted due to computer viruses that caused loss of productivity and added expense. We also experience computer server failures from time to time. To prevent interruptions we must continually upgrade our systems and processes to ensure that we have adequate recoverability – both of which are costly and time consuming. While we and our outside service partners have backup systems for certain aspects of our operations, not all systems upon which we rely are fully redundant and disaster recovery planning may not be sufficient for all eventualities.

Possession and use of personal customer information by our businesses presents risks and expenses that could harm our business.

A number of our businesses possess personal customer information. Possession and use of this information in conducting our business subjects us to regulatory burdens and potential lawsuits. We have incurred – and will continue to incur – significant expenses to comply with mandatory privacy and security standards and protocols and there is a trend toward greater regulation of privacy. For example, regulations like the recently created federal "Do Not Call List," and actions by Internet service providers to limit communications with their subscribers may impede our ability to communicate with our customers and increase our compliance costs. Because our businesses rely heavily on direct marketing, any limitations on our ability to communicate with our customers could harm our financial results. In the past we have experienced lawsuits and negative publicity relating to privacy issues and we could face similar suits in the future. A major breach of customer privacy or security by Intuit, or even another company, could have serious negative consequences for our businesses, including direct damages that we may be required to pay as a result of a breach by us, reduced customer demand for our services and additional regulation by federal or state agencies. Although we have sophisticated network security, internal control measures, and physical security procedures to safeguard customer information, there can be no assurance that a data security breach or theft will not occur resulting in harm to our business and results of operations.

If we fail to adequately protect our intellectual property rights, competitors may exploit our innovations, which could weaken our competitive position and reduce our revenues.

Our success depends upon our proprietary technology. We rely on a combination of copyright, trade secret, trademark, patent, confidentiality procedures and licensing arrangements to establish and protect our proprietary rights. As part of our confidentiality procedures, we generally enter into non-disclosure agreements with our employees, contractors, distributors and corporate partners and into license agreements with respect to our software, documentation and other proprietary information. Effectively creating and protecting our proprietary rights is expensive and may require us to engage in expensive and distracting litigation. Despite these precautions, third parties could copy or otherwise obtain and use our products or technology without authorization. Because we outsource significant aspects of our product development, manufacturing and distribution we are at risk that confidential portions of our intellectual property could become public by lapses in security by our contractors. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to others. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation. It is also possible that other companies could successfully challenge the validity or scope of our patents and that our patent portfolio, which is relatively small, may not provide us with a meaningful competitive advantage. Ultimately, our attempts to secure legal protection for our proprietary rights may not be adequate and our competitors could independently develop similar technologies, duplicate our products, or design around patents and other intellectual property rights. If our intellectual property protection proves inadequate we could lose our competitive advantage and our financial results will suffer.

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

Our intellectual property rights are among our most valuable assets. Policing unauthorized use and copying of our products is difficult, expensive, and time consuming. Current U.S. laws that prohibit copying give us only limited practical protection from software piracy and the laws of many other countries provide very little protection. We may not be able to prevent misappropriation of our technology. For example, we frequently encounter unauthorized copies of our software being sold through online auction sites and other online marketplaces. In addition, efforts to protect our intellectual property may be misunderstood and perceived negatively by our customers. For example, during 2003 we employed technology to prohibit unauthorized sharing of our TurboTax products. These efforts were not effectively communicated causing a negative reaction by some of our customers who misunderstood our actions. Although we continue to evaluate technology solutions to piracy, and we continue to increase our civil and criminal enforcement efforts, we expect piracy to be a persistent problem that results in lost revenues and increased expenses.

We do not own all of the software, other technologies and content used in our products and services.

Many of our products are designed to include intellectual property owned by third parties. We believe we have all of the necessary licenses from third parties to use and distribute third party technology and content that we do not own that is used in our current products and services. From time to time we may be required to renegotiate with these third parties – or negotiate with new third parties – to include their technology or content in our existing products, in new versions of our existing products or in wholly new products. We may not be able to negotiate or renegotiate licenses on reasonable terms, or at all. If we are unable to obtain the rights necessary to use or continue to use third-party technology or content in our products and services, we may not be able to sell the affected products, which would in turn have a negative impact on our revenue and operating results.

We may unintentionally infringe 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, and as we acquire technology through acquisitions or licenses, we may increasingly become subject to infringement claims by third parties. We expect that software products in general will increasingly be subject to these claims as the number of products and competitors increase, the functionality of products overlap and as the patenting of software functionality continues to grow. 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 right that the claimant asserts is valid or the extent to which we have any material exposure. The receipt of a notice alleging infringement may require us to obtain a costly opinion of counsel to prevent an allegation of intentional infringement. 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 and be distracting to our developers and management. 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 acquisition activity could disrupt our ongoing business and may present risks not contemplated at the time of the transactions.

We have acquired and may continue to acquire companies, products and technologies that complement our strategic direction. For example, over the last three fiscal years we have acquired the stock or assets of eight companies. These acquisitions may involve significant risks and uncertainties, including:

- inability to successfully integrate the acquired technology and operations into our business and maintain uniform standards, controls, policies, and procedures;
- distraction of management's attention away from normal business operations;
- challenges retaining the key employees of the acquired operation;
- insufficient revenue generation to offset liabilities assumed;
- expenses associated with the acquisition; and
- unidentified issues not discovered in our due diligence process, including product quality issues and legal contingencies.

Acquisitions are inherently risky, we can not be certain that our previous or future acquisitions will be successful and will not materially adversely affect the conduct, operating results or financial condition of our business. We have generally paid cash for our recent acquisitions. If we issue common stock or other equity related purchase rights as consideration in an acquisition, current shareholders' percentage ownership and earnings per share may become diluted.

If we fail to operate our outsourced payroll business effectively our revenue and profitability will be harmed.

Our payroll business handles a significant amount of dollar and transaction volume. Due to the size and volume of transactions that we handle effective processing systems and controls are essential to ensure that transactions are handled appropriately. Despite our efforts, it is possible that we may make errors or that funds may be misappropriated. In addition to any direct damages and fines that any such problems would create, which could be substantial, the loss of customer confidence in our accuracy and controls would seriously harm our business. Our payroll business has grown largely through acquisitions and our systems are comprised of multiple technology platforms that are difficult to scale. We must constantly continue to upgrade our systems and processes to ensure that we process customer data in an accurate, reliable and timely manner. These upgrades must also meet the various regulatory deadlines associated with employer-related payroll activities. Any failure of our systems or processes in critical switch-over times, such as in January when many businesses elect to change payroll service providers, would be detrimental to our business. If we failed to timely deliver any of our payroll products, it could cause our current and prospective customers to choose a competitor's product for that year's payroll and not to purchase Intuit products in the future. To generate sustained growth in our payroll business we must successfully develop and manage a more proactive inside and field sales operation. If these efforts are not successful our revenue growth and profitability will decline.

Interest income attributable to payroll customer deposits may fluctuate or be eliminated causing our revenue and profitability to decline.

We currently earn revenue from interest earned on customer deposits that we hold pending payment of funds to taxing authorities or to customers' employees. If interest rates decline, or there are regulatory changes that diminish the amount of time that we are required or permitted to hold such funds our interest revenue will decline.

We face a number of risks in our merchant card processing business that could result in a reduction in our revenues and profits.

Our merchant card processing service business is subject to the following risks:

- if merchants for whom we process credit card transactions are unable to pay refunds due to their customers in connection with disputed or fraudulent merchant transactions we may be required to pay those amounts and our payments may exceed the amount of the customer reserves we have established to make such payments;
- we will not be able to conduct our business if the bank sponsors and card payment processors and other service providers that we rely on to process bankcard transactions terminate their relationships with us and we are not able to secure or successfully migrate our business elsewhere;
- we could be required to stop providing payment processing services for Visa and MasterCard if we or our bank sponsors fail to adhere to the standards of the Visa and MasterCard credit card associations;
- we depend on independent sales organizations that do not serve us exclusively to acquire and retain merchant accounts;
- our profit margins will be reduced if for competitive reasons we cannot increase our fees at times when Visa and MasterCard increase the fees that we pay to process merchant transactions through their systems;
- unauthorized disclosure of merchant and cardholder data, whether through breach of our computer systems or otherwise, could expose us to protracted and costly litigation; and
- we may encounter difficulties scaling our business systems to support our growth as we continue to migrate users of our QuickBooks Merchant Account Services from third-party service providers to our own systems.

Should any of these risks be realized our business could be harmed and our financial results will suffer.

Increased state filing mandates could significantly increase our costs.

We are required to comply with a variety of state revenue agency standards in order to successfully operate our tax preparation and electronic filing services. Changes in state-imposed requirements by one or more of the states, including the required use of specific technologies or technology standards, could significantly increase the costs of providing those services to our customers and could prevent us from delivering a quality product to our customers in a timely manner.

We may be unable to attract and retain key personnel.

Much of our future success depends on the continued service and availability of skilled personnel, including members of our executive team, and those in technical, marketing and staff positions. Experienced personnel in the software and services industries are in high demand and competition for their talents is intense, especially in the Silicon Valley and San Diego, California, where the majority of our employees are located. Although we strive to be an employer of choice, we may not be able to continue to successfully attract and retain key personnel which would cause our business to suffer.

If actual product returns exceed returns reserves, or if customer rebates exceed historical amounts, our revenue would be lower.

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 and for which returns occur primarily in our fourth fiscal quarter. Like most software companies, we have historically accepted significant product returns. We establish reserves against revenue for product returns in our financial statements, based on estimated future returns of products. 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. In addition, our policy of recognizing revenue from distributors and retailers upon delivery of product for non-consignment sales is predicated upon our ability to reasonably estimate returns. If we do not continue to demonstrate our ability to estimate returns then our revenue recognition policy for these types of sales may no longer be appropriate. We also offer customer rebates as part of our selling efforts and establish reserves for payment of rebates. Historically a percentage of customers do not submit requests for their rebates. If a greater number of eligible customers seek rebates than for which we have provided reserves, our margins will be adversely affected. For example, if rebate redemptions for our QuickBooks, TurboTax and Quicken products were to increase by 1%, it would result in a decrease of approximately $1 million in our revenue.

Our insurance policies are costly, may be inadequate and potentially expose us to unrecoverable risks.

Insurance availability, coverage terms and pricing continue to vary with market conditions. We endeavor to obtain appropriate insurance coverage for insurable risks that we identify, however, we may fail to correctly anticipate or quantify insurable risks, we may not be able to obtain appropriate insurance coverage, and insurers may not respond as we intend to cover insurable events that may occur. We have observed rapidly changing conditions in the insurance markets relating to nearly all areas of traditional corporate insurance. Such conditions have resulted in higher premium costs, higher policy deductibles, and lower coverage limits. For some risks, because of cost or availability, the Company does not have insurance coverage. For these reasons, the Company is retaining a greater portion of its insurable risks than it has in the past at relatively greater cost.

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.

Although we are not currently required to record any compensation expense in connection with option grants to employees that have an exercise price at or above fair market value, it is possible that future accounting pronouncements will require us to treat all employee stock options as a compensation expense. The increased compensation expense would significantly reduce our net income and earnings per share under generally accepted accounting principles.

We are frequently a party to litigation that is costly to defend and is a distraction to our business.

Due to our financial position and the large number of customers that we serve we are often forced to defend litigation. For example we are currently being sued in three actions for claims related to our election to stop supporting certain of our older product offerings. Although we believe that these cases have no merit and we are defending the matters vigorously, defending such matters is distracting to management and expensive for Intuit. Although we often seek insurance coverage for litigation defense costs, there is no assurance that our defense costs, which can be substantial, will be covered in all cases. In addition, by its nature, litigation is unpredictable and we may not prevail even in cases where we strongly believe a plaintiff's case has no valid claims. If we do not prevail in litigation we may be required to pay substantial monetary damages or alter our business operations. Regardless of the outcome, litigation is expensive and distracting and may reduce our income.

Unanticipated changes in our tax rates could affect our future results.

Our future effective tax rates could be favorably or unfavorably affected by unanticipated changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or their interpretation. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on its operating results and financial condition.

Our stock price may be volatile.

Our stock has at times experienced substantial price volatility as a result of variations between our actual and anticipated financial results and as a result of our announcements and those of our competitors. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in ways that have been unrelated to the operating performance of these companies. These factors, as well as general economic and political conditions, may materially adversely affect the market price of our stock in the future.

If we fail to maintain an effective system of internal controls, we may not be able to detect fraud or report our financial results accurately, which could harm our business and the trading price of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports and to detect and prevent fraud. We periodically assess our system of internal controls, and the internal controls of service providers upon which we rely, to review their effectiveness and identify potential areas of improvement. These assessments may conclude that enhancements, modifications or changes to our system of internal controls are necessary. In addition, from time to time we acquire businesses, many of which have limited infrastructure and systems of internal controls. Performing assessments of internal controls, implementing necessary changes, and maintaining an effective internal controls process is expensive and requires considerable management attention, particularly in the case of newly acquired entities. Internal control systems are designed in part upon assumptions about the likelihood of future events, and all such systems, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. If we fail to implement and maintain an effective system of internal controls or prevent fraud, we could suffer losses, could be subject to costly litigation, investors could lose confidence in our reported financial information and our brand and operating results could be harmed, which could have a negative effect on the trading price of our common stock.

We must comply with recently enacted legislation known as SOX 404. Specifically, we and our independent registered public accounting firm must certify the adequacy of our internal controls over financial reporting at July 31, 2005. Identification of material weaknesses in internal controls over financial reporting by us or our independent registered public accounting firm could adversely affect our competitive position in our business, especially our outsourced payroll business, and the market price for our common stock.

Business interruptions could adversely affect our future operating results.

Several of our major business operations are subject to interruption by earthquake, fire, power shortages, terrorist attacks and other hostile acts, and other events beyond our control. The majority of our research and development activities, our corporate headquarters, our principal information technology systems, and other critical business operations are located near major seismic faults. We do not carry earthquake insurance for direct quake-related losses. Our operating results and financial condition could be materially adversely affected in the event of a major earthquake or other natural or manmade disaster.

Caution Regarding Forward-Looking Statements

This Report contains forward-looking statements. These forward-looking statements include our statements regarding the following: our belief that we can deliver solid revenue and profit growth; our expectations regarding our product development efforts noted in the last paragraph of the section entitled *"Product Development,"* our belief that our distributor relationships will increase growth opportunities in our higher-end offerings; our belief that our current real estate leases are sufficient to meet our current and near-term needs; our expectations regarding our use of cash generated in our business; the assumptions underlying our Critical Accounting Policies, including our estimates regarding product rebate and return reserves; our belief that revenue growth for our products is slowing due to market maturation; our plans to mitigate slowing revenue by developing and introducing new products and services; our plan to sell our Intuit Public Sector Solutions business; our belief that our income tax valuation allowance is sufficient; our expectation that we may use cash for future acquisitions of technology and businesses;

and our expectation that our cash, cash equivalents and short-term investments will be sufficient to meet our working capital and capital expenditure needs for the next 12 months.

We caution investors that forward-looking statements are only predictions based on our current expectations about future events and are not guarantees of future performance. Our actual results, performance or achievements could differ materially from those expressed or implied by the forward-looking statements due to risks, uncertainties and assumptions that are difficult to predict. These risks and uncertainties include the following: the impact of intense competition in our business; difficulty in developing and introducing new products and services effectively; failure of customers to adopt our new products as expected; difficulties with suppliers and distribution channels; challenges associated with upgrading and integrating our information systems; unanticipated increases in customer rebate and return rates; significant impairment charges due to past acquisitions; we may be unable to sell our Intuit Public Sector Solutions business; and taxing authorities may challenge our tax positions. In addition, the risks and uncertainties that are discussed in this Item 7 under the caption *"Risks That Could Affect Future Results"* may also impact these forward-looking statements. We encourage you to read that section carefully along with the other information provided in this Report and in our other filings with the SEC before deciding to invest in our stock or to maintain or change your investment. We undertake no obligation to revise or update any forward-looking statement for any reason, except as required by law.

ITEM 7A
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Short-Term Investment Portfolio

We do not hold derivative financial instruments in our portfolio of short-term investments and funds held for payroll customers. Our short-term investments and funds held for payroll customers consist of instruments that meet quality standards consistent with our investment policy. This policy specifies that, except for direct obligations of the United States government, securities issued by agencies of the United States government, and money market or cash management funds, we diversify our holdings by limiting our short-term investments and funds held for payroll customers with any individual issuer.

The following table presents our portfolio of cash equivalents and short-term investments at July 31, 2004 by stated maturity. The table is classified by the original maturity date listed on the security and includes cash equivalents and short-term investments that are part of funds held for payroll customers on our balance sheet. As of July 31, 2004 the interest rate earned on our money market accounts is 0.90% and the interest rate earned on our short-term investments is 1.22%.

	Years Ending July 31,					
	2005	2006	2007	2008	2009 and Thereafter	Total
(In thousands)						
Cash equivalents	$ 198,189	$ —	$ —	$ —	$ —	$ 198,189
Short-term investments	280,417	255,788	15,186	15,757	516,127	1,083,275
	$ 478,606	$ 255,788	$ 15,186	$ 15,757	$ 516,127	$ 1,281,464

Interest Rate Risk

Our cash equivalents and our portfolio of short-term investments and funds held for payroll customers are subject to market risk due to changes in interest rates. Interest rate movements affect the interest income we earn on cash equivalents, short-term investments and funds held for payroll customers and the value of those investments. Should interest rates increase by 10% from the levels of July 31, 2004, the value of our short-term investments and funds held for payroll customers would decline by approximately $0.9 million. Should interest rates increase by 100 basis points from the levels of July 31, 2004, the value of our short-term investments and funds held for payroll customers would decline by approximately $5.9 million.

Impact of Foreign Currency Rate Changes

Since we translate foreign currencies (primarily Canadian dollars and British pounds) into U.S dollars for financial reporting purposes, currency fluctuations can have an impact on our financial results. The historical impact of currency fluctuations has generally been immaterial. We believe that our exposure to currency exchange fluctuation risk is not significant primarily because our global subsidiaries invoice customers and satisfy their financial obligations almost exclusively in their local currencies. There was a nominal currency exchange impact from our intercompany transactions for fiscal 2002. Due primarily to the effect of the weakening U.S. dollar on intercompany balances with our Canadian subsidiary, we recorded foreign currency exchange gains of $5.4 million in fiscal 2003 and $3.1 million in fiscal 2004. Although the impact of currency fluctuations on our financial results has generally been immaterial in the past and we believe that for the reasons cited above currency fluctuations will not be significant in the future, there can be no guarantee that the impact of currency fluctuations will not be material in the future. As of July 31, 2004, we did not engage in foreign currency hedging activities.

ITEM 8
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 Registered Public Accounting Firm	52
Consolidated Balance Sheets as of July 31, 2004 and 2003	53
Consolidated Statements of Operations for each of the three years in the period ended July 31, 2004	54
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended July 31, 2004	55
Consolidated Statements of Cash Flows for each of the three years in the period ended July 31, 2004	56
Notes to Consolidated Financial Statements	57

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	92

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

REPORT OF ERNST & YOUNG LLP,
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Intuit Inc.

We have audited the accompanying consolidated balance sheets of Intuit Inc. as of July 31, 2003 and 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of Intuit'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 the standards of the Public Company Accounting Oversight Board (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, 2003 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2004, in conformity with U.S. generally accepted accounting principles. 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.

As disclosed in Note 1 and Note 4 of the consolidated financial statements, on August 1, 2002 Intuit Inc. changed its method of accounting for goodwill and other purchased intangible assets.

/s/ ERNST & YOUNG LLP

San Francisco, California
August 13, 2004

INTUIT INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)	July 31, 2003	July 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 170,043	$ 27,249
Short-term investments	1,036,758	991,971
Accounts receivable, net of allowance for doubtful accounts of $5,409 and $7,841, respectively	88,156	92,265
Deferred income taxes	34,824	31,473
Prepaid expenses and other current assets	33,082	50,542
Current assets before funds held for payroll customers	1,362,863	1,193,500
Funds held for payroll customers	306,007	323,041
Total current assets	1,668,870	1,516,541
Property and equipment, net	188,253	233,101
Goodwill, net	591,091	670,030
Purchased intangible assets, net	125,445	107,301
Long-term deferred income taxes	183,061	135,711
Loans to executive officers and other employees	19,690	15,809
Other assets	13,857	17,685
Total assets	$ 2,790,267	$ 2,696,178
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 56,786	$ 70,443
Accrued compensation and related liabilities	118,678	135,047
Deferred revenue	178,840	223,380
Income taxes payable	76,725	22,159
Other current liabilities	59,129	83,295
Current liabilities before payroll customer fund deposits	490,158	534,324
Payroll customer fund deposits	306,007	323,041
Total current liabilities	796,165	857,365
Long-term obligations	29,265	16,394
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 — 199,472 and 190,091 shares, respectively	1,995	1,901
Additional paid-in capital	1,919,559	1,947,325
Treasury stock, at cost	(672,326)	(1,088,389)
Deferred compensation	(25,850)	(19,434)
Accumulated other comprehensive loss	(789)	(3,375)
Retained earnings	742,248	984,391
Total stockholders' equity	1,964,837	1,822,419
Total liabilities and stockholders' equity	$ 2,790,267	$ 2,696,178

See accompanying notes.

INTUIT INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal		
	2002	2003	2004
(In thousands, except per share amounts)			
Net revenue:			
Product	$ 973,795	$ 1,124,283	$ 1,212,362
Service	269,936	457,208	583,681
Other	68,497	69,252	71,620
Total net revenue	1,312,228	1,650,743	1,867,663
Costs and expenses:			
Cost of revenue:			
Cost of product revenue	157,373	173,800	172,059
Cost of service revenue	107,634	149,538	162,176
Cost of other revenue	24,366	20,626	27,362
Amortization of purchased software	7,159	13,796	13,456
Customer service and technical support	164,875	178,949	195,073
Selling and marketing	263,721	324,389	369,136
Research and development	198,471	255,821	281,129
General and administrative	109,076	148,855	183,080
Charge for purchased research and development	2,151	8,859	—
Charge (credit) for vacant facilities	13,237	(1,069)	729
Acquisition-related charges	159,395	33,947	24,472
Loss on impairment of goodwill and purchased intangible assets	27,270	—	18,664
Loss on impairment of long-lived asset	27,000	—	—
Total costs and expenses	1,261,728	1,307,511	1,447,336
Income from continuing operations	50,500	343,232	420,327
Interest and other income	27,276	38,694	30,844
Gains (losses) on marketable securities and other investments, net	(15,535)	10,912	1,729
Gain on divestiture of business	8,308	—	—
Income from continuing operations before income taxes	70,549	392,838	452,900
Income tax provision	16,934	129,636	135,870
Net income from continuing operations	53,615	263,202	317,030
Discontinued operations, net of income taxes (Note 9):			
Net income from Quicken Loans discontinued operations	47,100	—	—
Gain on disposal of Quicken Loans discontinued operations	23,300	5,556	—
Net income from Intuit KK discontinued operations	16,145	3,267	—
Gain on disposal of Intuit KK discontinued operations	—	71,009	—
Net income from discontinued operations	86,545	79,832	—
Net income	$ 140,160	$ 343,034	$ 317,030
Basic net income per share from continuing operations	$ 0.25	$ 1.28	$ 1.62
Basic net income per share from discontinued operations	0.41	0.39	—
Basic net income per share	$ 0.66	$ 1.67	$ 1.62
Shares used in basic per share amounts	211,794	205,294	195,455
Diluted net income per share from continuing operations	$ 0.24	$ 1.25	$ 1.58
Diluted net income per share from discontinued operations	0.40	0.38	—
Diluted net income per share	$ 0.64	$ 1.63	$ 1.58
Shares used in diluted per share amounts	217,897	210,955	200,081

See accompanying notes.

INTUIT INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid In Capital	Treasury Stock	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount						
(Dollars in thousands)								
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	5,961,223	60	(10,178)	193,010	—	—	(66,691)	116,201
Issuance of common stock pursuant to Employee Stock Purchase Plan	583,991	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
Components of comprehensive income:								
Net income	—	—	—	—	—	—	343,034	343,034
Other comprehensive income, net of tax	—	—	—	—	—	2,886	—	2,886
Comprehensive income, net of tax								345,920
Issuance of common stock upon exercise of options and other	5,564,618	56	—	244,378	—	—	(107,146)	137,288
Issuance of common stock pursuant to Employee Stock Purchase Plan	476,454	5	—	23,550	—	—	(4,982)	18,573
Stock repurchase	(17,940,053)	(180)	—	(813,463)	—	—	—	(813,643)
Repurchase of vested restricted stock	(17,532)	—	—	(684)	—	—	—	(684)
Issuance of common stock pursuant to acquisitions	224,589	2	9,993	—	—	—	—	9,995
Tax benefit from employee stock option transactions	—	—	47,780	—	—	—	—	47,780
Stock bonus awards	—	—	18,082	—	(18,082)	—	—	—
Reduction of deferred stock compensation due to stock option cancellations	—	—	(891)	—	891	—	—	—
Amortization of deferred compensation	—	—	—	—	3,969	—	—	3,969
Balance at July 31, 2003	199,471,717	1,995	1,919,559	(672,326)	(25,850)	(789)	742,248	1,964,837
Components of comprehensive income:								
Net income	—	—	—	—	—	—	317,030	317,030
Other comprehensive loss, net of tax	—	—	—	—	—	(2,586)	—	(2,586)
Comprehensive income, net of tax								314,444
Issuance of common stock upon exercise of options and other	3,611,671	36	—	167,425	—	—	(69,337)	98,124
Issuance of common stock pursuant to Employee Stock Purchase Plan	564,918	6	—	26,560	—	—	(5,550)	21,016
Stock repurchase	(13,540,579)	(136)	—	(609,282)	—	—	—	(609,418)
Repurchase of vested restricted stock	(17,177)	—	—	(766)	—	—	—	(766)
Tax benefit from employee stock option transactions	—	—	27,061	—	—	—	—	27,061
Stock bonus awards	54	—	1,089	—	(1,089)	—	—	—
Reduction of deferred stock compensation due to stock option cancellations	—	—	(384)	—	384	—	—	—
Amortization of deferred compensation	—	—	—	—	7,121	—	—	7,121
Balance at July 31, 2004	190,090,604	$ 1,901	$ 1,947,325	$ (1,088,389)	$ (19,434)	$ (3,375)	$ 984,391	$ 1,822,419

See accompanying notes.

INTUIT INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal		
	2002	2003	2004
(In thousands)			
Cash flows from operating activities:			
Net income from continuing operations	$ 53,615	$ 263,202	$ 317,030
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	58,841	73,776	77,604
Acquisition-related charges	159,395	33,947	24,472
Amortization of purchased software	7,159	13,796	13,456
Amortization of other purchased intangible assets	—	2,677	5,982
Charge for purchased research and development	2,151	8,859	—
Amortization of deferred compensation not related to acquisitions	2,534	2,714	6,232
Charge (credit) for vacant facilities	13,237	(1,069)	729
Loss on disposal of property and equipment	3,227	2,348	2,754
Loss on impairment of goodwill and purchased intangible assets	27,270	—	18,664
Loss on impairment of long-lived asset	27,000	—	—
Amortization of premiums and discounts on available-for-sale debt securities	9,328	7,978	12,449
Net realized (gains) losses on sales of available-for-sale debt securities	(1,716)	(1,836)	(391)
Net (gains) losses from marketable securities and other investments	15,535	(10,912)	(1,729)
Deferred income taxes	(21,575)	22,541	51,695
Tax benefit from employee stock options	53,246	47,780	27,061
Gain on foreign exchange transactions	(140)	(5,362)	(3,088)
Net gain on divestiture of businesses	(8,308)	—	—
Subtotal	400,799	460,439	552,920
Changes in operating assets and liabilities:			
Accounts receivable	(11,520)	(31,672)	(1,920)
Income taxes receivable	(2,187)	2,187	—
Prepaid expenses and other current assets	(11,144)	23,446	(12,783)
Accounts payable	8,522	(14,968)	11,498
Accrued compensation and related liabilities	21,578	31,019	16,185
Deferred revenue	12,488	24,429	44,305
Income taxes payable	(65,726)	82,590	(54,646)
Other current liabilities	(1,187)	(7,282)	19,016
Total changes in operating assets and liabilities	(49,176)	109,749	21,655
Net cash provided by operating activities	351,623	570,188	574,575
Cash flows from investing activities:			
Purchases of available-for-sale debt securities	(2,849,548)	(2,302,536)	(3,554,863)
Liquidation and maturity of available-for-sale debt securities	3,144,644	2,071,902	3,490,533
Proceeds from the sale of marketable securities	23,435	37,546	—
Net change in funds held for payroll customers' money market funds and other cash equivalents	(50,938)	(5,598)	77,166
Purchases of property and equipment	(43,496)	(41,696)	(52,260)
Capitalization of internal use software	(19,923)	(43,048)	(65,879)
Change in other assets	(9,582)	(122)	814
Net change in payroll customer fund deposits	51,087	5,626	17,034
Acquisitions of businesses, net of cash acquired	(284,065)	(214,807)	(123,550)
Net cash used in investing activities	(38,386)	(492,733)	(211,005)
Cash flows from financing activities:			
Change in long-term obligations	(11,333)	(3,297)	(15,492)
Net proceeds from issuance of common stock under stock plans	133,565	155,861	119,140
Purchase of treasury stock	(318,350)	(814,327)	(610,184)
Net cash used in financing activities	(196,118)	(661,763)	(506,536)
Net cash provided by discontinued operations	225,210	341,372	—
Effect of exchange rates on cash and cash equivalents	(291)	4,031	172
Net increase (decrease) in cash and cash equivalents	342,038	(238,905)	(142,794)
Cash and cash equivalents at beginning of period	66,910	408,948	170,043
Cash and cash equivalents at end of period	$ 408,948	$ 170,043	$ 27,249
Supplemental disclosure of cash flow information:			
Interest paid	$ 1,768	$ 890	$ 314
Income taxes paid (refunded)	$ 101,645	$ (21,684)	$ 112,357
Capital lease obligations incurred for acquisition of equipment	$ —	$ —	$ 7,435

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 significant intercompany balances and transactions in consolidation. We have reclassified certain other amounts previously reported in our financial statements to conform to the current presentation. As discussed in Note 9, we accounted for the July 2002 sale of our Quicken Loans mortgage business and the February 2003 sale of our Japanese subsidiary, Intuit KK, as discontinued operations. Accordingly, we have reclassified our financial statements for all periods prior to the sales to reflect Quicken Loans and Intuit KK as discontinued operations. Unless noted otherwise, discussions in these notes pertain to our continuing operations.

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. For example, we use estimates in determining the appropriate levels of reserves for product returns and rebates, the collectibility of accounts receivable, the appropriate levels of various accruals, the amount of our worldwide tax provision and the realizability of deferred tax assets. We also use estimates in determining the remaining economic lives and carrying values of purchased intangible assets (including goodwill), property and equipment and other long-lived assets. In addition, we use assumptions when employing the Black-Scholes valuation model to estimate the fair value of stock options granted for pro forma disclosures. See Note 1, "*Stock-Based Incentive Programs*." Despite our intention to establish accurate estimates and use reasonable assumptions, actual results may differ from our estimates.

Net Revenue

We derive revenue from the sale of packaged software products, license fees, product support, professional services, outsourced payroll services, transaction fees and multiple element arrangements that may include any combination of these items. We recognize revenue for software products and related services in accordance with the American Institute of Certified Public Accountants' Statement of Position, or SOP, 97-2, "*Software Revenue Recognition*," as modified by SOP 98-9. For other offerings, we follow Staff Accounting Bulletin No. 104, *"Revenue Recognition*." We recognize revenue when persuasive evidence of an arrangement exists, we have delivered the product or performed the service, the fee is fixed or determinable and collectibility is probable.

In some situations, we receive advance payments from our customers. We also offer multiple element arrangements to our customers. We defer revenue associated with these advance payments and the fair value of undelivered elements until we ship the products or perform the services. Deferred revenue consisted of the following at the dates indicated:

	July 31,	
	2003	2004
(In thousands)		
Product and product-related services	$146,609	$182,715
Customer support	32,231	40,665
	$178,840	$223,380

In accordance with the Financial Accounting Standard Board's Emerging Issues Task Force Issue No. 01-9, "*Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Product*," we account for cash consideration (such as sales incentives) that we give to our customers or resellers as a reduction of revenue rather than as an operating expense unless we receive a benefit that we can identify and for which we can reasonably estimate the fair value.

Product Revenue
We recognize revenue from the sale of our packaged software products and supplies when we ship the products or, in the case of certain agreements, when products are delivered to retailers. We sell some of our QuickBooks, Consumer Tax and Quicken products on consignment to a limited number of resellers. We recognize revenue for these consignment transactions only when the end-user sale has occurred.

We reduce product revenue from distributors and retailers for estimated returns that are based on historical returns experience and other factors such as the volume and price mix of products in the retail channel, return rates for prior releases of the product, trends in retailer inventory and economic trends that might impact customer demand for our products (including the competitive environment and the timing of new releases of our product). We also reduce product revenue for the estimated redemption of rebates on certain current product sales. Our estimated reserves for distributor and retailer sales incentive rebates are based on distributors' and retailers' actual performance against the terms and conditions of rebate programs, which we typically establish annually. Our reserves for end user rebates are estimated based on the terms and conditions of the specific promotional rebate program, actual sales during the promotion, the amount of redemptions received and historical redemption trends by product and by type of promotional program.

Service Revenue
We recognize revenue from outsourced payroll processing and payroll tax filing services as the services are performed, provided we have no other remaining obligations to these customers. We generally require customers to remit payroll tax 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 when we collect these funds from customers and when we remit the funds to outside parties.

We offer several technical support plans and recognize support revenue over the life of the plans. Service revenue also includes Web services such as TurboTax for the Web and electronic tax filing services in both our Consumer Tax and Professional Tax segments. Service revenue for electronic payment processing services that we provide to merchants is recorded net of interchange fees charged by credit card associations because we do not control these fees. Finally, service revenue includes revenue from consulting and training services, primarily in our Intuit-Branded Small Business segment. We generally recognize revenue as these services are performed, provided that we have no other remaining obligations to these customers and that the services performed are not essential to the functionality of delivered products and services.

Other Revenue
Other revenue consists primarily of revenue from revenue-sharing arrangements with third-party service providers and from online advertising agreements. We recognize transaction fees from revenue-sharing arrangements as end-user sales are reported to us by these partners. We typically recognize revenue from online advertising agreements as the lesser of when the advertisements are published or pro rata based on the contractual time period.

Multiple Element Arrangements
We enter into certain revenue arrangements for which we are obligated to deliver multiple products and/or services (multiple elements). For these arrangements, which generally include software products, we allocate and defer revenue for the undelivered elements based on their vendor-specific objective evidence, or VSOE, of fair value. VSOE is generally the price charged when that element is sold separately.

In situations where VSOE exists for all elements (delivered and undelivered), we allocate the total revenue to be earned under the arrangement among the various elements, based on their relative fair value. For transactions where VSOE exists only for the undelivered elements, we defer the full fair value of the undelivered elements and recognize the difference between the total arrangement fee and the amount deferred for the undelivered items as revenue. If VSOE does not exist for undelivered items that are services, then we recognize the entire arrangement fee ratably over the remaining service period. If VSOE does not exist for undelivered elements that are specified products or features, we defer revenue until the earlier of the delivery of all elements or the point at which we determine VSOE for these undelivered elements.

We recognize revenue related to the delivered products or services only if: (1) the above revenue recognition criteria are met; (2) any undelivered products or services are not essential to the functionality of the delivered products and services; (3) payment for the delivered products or services is not contingent upon delivery of the remaining products or services; and (4) we have an enforceable claim to receive the amount due in the event that we do not deliver the undelivered products or services.

For arrangements where undelivered services are essential to the functionality of delivered software, we recognize both the product license revenues and service revenues under the percentage of completion contract method in accordance with the provisions of SOP 81-1, "*Accounting for Performance of Construction Type and Certain Production Type Contracts*." To date, license and service revenues recognized pursuant to SOP 81-1 have not been significant.

Shipping and Handling

We record the amounts we charge our customers for the shipping and handling of our software products as product revenue and we record the related costs as cost of product revenue on our statement of operations. Product revenue from shipping and handling is not significant.

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, e-mail 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

Statement of Financial Accounting Standards, or SFAS, 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 on our statement of operations.

We capitalize costs related to computer software developed or obtained for internal use in accordance with SOP 98-1, "*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*." Software obtained for internal use has generally been enterprise-level business and finance software that we customize to meet our specific operational needs. Costs incurred in the application development phase are capitalized and amortized over their useful lives, generally three to five years. We have not sold, leased or licensed software developed for internal use to our customers and we have no intention of doing so in the future.

Advertising

We expense advertising costs as we incur them. We recorded advertising expense of approximately $28.9 million in fiscal 2002, $31.6 million in fiscal 2003 and $43.1 million in fiscal 2004.

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 on our statement of operations. We recorded net gains from foreign exchange transactions of $0.1 million in fiscal 2002, $5.4 million in fiscal 2003 and $3.1 million in fiscal 2004.

Per Share Computations

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 and vested restricted stock awards. In loss periods, basic and diluted loss per share are identical since the effect of common equivalent shares is anti-dilutive and therefore excluded.

Our diluted net income per share computations for fiscal 2002, 2003 and 2004 included 6.1 million, 5.7 million and 4.6 million common equivalent shares. Our diluted net income per share computations for these periods did not include the effect of options to purchase 8.3 million, 7.0 million and 7.8 million shares of common stock because the option exercise prices were greater than the average market price of our common stock.

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 use the specific identification method to compute gains and losses on short-term investments. 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, stock repurchase programs and acquisition opportunities, 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.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and are not interest bearing. We maintain an allowance for doubtful accounts to reserve for potentially uncollectible receivables. We review our accounts receivable by aging category to identify specific customers with known disputes or collectibility issues. In determining the amount of the reserve, we make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. We also consider our historical level of credit losses and current economic trends that might impact the level of future credit losses.

Funds Held for Payroll Customers and Payroll Customer Fund Deposits

Funds held for payroll customers represent cash held on behalf of our payroll customers that is invested in cash and cash equivalents and short-term investments. Payroll customer fund deposits consist primarily of payroll taxes we owe on behalf of our payroll customers.

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 three 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. In fiscal 2002 we generally amortized goodwill on a straight-line basis over periods ranging from three to five years. 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 amortized goodwill for acquisitions completed before July 1, 2001. We amortize the cost of identified intangible assets on a straight-line basis over periods ranging from two to seven years.

We regularly perform reviews to determine if the carrying values of our long-lived assets are impaired. In accordance with SFAS 142, we review goodwill and other intangible assets that have indefinite useful lives for impairment at least annually in our fourth fiscal quarter, or more frequently if an event occurs indicating the potential for impairment. In accordance with SFAS 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," we review intangible assets that have finite useful lives and other long-lived assets when an event occurs indicating the potential for impairment. In our reviews, we look for facts or circumstances, either internal or external, indicating that we may not recover the carrying value of the asset. We measure impairment losses related to long-lived assets based on the amount by which the carrying amounts of these assets exceed their fair values. Our measurement of fair value is generally based on a blend of an analysis of the present value of estimated future discounted cash flows and a comparison of revenue and operating income multiples for companies of similar industry and/or size. 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.

Stock-Based Incentive Programs

We provide equity incentives to our employees and to our Board members. We apply the intrinsic value recognition and measurement principles of Accounting Principles Board, or APB, Opinion No. 25, "*Accounting for Stock Issued to Employees*," in accounting for stock-based incentives. Accordingly, we are not required to record compensation expense when stock options are granted to eligible participants as long as the exercise price is not less than the fair market value of the stock when the option is granted. We are also not required to record compensation expense in connection with our Employee Stock Purchase Plan as long as the purchase price of the stock is not less than 85% of the lower of the fair market value of the stock at the beginning of each offering period or at the end of each purchase period.

In October 1995 the FASB issued SFAS 123, "*Accounting for Stock-Based Compensation*," and in December 2002 the FASB issued SFAS 148, "*Accounting for Stock-Based Compensation — Transition and Disclosure*." Although these pronouncements allow us to continue to follow the APB 25 guidelines and not record compensation expense for most employee stock-based awards, we are required to disclose our pro forma net income or loss and net income or loss per share as if we had adopted SFAS 123 and SFAS 148. The pro forma impact of applying SFAS 123 and SFAS 148 in fiscal 2002, 2003 and 2004 does not necessarily represent the pro forma impact in future years.

On March 31, 2004, the FASB issued its exposure draft, "*Share-Based Payment*," which is a proposed amendment to SFAS 123. The exposure draft would require all share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized in the statement of operations based on their fair values. The FASB expects to issue a final standard late in 2004 that would be effective for public companies for fiscal years beginning after December 15, 2004. We have not yet assessed the impact of adopting this new standard.

To determine the pro forma impact of applying SFAS 123, we estimate the fair value of our options using the Black-Scholes option valuation model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model also requires the input of highly subjective assumptions including the expected stock price volatility. Our stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimates.

Assumptions used for the valuation model are set forth below. Prior to the fourth quarter of fiscal 2004, we based the volatility factor for stock options on the historical volatility of our stock over the most recent five-year period. Beginning in the fourth quarter of fiscal 2004, we based the volatility factor for stock options on the historical volatility of our stock over the most recent three-year period, which is approximately equal to the average expected life of our options.

	Stock Options			Employee Stock Purchase Plan		
	Fiscal			Fiscal		
	2002	2003	2004	2002	2003	2004
Expected life (years)	3.39	3.43	3.36	1.00	1.00	1.00
Expected volatility factor	74%	78%	65%	74%	78%	63%
Risk-free interest rate	2.49%	2.07%	2.43%	2.25%	0.98%	1.03%
Expected dividend yield	—	—	—	—	—	—

The following table illustrates the effect on our net income and net income per share if we had applied the fair value recognition provisions of SFAS 123 to stock-based incentives using the Black Scholes valuation model. For purposes of this reconciliation, we add back to previously reported net income all stock-based incentive expense we have recorded that relates to acquisitions. We then deduct the pro forma stock-based incentive expense determined under the fair value method for all awards including those that relate to acquisitions. The pro forma stock-based incentive expense has no impact on our cash flow. In the future, we may elect or be required to use a different valuation model, which could result in a significantly different impact on our pro forma net income or loss.

	Fiscal		
	2002	2003	2004
(In thousands, except per share amounts)			
Net income			
Net income, as reported	$ 140,160	$ 343,034	$ 317,030
Add: Stock-based employee compensation expense included in reported net income, net of income taxes	5,192	753	533
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of income taxes	(94,726)	(84,384)	(70,480)
Pro forma net income	$ 50,626	$ 259,403	$ 247,083
Net income per share			
Basic — as reported	$ 0.66	$ 1.67	$ 1.62
Basic — pro forma	$ 0.24	$ 1.26	$ 1.26
Diluted — as reported	$ 0.64	$ 1.63	$ 1.58
Diluted — pro forma	$ 0.23	$ 1.23	$ 1.23

The weighted average fair value of options granted during fiscal 2002 was $20.31, during fiscal 2003 was $22.20 and during fiscal 2004 was $19.74.

Concentration of Credit Risk and Significant Customers and Suppliers

We operate in markets that are highly competitive and rapidly changing. Significant technological changes, shifting 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 balance of short-term investments and funds held for payroll customers. Our portfolio of short-term investments consists of investment-grade securities and our funds held for payroll customers consist of cash and cash equivalents and investment-grade securities. Except for direct obligations of the United States government, securities issued by agencies of the United States government, and money market or cash management funds, we diversify our short-term investments by limiting our holdings with any individual issuer.

We sell a significant portion of our products through third-party retailers and distributors. As a result, we face risks related to the collectibility of our 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.

We sell a significant proportion of our software products directly to many retailers rather than through a few major distributors. No distributor or individual retailer accounted for 10% or more of total net revenue in fiscal 2002, 2003 or 2004, nor did any customer account for 10% or more of accounts receivable at July 31, 2003 or July 31, 2004. Amounts due from Rock Acquisition Corporation under certain licensing and distribution agreements comprised 10.8% of accounts receivable at July 31, 2003 and 10.3% of accounts receivable at July 31, 2004. See Note 9.

We rely on three third-party vendors to perform the manufacturing and distribution functions for our primary desktop software products. We also have a key single-source vendor for our financial supplies business that prints and fulfills orders for all of our checks and most other products for that business. While we believe that relying heavily on key vendors improves the efficiency and reliability of our business operations, 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 for any reason, including financial difficulties of the vendor.

Recent Accounting Pronouncements

On March 31, 2004, the FASB issued its exposure draft, “*Share-Based Payment*,” which is a proposed amendment to SFAS 123. The exposure draft would require all share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized in the statement of operations based on their fair values. The FASB expects to issue a final standard late in 2004 that would be effective for public companies for fiscal years beginning after December 15, 2004. We have not yet assessed the impact of adopting this new standard.

2. Short-Term Investments and Funds Held for Payroll Customers

As discussed in Note 1, “*Concentration of Credit Risk and Significant Customers and Suppliers*,” our portfolio of short-term investments consists of investment-grade securities and our funds held for payroll customers consist of cash and cash equivalents and investment-grade securities. Except for direct obligations of the United States government, securities issued by agencies of the United States government, and money market or cash management funds, we diversify our short-term investments by limiting our holdings with any individual issuer.

The following schedule summarizes our short-term investments and funds held for payroll customers at the dates indicated:

	July 31, 2003		July 31, 2004	
	Cost	Fair Value	Cost	Fair Value
(In thousands)				
Type of issue:				
Cash and cash equivalents in funds held for payroll customers	$ 306,007	$ 306,007	$ 231,737	$ 231,737
Available-for-sale debt securities:				
Corporate notes	50,457	50,471	54,378	54,009
Municipal bonds	930,618	931,374	939,717	938,143
U.S. government securities	55,328	54,913	91,684	91,123
Total available-for-sale debt securities	1,036,403	1,036,758	1,085,779	1,083,275
Total short-term investments and funds held for payroll customers	$ 1,342,410	$ 1,342,765	$ 1,317,516	$ 1,315,012
Classification of investments on the balance sheets:				
Short-term investments	$ 1,036,403	$ 1,036,758	$ 994,475	$ 991,971
Funds held for payroll customers	306,007	306,007	323,041	323,041
	$ 1,342,410	$ 1,342,765	$ 1,317,516	$ 1,315,012

Gross unrealized gains and losses on our available-for-sale debt securities were as follows:

	Year Ended July 31,	
	2003	2004
(In thousands)		
Gross unrealized gains	$ 1,313	$ 174
Gross unrealized losses	(958)	(2,678)
Net unrealized gains (losses)	$ 355	$ (2,504)

The following table summarizes the fair value and gross unrealized losses related to 367 available-for-sale debt securities, aggregated by type of investment and length of time that individual securities have been in a continuous unrealized loss position, at July 31, 2004:

	In a Loss Position for Less Than 12 Months		In a Loss Position for 12 Months or More		Total in a Loss Position	
July 31, 2004	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In thousands)						
Corporate notes	$ 41,199	$ (369)	$ —	$ —	$ 41,199	$ (369)
Municipal bonds	375,651	(1,639)	20,945	(101)	396,596	(1,740)
U.S. government securities	72,975	(532)	4,963	(37)	77,938	(569)
	$ 489,825	$ (2,540)	$ 25,908	$ (138)	$ 515,733	$ (2,678)

We periodically review our investment portfolios to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. At July 31, 2004, we believe that the investments that we hold are not other-than-temporarily impaired. While certain available-for-sale debt securities have fair values that are below cost, we believe that it is probable that principal and interest will be collected in accordance with contractual terms, and that the decline in market value is due to changes in interest rates and not due to increased credit risk.

Gross realized gains and losses on our available-for-sale debt securities were as follows:

	Year Ended July 31,		
	2002	2003	2004
(In thousands)			
Gross realized gains	$ 1,909	$ 1,885	$ 728
Gross realized losses	(193)	(49)	(337)
Net realized gains	$ 1,716	$ 1,836	$ 391

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

	July 31, 2004	
	Cost	Fair Value
(In thousands)		
Due within one year	$ 280,757	$ 280,417
Due within two years	256,985	255,788
Due within three years	15,295	15,186
Due after three years	532,742	531,884
	$1,085,779	$1,083,275

3. Property and Equipment

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

		July 31,	
	Life in Years	2003	2004
(Dollars in thousands)			
Equipment	3-5	$ 215,605	$ 253,063
Computer software	3-5	99,258	131,481
Furniture and fixtures	5	28,930	28,557
Leasehold improvements	5-10	69,291	71,741
Land	NA	2,287	2,348
Buildings	30	25,875	26,646
Capital in progress	—	22,267	55,923
		463,513	569,759
Less accumulated depreciation and amortization		(275,260)	(336,658)
		$ 188,253	$ 233,101

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 internal use software costs totaling $19.9 million in fiscal 2002, $43.0 million in fiscal 2003 and $65.9 million in fiscal 2004. These amounts included capitalized labor costs of $12.9 million in fiscal 2002, $23.0 million in fiscal 2003 and $21.7 million in fiscal 2004. 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 on a straight-line basis over their useful lives, generally three to five years.

4. Goodwill and Purchased Intangible Assets

As discussed in Note 1, "*Goodwill, Purchased Intangible Assets and Other Long-Lived Assets*," we adopted SFAS 142 on August 1, 2002. As a result, goodwill is no longer amortized but is subject to annual impairment tests. Most other intangible assets continue to be amortized over their estimated useful lives. If the non-amortization provisions of SFAS 142 had been in effect from the beginning of fiscal 2002, net income from continuing operations would have been $135.8 million and net income would have been $222.3 million in fiscal 2002. Diluted net income from continuing operations would have been $0.62 per share and diluted net income would have been $1.02 per share in that fiscal year.

Changes in the carrying value of goodwill by reportable segment during fiscal 2004 were as follows. Our reportable segments are described in Note 11.

	Balance July 31, 2003	Goodwill Acquired/ Adjusted	Goodwill Impairment Charge	Foreign Currency Translation	Balance July 31, 2004
(In thousands)					
QuickBooks-Related	$ 6,067	$ 98,366	$ —	$ —	$ 104,433
Intuit-Branded Small Business	473,240	(700)	(18,664)	—	453,876
Consumer Tax	11,204	(709)	—	—	10,495
Professional Tax	90,507	—	—	—	90,507
Other Businesses	10,073	—	—	646	10,719
	$ 591,091	$ 96,957	$ (18,664)	$ 646	$ 670,030

The increase in goodwill was related primarily to our acquisition of Innovative Merchant Solutions in the first quarter of fiscal 2004. See Note 7. The goodwill impairment charge is described later in this Note 4.

Purchased intangible assets consisted of the following at the dates indicated:

	Life in Years	July 31, 2003	July 31, 2004
(Dollars in thousands)			
Customer lists	3-7	$ 171,237	$ 190,953
Less accumulated amortization		(105,771)	(130,905)
		65,466	60,048
Purchased technology	2-7	143,605	147,246
Less accumulated amortization		(93,694)	(107,189)
		49,911	40,057
Trade names and logos	2-7	17,199	17,524
Less accumulated amortization		(10,293)	(12,711)
		6,906	4,813
Covenants not to compete	2-5	9,410	11,384
Less accumulated amortization		(6,248)	(9,001)
		3,162	2,383
Total purchased intangible assets		341,451	367,107
Total accumulated amortization		(216,006)	(259,806)
Total net purchased intangible assets		$ 125,445	$ 107,301

The increases in customer lists and covenants not to compete were due primarily to our acquisition of Innovative Merchant Solutions in the first quarter of fiscal 2004. See Note 7.

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

	Fiscal		
	2002	2003	2004
(In thousands)			
Amortization of goodwill	$122,629	$ —	$ —
Amortization of purchased intangible assets	28,112	32,692	23,583
Amortization of acquisition-related deferred compensation	8,654	1,255	889
Total acquisition-related charges	$159,395	$33,947	$24,472

At July 31, 2004, we expected annual amortization of our purchased intangible assets by fiscal year to be as shown in the following table. Amortization of purchased intangible assets is charged primarily to amortization of purchased software in cost of revenue and to acquisition-related charges in operating expenses on our statement of operations. Future acquisitions could cause these amounts to increase. In addition, if impairment events occur they could accelerate the timing of charges.

Fiscal year ending July 31,	Expected Amortization Expense
(Dollars in thousands)	
2005	$ 38,309
2006	32,142
2007	20,178
2008	9,963
2009	6,272
Thereafter	437
Total expected future amortization expense	$ 107,301

As discussed in Note 1, we regularly perform reviews to determine if the carrying values of our goodwill and purchased 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 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 Venture Finance Software Corp. in August 2000 (part of our Other Businesses segment) and the Site Solutions business that we acquired from Boston Light Corp. in August 1999 (part of our Intuit-Branded 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 to reduce the carrying value of the assets associated with our Internet-based advertising business to zero, and a charge of $4.7 million to reduce the carrying value of assets relating to our Site Solutions business to zero.

Fiscal 2004

During the fourth quarter of fiscal 2004, events and circumstances indicated impairment of goodwill that we recorded in connection with our acquisition of Intuit Public Sector Solutions, or IPSS, in May 2002 (part of our Intuit-Branded Small Business segment). The primary indicator of impairment was the fact that actual sales levels did not meet initial projections.

We measured the impairment loss based on the amount by which the carrying amount of goodwill exceeded the fair value based on lower projected profits and decreases in cash flow. Our measurement of fair value was based on a blend of an analysis of the future discounted cash flows and a comparison of revenue and operating income multiples for companies of similar industry and/or size as discussed in Note 1. Based on our analysis, in the fourth quarter of fiscal 2004 we recorded a charge of $18.7 million to reduce the carrying value of the goodwill to $10.9 million.

In August 2004 management formally approved a plan to sell IPSS. This subsidiary will be presented as discontinued operations beginning in fiscal 2005.

5. 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 on our statement of operations.

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

	Unrealized Gain (Loss) on			
	Marketable Securities	Short-term Investments	Foreign Currency Translation	Total
(In thousands)				
Balance at July 31, 2001	$ 23,958	$ 4,686	$ (464)	$ 28,180
Unrealized losses, net of income tax benefits of $18,082 and $1,065	(27,123)	(1,598)	—	(28,721)
Reclassification adjustment for realized gain included in net income, net of income tax benefit of $1,120 and $687	(1,680)	(1,030)	—	(2,710)
Translation adjustment	—	—	(424)	(424)
Other comprehensive loss	(28,803)	(2,628)	(424)	(31,855)
Balance at July 31, 2002	(4,845)	2,058	(888)	(3,675)
Unrealized gain (loss), net of income tax provision of $8,582 and benefit of $496	12,873	(743)	—	12,130
Reclassification adjustment for realized gain included in net income, net of income tax benefit of $5,282 and $734	(7,923)	(1,102)	—	(9,025)
Translation adjustment	—	—	(219)	(219)
Other comprehensive income (loss)	4,950	(1,845)	(219)	2,886
Balance at July 31, 2003	105	213	(1,107)	(789)
Unrealized gain (loss), net of income tax provision of $180 and benefit of $987	270	(1,481)	—	(1,211)
Reclassification adjustment for realized gain included in net income, net of income tax benefit of $156	—	(234)	—	(234)
Translation adjustment	—	—	(1,141)	(1,141)
Other comprehensive income (loss)	270	(1,715)	(1,141)	(2,586)
Balance at July 31, 2004	$ 375	$ (1,502)	$ (2,248)	$ (3,375)

6. Deferred Compensation

When we assume unvested stock options in connection with acquisitions, we record deferred stock-based compensation as a reduction of stockholders' equity. The amount recorded is equal to the difference between the exercise price of the unvested options 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-based compensation equal to the difference between the purchase price and the fair market value of the stock at the date of grant. Deferred stock-based compensation is amortized straight-line over the vesting term of these options and restricted stock awards.

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

	Fiscal		
	2002	2003	2004
(In thousands)			
Beginning balance	$ 21,720	$ 12,628	$ 25,850
Deferred stock-based compensation:			
Restricted stock awards	—	18,082	1,089
Deferred stock-based compensation	1,620	—	—
Cancellation of restricted stock awards and deferred stock-based compensation	—	(891)	(384)
Total deferred stock-based compensation	1,620	17,191	705
Amortization of deferred stock-based compensation:			
General and administrative expense	(2,534)	(2,714)	(6,232)
Acquisition-related charges	(8,654)	(1,255)	(889)
Total amortization of deferred stock-based compensation	(11,188)	(3,969)	(7,121)
Other	476	—	—
Ending balance	$ 12,628	$ 25,850	$ 19,434

7. Acquisitions

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 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 intangible assets and goodwill. Identified intangible assets consist of customer lists, purchased technology, trade names and logos, and covenants not to compete.

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 was branded as Intuit Construction Business Solutions and became part of our Intuit-Branded Small Business segment. ICBS provides business management software solutions for construction companies. We allocated approximately $8.5 million of the purchase price to identified intangible assets and recorded the excess purchase price of $27.1 million as goodwill. 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 was the parent company of American Fundware, Inc., which was branded as Intuit Public Sector Solutions and became part of our Intuit-Branded Small Business segment. IPSS offers financial accounting solutions for nonprofit organizations, universities and government agencies. 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. We allocated approximately $4.2 million of the purchase price to identified intangible assets and recorded the excess purchase price of $29.6 million as goodwill. The identified intangible assets are being amortized over terms ranging from three to 12 years.

In June 2002 we acquired all of the outstanding stock of CBS Employer Services, Inc. for approximately $75.3 million in cash 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 and became part of our Intuit-Branded Small Business segment. 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. We allocated approximately $9.3 million of the purchase price to identified intangible assets and recorded the excess purchase price of $74.8 million as goodwill. The identified intangible assets are being amortized over terms ranging from five to six years. In fiscal 2003 we reduced the goodwill related to this acquisition by $2.6 million to reflect revisions to our restructuring plan and other acquisition-related adjustments.

In July 2002 we purchased all of the outstanding stock of Management Reports, Inc. for approximately $92.2 million in cash. MRI was branded as Intuit Real Estate Solutions and became part of our Intuit-Branded Small Business segment. Intuit Real Estate Solutions provides business management software solutions for residential, commercial and corporate property managers. We allocated approximately $14.0 million of the purchase price to identified intangible assets and recorded the excess purchase price of $73.4 million as goodwill. 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 was branded as Intuit Distribution Management Solutions and became part of our Intuit-Branded Small Business segment. IDMS provides business management software solutions for wholesale durable goods distributors. We allocated approximately $35.8 million of the purchase price to identified intangible assets and recorded the excess purchase price of $41.4 million as goodwill. The identified intangible assets are being amortized over terms ranging from one to seven years.

If we had completed all of our fiscal 2002 acquisitions on August 1, 2001, unaudited net revenue for fiscal 2002 would have been $1.41 billion. Due primarily to the amortization of goodwill and intangible assets for these acquisitions, we would have reported an unaudited net loss from continuing operations of $0.4 million while unaudited net income would have been $86.1 million in that fiscal year. Unaudited diluted net income per share from continuing operations would have been zero and unaudited diluted net income per share would have been $0.40 per share in fiscal 2002.

Fiscal 2003

In September 2002 we acquired all of the outstanding stock of Blue Ocean Software, Inc. for approximately $177.3 million in cash. We paid $16.5 million of the purchase price into a third-party escrow account. This amount was paid in fiscal 2004 in accordance with the terms of the escrow agreement. Blue Ocean offers software solutions that help businesses manage their information technology resources and assets. We acquired this company as part of our Right for Me strategy to offer a wider range of business solutions for small businesses. Blue Ocean was branded as Intuit Information Technology Solutions and became part of our Intuit-Branded Small Business segment. We allocated approximately $13.2 million of the purchase price to purchased technology and $7.8 million to in-process research and development, which was charged to expense in the first quarter of fiscal 2003. We recorded the excess purchase price of $150.8 million as goodwill. The purchased technology is being amortized over six years. Blue Ocean's results of operations for periods prior to the date of acquisition were not material when compared with our consolidated results.

In the past, we marketed and sold our Premier Payroll Service jointly with Wells Fargo Bank. In February 2003 we acquired for $29.2 million in cash the rights to brand and market the offering directly to Premier Payroll Service customers who currently use Intuit's service. As a result of this agreement, we no longer pay royalties to Wells Fargo on Premier Payroll Service revenue. We recorded the purchase price as a purchased intangible asset and are amortizing it on a straight-line basis to cost of service revenue over five years, the estimated useful life of the customer base. Total accumulated amortization for this asset was $2.7 million at July 31, 2003 and $8.5 million at July 31, 2004.

In July 2003 we acquired all of the outstanding stock of Income Dynamics, Inc. for approximately $10.0 million or 224,589 shares of Intuit common stock and $0.3 million in cash. Income Dynamics offers software that provides tools for taxpayers to determine the fair market value of items donated to charities. Income Dynamics became part of our Consumer Tax segment. We allocated approximately $3.2 million of the purchase price to identified intangible assets and recorded the excess purchase price of $7.9 million as goodwill. The identified intangible assets are being amortized over terms ranging from two to five years. Income Dynamics' results of operations for periods prior to the date of acquisition were not material when compared with our consolidated results.

Fiscal 2004

In October 2003 we acquired all of the membership interests of Innovative Merchant Solutions LLC and a related entity doing business as Innovative Gateway Solutions (together, IMS) for an aggregate purchase price of approximately $116.7 million in cash. Of the total purchase price, $86.3 million was paid to the members of IMS and $30.4 million was deposited into a third-party escrow account at closing. Of the cash deposited into escrow, $10.4 million is payable to former IMS members in January 2005 and the remaining $20.0 million will be paid to former IMS members from escrow in installments of $12.0 million and $8.0 million in October 2004 and October 2005 upon the satisfaction of certain operating contingencies.

IMS offers a full range of merchant services to small businesses nationwide, including credit and debit card processing services. We acquired IMS as part of our Right for Me strategy to offer a wider range of business solutions for small businesses. IMS became part of our QuickBooks-Related segment. On a preliminary basis, we allocated approximately $17.3 million of the IMS purchase price to identified intangible assets and recorded the excess purchase price of $98.4 million as goodwill. We do not expect that any adjustments to the purchase price or the purchase price allocation will be material. The identified intangible assets are being amortized over terms ranging from two to four years. IMS's results of operations for periods prior to the date of acquisition were not material when compared with our consolidated results.

Purchase Price Allocation and Acquired Goodwill by Reportable Segment

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

	Fiscal		
	2002	**2003**	**2004**
(In thousands)			
Tangible assets	$ 88,290	$ 15,478	$ 5,370
Intangible assets:			
Goodwill	246,542	160,658	96,957
Customer lists	38,295	25,018	19,000
Purchased technology	30,197	22,263	3,602
Trade names and logos	7,251	493	220
Covenant not to compete	1,595	1,750	1,799
Deferred revenue	(10,873)	(7,290)	—
Assumption of debt/bridge loans	(6,840)	(545)	—
Accrued restructuring	(4,212)	(597)	—
Acquisition costs	(2,570)	(689)	117
Other tangible liabilities	(63,916)	5,314	(3,502)
In-process research and development	2,151	8,859	—
	$325,910	$230,712	$123,563
Cash consideration paid and cash consideration payable	$259,551	$220,717	$123,563
Stock consideration paid and fair value of stock options assumed	66,359	9,995	—
	$325,910	$230,712	$123,563

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 that ranged from three to five years. We adopted SFAS 142 on August 1, 2002 and as a result no longer amortize goodwill. We amortize most other intangible assets over their estimated useful lives, which range from two to seven years. See Note 1 and Note 4.

The following table presents acquired goodwill by reportable business segment. The table includes purchase price adjustments that lowered recorded goodwill for certain acquisitions.

	Fiscal		
	2002	2003	2004
(In thousands)			
QuickBooks-Related	$ —	$ 818	$98,366
Intuit-Branded Small Business	246,347	147,215	(700)
Consumer Tax	—	7,896	(709)
Professional Tax	(2,200)	—	—
Other Businesses	2,395	4,729	—
	$246,542	$160,658	$96,957

Of the total goodwill acquired, amounts deductible for income tax purposes totaled $115.0 million in fiscal 2002, $0.8 million in fiscal 2003 and $78.4 million in fiscal 2004.

8. Divestitures

In March 2002 we paid $12.0 million to terminate our remaining $20.3 million obligation under an interactive services agreement related to our Quicken Bill Manager business. We recorded a pre-tax gain of $8.3 million and related tax expense of $2.7 million in fiscal 2002 in connection with the termination of this agreement.

9. Discontinued Operations

Quicken Loans

In July 2002 we sold 87.5% of our Quicken Loans mortgage business to Rock Acquisition Corporation and recorded a pre-tax gain of $23.3 million on the transaction. We retained a 12.5% non-voting equity interest in Rock, which we accounted for on a cost basis. In October 2002, we sold our minority interest in Rock to Rock's majority shareholders and recorded a $5.6 million gain on the transaction. As part of the original sale transaction, we also agreed to provide a line of credit of up to $375.0 million to fund mortgage loans for a transitional period of up to six months. The line was repaid in full in January 2003.

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 therefore been segregated from continuing operations on our balance sheets, statements of operations and statements of cash flows for all periods prior to the sale. In fiscal 2002 Quicken Loans net revenue was $189.2 million and Quicken Loans income before income taxes was $73.6 million.

Concurrent with the sale, Rock licensed the right to use our Quicken Loans trademark for its residential home loan and home equity loan products. We will receive a minimum royalty of $1.75 million a year for five years under the licensing agreement. We also entered into a five-year distribution agreement with Rock through which it will provide mortgage services on Quicken.com. In July 2004 we amended the distribution agreement to reduce the minimum fees over the life of the agreement by $1.75 million. We will receive minimum fees of $0.75 million a year for two years, $0.5 million for the third year and no minimum fees for the fourth and fifth years under the distribution agreement. The royalties from the licensing agreement and the fees from the distribution agreement are recorded as earned and included in interest and other income on our statement of operations.

We recorded royalties under the trademark licensing agreement of $9.3 million in fiscal 2003 and fiscal 2004. We recorded fees under the distribution agreement of $0.8 million in fiscal 2003 and $0.9 million in fiscal 2004. Fees due from Rock under these agreements totaled $9.5 million at July 31, 2003 and July 31, 2004 and were included in accounts receivable on our balance sheet.

Intuit KK

In February 2003 we sold all of the outstanding stock of our wholly owned Japanese subsidiary, Intuit KK, to a private equity investment firm located in Japan for approximately $79.0 million. Intuit KK was part of our Other Businesses segment. In accordance with the provisions of SFAS 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," we accounted for the sale as discontinued operations. The net assets, operating results and cash flows of Intuit KK have therefore been segregated from continuing operations on our balance sheets, statements of operations and statements of cash flows for all periods prior to the sale. Intuit KK net revenue was $46.1 million in fiscal 2002 and $26.6 million in fiscal 2003. Intuit KK income before income taxes was $14.4 million in fiscal 2002 and $5.6 million in fiscal 2003. We recorded a gain on disposal of discontinued operations of $71.0 million, net of income taxes of $5.1 million, in the third quarter of fiscal 2003.

10. 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. Quicken Bill Manager was part of our Other Businesses segment. During fiscal 2002, events and circumstances indicated impairment of this asset. These indicators included the deterioration of Princeton eCom's financial position and the decreased likelihood that it would receive future funding. Based on our analysis we determined that the fair value of this asset was impaired and recorded a charge of $27.0 million in fiscal 2002 to reduce its carrying value to zero.

11. 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 their financial reports. Consistent with SFAS 131, we have defined five reportable segments, described below, based on factors such as how we manage our operations and how our chief operating decision maker views results. We define the chief operating decision maker as the office of the chief executive officer, our chief financial officer and our Board of Directors.

In the fourth quarter of fiscal 2004 we revised our reportable segments to reflect the way we currently manage and view our business. We combined our fiscal 2003 QuickBooks segment with the businesses from our fiscal 2003 Small Business Products and Services segment that relate to and support QuickBooks to form the fiscal 2004 segment called QuickBooks-Related. We also combined our outsourced payroll and information technology businesses with our fiscal 2003 Vertical Business Management Solutions segment to form the fiscal 2004 segment called Intuit-Branded Small Business. We made no changes to our Consumer Tax, Professional Tax and Other Businesses segments. We have reclassified previously reported fiscal 2003 and 2002 segment results to be consistent with the fiscal 2004 presentation.

We reclassified a total of $28.1 million for certain fiscal 2003 electronic filing revenue in our Consumer Tax and Professional Tax segments from product revenue to service revenue to be consistent with our fiscal 2004 presentation. Total fiscal 2003 revenue for each of these segments did not change as a result of these reclassifications.

QuickBooks-Related product revenue is derived primarily from QuickBooks desktop software products; QuickBooks Do-It-Yourself Payroll, or DIY, which offers payroll tax tables, forms and electronic tax payment and filing on a subscription basis to small businesses that prepare their own payrolls; and financial supplies such as paper checks, envelopes and invoices. QuickBooks-Related service revenue is derived primarily from QuickBooks Online Edition, QuickBooks support plans and merchant services. Other revenue for this segment consists primarily of royalties from small business online services.

Intuit-Branded Small Business product revenue is derived primarily from business management software for information technology and four selected industries: wholesale durable goods; residential, commercial and corporate property management; construction; and nonprofit organizations, universities and government agencies. In August 2004 management formally approved a plan to sell our Intuit Public Sector Solutions business. Intuit-Branded Small Business service revenue is derived from technical support, consulting and training services for those software products and from outsourced payroll services. Service revenue for this segment also includes interest earned on funds held for payroll customers.

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

Professional Tax product revenue is derived primarily from ProSeries and Lacerte professional tax preparation software products. Professional Tax service revenue consists of electronic filing and training services.

Other Businesses consist primarily of Quicken and Canada. Quicken product revenue is derived primarily from Quicken desktop software products. Quicken other revenue consists primarily of fees from consumer online transactions and from Quicken-branded credit card and bill payment offerings that we provide through our partners. We exited the online advertising business in the fourth quarter of fiscal 2004. In Canada, product revenue is derived primarily from localized versions of QuickBooks and Quicken as well as QuickTax and TaxWiz consumer desktop tax return preparation software and ProFile professional tax preparation products. Service revenue in Canada consists primarily of revenue from software maintenance contracts sold with QuickBooks.

All reportable segments except Intuit-Branded Small Business and Other Businesses operate solely in the United States. All segments sell primarily to customers located in the United States. International total net revenue was less than 5% of consolidated total net revenue for all periods presented.

Corporate includes costs such as corporate general and administrative expenses that are not allocated to specific segments. Corporate also includes reconciling items such as acquisition-related costs (which include acquisition-related charges, impairment of goodwill and purchased intangible assets, amortization of purchased software and charges for purchased research and development), realized net gains or losses on marketable securities and other investments, and interest and other income.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in Note 1. Except for goodwill and purchased intangible assets, we do not generally track assets by reportable segment and, consequently, we do not disclose assets by reportable segment.

The following tables show our financial results by reportable segment for fiscal 2002, 2003 and 2004.

Fiscal 2002	QuickBooks Related	Intuit-Branded Small Business	Consumer Tax	Professional Tax	Other Businesses	Corporate	Consolidated
(In thousands)							
Product revenue	$ 396,552	$ 9,125	$ 219,403	$ 219,252	$ 129,463	$ —	$ 973,795
Service revenue	50,116	77,612	128,354	6,495	7,359	—	269,936
Other revenue	13,440	219	3,340	—	51,498	—	68,497
Total net revenue	460,108	86,956	351,097	225,747	188,320	—	1,312,228
Segment operating income (loss)	207,828	(29,608)	217,997	121,940	38,447	—	556,604
Common expenses	—	—	—	—	—	(283,129)	(283,129)
Subtotal	207,828	(29,608)	217,997	121,940	38,447	(283,129)	273,475
Amortization of purchased software	—	—	—	—	—	(7,159)	(7,159)
Charge for purchased research and development	—	—	—	—	—	(2,151)	(2,151)
Acquisition-related charges	—	—	—	—	—	(159,395)	(159,395)
Loss on impairment of goodwill and purchased intangible assets	—	—	—	—	—	(27,270)	(27,270)
Loss on impairment of long-lived asset	—	—	—	—	—	(27,000)	(27,000)
Interest and other income	—	—	—	—	—	27,276	27,276
Realized net loss on marketable securities	—	—	—	—	—	(15,535)	(15,535)
Net gain on divestiture	—	—	—	—	—	8,308	8,308
Income (loss) from continuing operations before income taxes	$ 207,828	$ (29,608)	$ 217,997	$ 121,940	$ 38,447	$ (486,055)	$ 70,549

Fiscal 2003	QuickBooks Related	Intuit-Branded Small Business	Consumer Tax	Professional Tax	Other Businesses	Corporate	Consolidated
(In thousands)							
Product revenue	$ 465,159	$ 62,989	$ 231,096	$ 223,797	$ 141,242	$ —	$ 1,124,283
Service revenue	70,511	173,370	189,183	19,622	4,522	—	457,208
Other revenue	16,965	3,554	2,618	—	46,115	—	69,252
Total net revenue	552,635	239,913	422,897	243,419	191,879	—	1,650,743
Segment operating income (loss)	247,624	(213)	271,587	141,343	57,840	—	718,181
Common expenses	—	—	—	—	—	(318,347)	(318,347)
Subtotal	247,624	(213)	271,587	141,343	57,840	(318,347)	399,834
Amortization of purchased software	—	—	—	—	—	(13,796)	(13,796)
Charge for purchased research and development	—	—	—	—	—	(8,859)	(8,859)
Acquisition-related charges	—	—	—	—	—	(33,947)	(33,947)
Interest and other income	—	—	—	—	—	38,694	38,694
Realized net gain on marketable securities	—	—	—	—	—	10,912	10,912
Income (loss) from continuing operations before income taxes	$ 247,624	$ (213)	$ 271,587	$ 141,343	$ 57,840	$ (325,343)	$ 392,838

Fiscal 2004	QuickBooks Related	Intuit-Branded Small Business	Consumer Tax	Professional Tax	Other Businesses	Corporate	Consolidated
(In thousands)							
Product revenue	$ 534,052	$ 72,250	$ 231,730	$ 226,121	$ 148,209	$ —	$ 1,212,362
Service revenue	97,161	195,038	257,883	25,773	7,826	—	583,681
Other revenue	22,701	5,093	367	—	43,459	—	71,620
Total net revenue	653,914	272,381	489,980	251,894	199,494	—	1,867,663
Segment operating income (loss)	288,974	11,695	320,314	138,460	66,022	—	825,465
Common expenses	—	—	—	—	—	(348,546)	(348,546)
Subtotal	288,974	11,695	320,314	138,460	66,022	(348,546)	476,919
Amortization of purchased software	—	—	—	—	—	(13,456)	(13,456)
Acquisition-related charges	—	—	—	—	—	(24,472)	(24,472)
Loss on impairment of goodwill and purchased intangible assets	—	—	—	—	—	(18,664)	(18,664)
Interest and other income	—	—	—	—	—	30,844	30,844
Realized net gain on marketable securities	—	—	—	—	—	1,729	1,729
Income (loss) from continuing operations before income taxes	$ 288,974	$ 11,695	$ 320,314	$ 138,460	$ 66,022	$ (372,565)	$ 452,900

12. Other Current Liabilities

Other current liabilities were as follows at the dates indicated:

	July 31,	
	2003	2004
(In thousands)		
Reserve for product returns	$ 34,406	$ 36,877
Reserve for rebates	10,401	16,216
Executive deferred compensation plan	6,245	13,246
Other accruals	8,077	16,956
	$ 59,129	$ 83,295

13. Long-Term Obligations and Commitments

Long-Term Obligations

Long-term obligations were as follows at the dates indicated:

	July 31,	
	2003	2004
(In thousands)		
Mountain View vacancy reserve	$ 9,701	$ 8,940
Other vacancy reserves	3,778	2,573
CBS Employer Services acquisition accrual	17,505	51
Capital lease obligations: monthly installments through 2007; interest rate 2.66%	—	5,771
Deferred rent	—	3,479
Other	861	309
Total long-term obligations	31,845	21,123
Less current portion (included in other current liabilities)	(2,580)	(4,729)
Long-term obligations due after one year	$ 29,265	$ 16,394

Reserve for Vacant Facilities

During 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. In that period, we recorded a $13.2 million reserve that was equal to the remaining future lease commitments for these facilities, net of estimated future sublease income. During fiscal 2003, we decided that based on corporate growth requirements and the current real estate market in the San Francisco Bay Area, we would reoccupy one of the two vacant buildings and that the reserve for the other vacant building should be increased to reflect our revised estimate of future sublease income for that facility. We recorded a net adjustment of $0.5 million to the reserve that, along with the reversal of reserves related to various smaller facilities, resulted in a total credit for vacant facilities of $1.1 million on our statement of operations in fiscal 2003. During fiscal 2004, based on the current real estate market in the San Francisco Bay Area, we recorded a $0.7 million increase to the reserve for the remaining Mountain View building to reflect our revised estimate of future sublease income for that facility. Our actual future cash payments may exceed the total Mountain View reserve balance at July 31, 2004 by a maximum of $1.9 million if we are unable to sublease the remaining reserved Mountain View property. The lease related to this facility ends in fiscal 2010.

Activity in this reserve for vacant facilities during fiscal 2002, 2003 and 2004 was as follows:

	Fiscal		
	2002	2003	2004
(In thousands)			
Beginning balance	$ —	$ 12,478	$ 9,701
Additions to reserve	13,237	1,352	729
Cash lease payments applied against the reserve	(759)	(2,257)	(1,339)
Release of reserve	—	(1,872)	(151)
Ending balance	$ 12,478	$ 9,701	$ 8,940

The short-term and long-term components of this reserve and their location on our balance sheet were as follows at the dates indicated.

	July 31, 2003	July 31, 2004
(In thousands)		
Short-term portion of reserves in other current liabilities	$ 1,394	$ 1,374
Long-term portion of reserves in long-term obligations	8,307	7,566
Total reserves	$ 9,701	$ 8,940

CBS Employer Services Acquisition Accrual

We acquired CBS Employer Services, Inc. in the fourth quarter of fiscal 2002. See Note 7. In connection with this acquisition, we recorded a total accrual of $26.4 million that included $21.6 million for purchase price deferrals and $4.8 million for restructuring and transaction costs. In fiscal 2003 we reduced the restructuring accrual by $3.4 million and reduced the goodwill related to this acquisition by the same amount to reflect revisions to our restructuring plan. Activity in this reserve during fiscal 2002, 2003 and 2004 was as follows:

(In thousands)	Beginning Balance	Additions to Reserve	Cash Payments	Adjustments	Ending Balance
Fiscal 2002					
Non-compete clause	$ —	$ 1,700	$ —	$ —	$ 1,700
Purchase price deferrals	—	14,043	(900)	—	13,143
Shareholder escrow	—	5,800	—	—	5,800
Restructuring and transaction costs	—	4,818	(102)	—	4,716
	$ —	$ 26,361	$ (1,002)	$ —	$ 25,359
Fiscal 2003					
Non-compete clause	$ 1,700	$ —	$ —	$ —	$ 1,700
Purchase price deferrals	13,143	—	(796)	959	13,306
Shareholder escrow	5,800	—	(3,301)	—	2,499
Restructuring and transaction costs	4,716	—	(1,335)	(3,381)	—
	$ 25,359	$ —	$ (5,432)	$ (2,422)	$ 17,505
Fiscal 2004					
Non-compete clause	$ 1,700	$ —	$ (1,700)	$ —	$ —
Purchase price deferrals	13,306	—	(12,953)	(353)	—
Shareholder escrow	2,499	—	(2,448)	—	51
Restructuring and transaction costs	—	—	—	—	—
	$ 17,505	$ —	$ (17,101)	$ (353)	$ 51

At July 31, 2003, the $17.5 million balance in this reserve was in long-term obligations on our balance sheet. At July 31, 2004, the balance in this reserve was in other current liabilities on our balance sheet.

Capital Lease Obligations

Future minimum lease payments under capital lease obligations at July 31, 2004 were as follows:

Fiscal year ending July 31,	**Capital Lease Obligations**
(Dollars in thousands)	
2005	$ 2,660
2006	2,660
2007	629
	5,949
Less amount representing interest	(178)
Total	$ 5,771

Operating Leases

Intuit leases office facilities and equipment under various operating lease agreements. Our facilities leases provide for annual rent increases of up to 10% and many contain renewal options. Annual minimum commitments under these leases are shown in the table below. The table includes the lease for our vacant facility and excludes any potential future sublease income for that facility. See "*Reserve for Vacant Facilities*" above.

Fiscal year ending July 31,	Commitments
(Dollars in thousands)	
2005	$ 27,798
2006	25,767
2007	24,578
2008	18,838
2009	17,560
Thereafter	61,133
	$ 175,674

Lease expense totaled $23.9 million in fiscal 2002, $27.3 million in fiscal 2003 and $26.7 million in fiscal 2004. Lease expense does not include a charge for vacant facilities of $13.2 million in fiscal 2002, a credit for vacant facilities of $1.1 million in fiscal 2003 and a charge for vacant facilities of $0.7 million in fiscal 2004. See "*Reserve for Vacant Facilities*" above.

14. Income Taxes

Income from continuing operations before income taxes included income from foreign operations of $8.0 million in fiscal 2002 and losses from foreign operations of $0.7 million in fiscal 2003 and $0.4 million in fiscal 2004. The provision for income taxes from continuing operations consisted of the following:

	Fiscal		
	2002	2003	2004
(In thousands)			
Current:			
Federal	$ 29,970	$ 92,249	$ 116,589
State	7,917	5,721	(31,420)
Foreign	3,752	2,371	—
	41,639	100,341	85,169
Deferred:			
Federal	(21,617)	33,107	43,720
State	(3,088)	(3,812)	4,779
Foreign	—	—	2,202
	(24,705)	29,295	50,701
Total provision for income taxes from continuing operations	$ 16,934	$ 129,636	$ 135,870

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

	Fiscal		
	2002	2003	2004
(In thousands)			
Income from continuing operations before income taxes	$ 70,549	$ 392,838	$ 452,900
Statutory federal income tax	$ 24,692	$ 137,493	$ 158,515
State income tax, net of federal benefit	4,829	1,909	9,053
Federal research and experimental credits	(4,000)	(6,262)	(7,587)
Non-deductible merger related charges	16,759	2,726	6,532
Tax exempt interest	(8,710)	(4,271)	(3,950)
Tax benefit related to divestiture	(25,770)	(2,228)	—
Deferred tax adjustments	—	—	7,491
Reversal of reserves	—	—	(35,694)
Other, net	9,134	269	1,510
Total	$ 16,934	$ 129,636	$ 135,870

Tax savings from deductions associated with our various stock option plans are not reflected in the current federal and state provisions. Savings were approximately $53.2 million in fiscal 2002, $47.8 million in fiscal 2003 and $27.1 million in fiscal 2004. These amounts were credited to stockholders' equity and reduced taxes payable.

Significant deferred tax assets and liabilities were as follows at the dates indicated.

	July 31,	
	2003	2004
(In thousands)		
Deferred tax assets:		
Accruals and reserves not currently deductible	$ 45,860	$ 35,407
NOL and tax credits carryforward	29,703	22,441
Unrealized loss on marketable securities	17,714	15,710
Merger charges	120,082	107,133
Fixed asset adjustments	10,826	—
Other, net	1,173	—
Total deferred tax assets	225,358	180,691
Deferred tax liabilities:		
Fixed asset adjustments	—	3,222
Other, net	—	2,812
Total deferred tax liabilities	—	6,034
Total net deferred tax assets	225,358	174,657
Valuation reserve	(7,473)	(7,473)
Total net deferred tax assets, net of valuation reserve	$ 217,885	$ 167,184

We have provided a valuation reserve related to the benefits of certain losses in our foreign subsidiaries and certain state capital loss carryforwards that we believe are unlikely to be realized. The valuation allowance decreased by $4.7 million in fiscal 2002 and increased by $0.7 million in fiscal 2003.

The components of total net deferred tax assets, net of valuation reserve, as shown on our balance sheet were as follows at the dates indicated:

	July 31,	
	2003	2004
(In thousands)		
Current deferred income taxes	$ 34,824	$ 31,473
Long-term deferred income taxes	183,061	135,711
	$ 217,885	$ 167,184

At July 31, 2004, we had U.S. federal net operating loss carryforwards of approximately $1.5 million and foreign net operating loss carryforwards of approximately $4.0 million. These net operating losses will expire at various dates beginning in fiscal 2020 if not utilized. At July 31, 2004, we also had various state tax credit carryforwards totaling approximately $14.8 million. The state credit carryforwards have no expiration date. Utilization of the net operating loss and credit 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.

15. Stockholders' Equity

Stock Option Plans

Our 1993 Equity Incentive Plan terminated on January 18, 2002 when our stockholders approved our 2002 Equity Incentive Plan to replace the 1993 Plan. When the 1993 Plan terminated, all outstanding options under the 1993 Plan remained in effect in accordance with their terms. There were 3,809,906 shares available for grant under the 1993 Plan at its termination. We transferred 1,900,000 of these shares to our new 2002 Plan to be available for grant under that plan. The remaining 1,909,906 shares ceased to be available for grant under any of our equity compensation plans. Under the 1993 Plan, we were permitted to grant incentive and non-qualified stock options, restricted stock awards, stock bonuses and performance awards to employees, directors, consultants, and independent contractors of and advisors to Intuit. The Compensation and Organizational Development 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.

Under our 2002 Equity Incentive 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 and Organizational Development 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 for the 2002 Plan 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.

During fiscal 2003, we launched a mandatory share ownership program. Under this program all senior vice presidents, the executive vice president and Board members are required to hold a minimum of 3,000 shares by the later of May 2006 or three years from the date the individual becomes subject to the share ownership program. The chief executive officer is required to hold 100,000 shares. To provide an incentive to the senior vice presidents and the executive vice president, we implemented a matching unit award component to the share ownership program. Under this matching unit program, for each two shares one of these officers purchases during his or her three year compliance period, we grant a matching unit award for one share, up to a maximum of 1,500 matching unit awards. These matching unit awards are granted as stock bonus awards under the 2002 Plan. These matching units vest as to 100% of the shares subject to the stock bonus award four years after grant, or earlier on the officer's retirement, death or disability. We record deferred compensation expense for these matching units based on the fair value of the award at the date of grant and recognize compensation expense at the time the matching units vest. We awarded a total of 2,849 matching units in fiscal 2003 and 3,424 matching units in fiscal 2004.

On two occasions we have granted restricted stock units to our chief executive officer as stock bonus awards under the 2002 Plan. On July 30, 2003, we granted 425,000 restricted stock units and on July 31, 2004 we granted 25,000 restricted stock units. The 2003 award vests as to 255,000 shares on July 31, 2006 and as to an additional 85,000 shares on each of July 31, 2007 and July 31, 2008. The 2004 award vests as to 25,000 shares on July 31, 2007. We record deferred compensation expense for these restricted stock units based on the fair value of the award at the date of grant and recognize compensation expense ratably over the vesting period.

On November 25, 1996, our stockholders approved our 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 2002, Board members who serve on the Audit Committee, Compensation and Organizational Development Committee and Nominating and Governance 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 one 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 to officers hired as a result of a merger or acquisition cannot exceed 45% of all shares reserved for grant under the 1998 Plan. Options granted under the 1998 Plan cannot have an exercise price that is 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 for the 1998 Plan 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.

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 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:

		Options Outstanding		
	Shares Available for Grant	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price Per Share
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
Additional shares authorized	5,000,000	—	—	—
Options granted	(6,148,327)	6,148,327	26.75 - 54.24	44.26
Stock bonus awards granted	(427,849)	—	—	—
Options exercised	—	(5,564,618)	0.0033 - 51.06	24.69
Options and shares canceled or expired:				
Options canceled or expired and returned to option pool	843,835	(843,835)	26.31 - 67.50	44.67
Options canceled from expired plans	1,402,864	(1,402,864)	0.18 - 67.50	42.08
Options removed from shares available for grant	(1,402,864)	—	—	—
Balance at July 31, 2003	9,661,147	32,994,796	$ 0.18-$72.31	$ 35.83
Options granted	(6,941,908)	6,941,908	37.04 - 52.86	41.34
Stock bonus awards granted	(28,424)	—	—	—
Stock bonus awards canceled	559	—	—	—
Options exercised	—	(3,611,671)	0.18 - 51.06	27.19
Options and shares canceled or expired:				
Options canceled or expired and returned to option pool	1,464,790	(1,464,790)	26.31 - 67.50	45.35
Options canceled from expired plans	912,527	(912,527)	6.93 - 67.50	45.13
Options removed from shares available for grant	(912,527)	—	—	—
Balance at July 31, 2004	4,156,164	33,947,716	$ 0.18-$72.31	$ 37.22

(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. We also monitor net option grants by subtracting from options granted 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 under these two methods in shares and as a percentage of shares outstanding for fiscal 2002, 2003 and 2004 are shown in the following table.

	Fiscal		
	2002	2003	2004
Net option grants (shares)	6,825,109	5,304,492	5,485,814
Net option grants (%)	3.2%	2.7%	2.9%
Net option grants including options canceled from expired plans (shares)	4,460,969	3,901,628	4,573,287
Net option grants including options canceled from expired plans (%)	2.1%	2.0%	2.4%
Shares outstanding at July 31	211,163,641	199,471,717	190,090,604

There were 18,264,940 options exercisable under our stock option plans at July 31, 2002, 19,789,835 at July 31, 2003 and 22,310,306 at July 31, 2004. At July 31, 2004, there were 1,904,706 shares available for grant under the 2002 Plan, 2,229,583 shares available for grant under the 1998 Plan and 21,875 shares available for grant under the 1996 Directors Stock Option Plan.

The following table summarizes information about stock options outstanding at July 31, 2004:

	Options Outstanding			Options Exercisable	
Exercise Price	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$ 0.18 – $ 15.98	3,866,914	3.20	$ 10.96	3,861,310	$ 10.96
16.13 – 29.25	3,327,400	4.88	25.89	3,278,890	25.91
29.26 – 34.38	3,760,747	6.39	31.61	3,161,354	31.62
35.00 – 37.26	4,194,423	6.70	36.59	3,157,990	36.41
37.44 – 39.00	4,589,411	6.94	37.61	487,564	38.52
39.25 – 42.27	3,765,534	6.21	41.64	1,895,134	41.29
42.44 – 44.32	3,291,776	5.67	43.66	1,703,935	43.84
44.51 – 52.28	3,809,843	6.06	48.07	1,697,787	47.93
52.86 – 64.81	1,923,738	5.96	57.49	1,765,403	57.75
67.50 – 72.31	1,417,930	5.80	67.62	1,300,939	67.62
$ 0.18 – $ 72.31	33,947,716	5.81	$ 37.22	22,310,306	$ 35.20

Distribution and Dilutive Effect of Options

The following table shows option grants to "Named Executives" and to all employees for the periods indicated. Named Executives are defined as the Company's chief executive officer and each of the four other most highly compensated executive officers during fiscal 2004.

	Fiscal		
	2002	2003	2004
Net option grants during the period as a percentage of outstanding shares	3.2%	2.7%	2.9%
Grants to Named Executives during the period as a percentage of total options granted	3.5%	8.9%	7.1%
Grants to Named Executives during the period as a percentage of outstanding shares	0.1%	0.3%	0.3%
Options held by Named Executives as a percentage of total options outstanding	9.0%	11.6%	12.7%

Stock Repurchase Programs

Intuit's Board of Directors has initiated a series of common stock repurchase programs. Shares of common stock repurchased under these programs become treasury shares. The following table summarizes our stock repurchase programs at July 31, 2004.

Plan Name	Date Initiated / Increased	Date Concluded	Amount Authorized
(Dollars in thousands)			
Repurchase Plan I	May 2001 / July 2002	December 2002	$750,000
Repurchase Plan II	March 2003	November 2003	500,000
Repurchase Plan III	August 2003	June 2004	500,000
Repurchase Plan IV	May 2004	Still active	500,000

The following table summarizes our stock repurchase activity under these plans, including broker commissions, through July 31, 2004:

	Plan I		Plan II		Plan III		
Fiscal Year	Shares	Amount	Shares	Amount	Shares	Amount	Average Price Per Share
(Dollars in thousands, except per share amounts)							
2001	238,500	$ 8,358	—	$ —	—	$ —	$ 35.04
2002	7,361,839	318,422	—	—	—	—	43.25
2003	9,002,244	423,211	8,937,809	390,432	—	—	45.35
2004	—	—	2,342,800	109,525	11,197,779	499,893	45.01
	16,602,583	$ 749,991	11,280,609	$ 499,957	11,197,779	$ 499,893	44.77

Repurchased shares of our common stock are held as treasury shares until they are reissued or retired. When we reissue treasury stock, if the proceeds from the sale are more than the average price we paid to acquire the shares we record an increase in additional paid-in capital. Conversely, if the proceeds from the sale are less than the average price we paid to acquire the shares, we record a decrease in additional paid-in capital to the extent of increases previously recorded for similar transactions and a decrease in retained earnings for any remaining amount.

Employee Stock Purchase Plan

On November 26, 1996, our stockholders adopted our Employee Stock Purchase Plan under Section 423 of the Internal Revenue Code. The ESPP permits our eligible employees to make payroll deductions to purchase our stock on regularly scheduled purchase dates at a discount. Effective after the June 2003 purchase, the ESPP has twelve-month rolling concurrent offering periods that are composed of four three-month accrual periods at the end of which the employees may purchase shares at a discount. The discount at which the employee will be able to purchase shares under the ESPP will depend on the offering period in which she or he is participating since each rolling twelve-month offering period will be in its first, second, third or fourth three-month accrual period. The purchase price will be 85% of the lower of the closing price for Intuit common stock on the first day of the twelve-month offering period in which the employee is participating or the last day of the three-month accrual period of that offering period. Employees purchased 583,991 shares of Intuit common stock in fiscal 2002, 476,454 shares in fiscal 2003 and 564,918 shares in fiscal 2004 under the ESPP. At July 31, 2004, there were 1,820,107 shares available for issuance under this Plan.

16. Benefit Plans

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 for fiscal 2002, $0.2 million in employer contributions to the plan in fiscal 2003 and $0.8 million in employer contributions in fiscal 2004. During fiscal 2003 and 2004, we also entered into several agreements in which we committed to make employer contributions on behalf of certain executives provided that they remain employed at Intuit on certain future dates. With the exception of one agreement which provides for four year vesting on the employer contributions, all other contributions are fully vested at the time of contribution. We held assets and liabilities related to this plan of $5.7 million at July 31, 2003 and assets of $12.1 million and liabilities of $13.2 million at July 31, 2004. Assets related to this plan are in other assets and liabilities related to this plan are in other current liabilities on our balance sheet. The plan liabilities include accrued employer contributions not yet funded to the plan.

401(k) Plan

Employees who participate in the Intuit 401(k) Plan may contribute up to 20% of pre-tax salary to the plan, subject to Internal Revenue Service 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, 2003 and 2004, the match was 75% up to $2,500. Matching contributions were $8.4 million in fiscal 2002, $10.9 million in fiscal 2003 and $10.1 million in fiscal 2004. Participating employees age 50 or older may also make catch-up contributions. These contributions are not matched.

17. 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. In January 2003 the Board amended the rights plan to change the exercise price for the rights from $83.33 per 1/3 of 1/1000th share to $300.00 per 1/3 of 1/1000th share. The preferred stock has been structured so that the value of 1/3000th of a share of this 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.

18. Litigation

1) Muriel Siebert & Co., Inc. v. Intuit Inc., Index No. 03-602942, Supreme Court of the State of New York, County of New York.

On September 17, 2003, plaintiff Muriel Siebert & Co., Inc. filed a complaint against Intuit alleging various claims for breach of contract, breach of express and implied covenants of good faith and fair dealing, breach of fiduciary duty, misrepresentation and/or fraud, and promissory estoppel. The allegations relate to Quicken Brokerage powered by Siebert, a strategic alliance between the two companies. The complaint seeks compensatory, punitive, and other damages. On September 22, 2003, Intuit filed an arbitration demand against Siebert & Co., Inc. in San Jose, California seeking arbitration of all claims asserted by both parties. The Apellate Division of the Supreme Court of the State of New York court has stayed the matter while it determines whether it will proceed in New York state court or in arbitration. Intuit believes this lawsuit is without merit and intends to defend the litigation vigorously.

2) Intuit/Quicken Sunsetting Litigation, Master File No. 1-04-CV-016394, Superior Court of California, County of Santa Clara (Anthony Flannery v. Intuit Inc., et al, Civil No. 1-04-CV-016394 and Daniel J. Mason v. Intuit Inc. et al, Civil No. 1-04-CV-018345).

On or about March 19, 2004, plaintiff Anthony Flannery, on his behalf and on behalf of a class of persons allegedly similarly situated, filed a complaint against Intuit in Santa Clara Superior Court, alleging that Intuit's retirement of certain services and live technical support associated with its Quicken 1998, Quicken 1999 and Quicken 2000 products constituted a breach of express and implied warranties and violated sections 17200 and 17500 of the California Business and Professions Code, as well as the Consumer Legal Remedies Act ("CLRA"). The complaint seeks certification as a class action, as well as unspecified compensatory and punitive damages, disgorgement of profits, restitution, injunctive relief and attorney's fees from Intuit.

On or about April 21, 2004, plaintiff Daniel Mason, on his behalf and on behalf of a class of persons allegedly similarly situated, filed a complaint against Intuit in Santa Clara Superior Court making allegations virtually identical to those of Anthony Flannery. On July 14, 2004, the Court consolidated the two cases pursuant to stipulation of the parties.

On July 29, 2004, plaintiffs filed a consolidated First Amended Complaint. Intuit's response to that Complaint is due on October 8, 2004. The parties have only recently initiated discovery. No trial date is set. Intuit believes this lawsuit is without merit and intends to defend the litigation vigorously.

3) Cynthia Belotti v. Intuit Inc., et al, Civil No. 1-04-CV-020277, Superior Court of California, County of Santa Clara.

On or about May 24, 2004, plaintiff Cynthia Belotti, on her behalf and on behalf of a class of persons allegedly similarly situated, filed a complaint against the Company in Santa Clara Superior Court, alleging that Intuit's retirement of certain add-on business services and live technical support associated with its QuickBooks 2001 and QuickBooks 2002 products constituted a breach of express and implied warranties and violated sections 17200 and 17500 of the California Business and Professions Code. The complaint sought certification as a class action, as well as damages, disgorgement of profits, restitution, injunctive relief and attorney's fees from Intuit.

On or about July 13, 2004, plaintiff filed a First Amended Complaint that added Ental Precision Machining, Inc., as plaintiff; plaintiffs' counsel has also dismissed without prejudice all claims on behalf of Cynthia Belotti. Intuit's response to that Complaint is due on October 8, 2004. The parties have only recently initiated discovery. No trial date is set. Intuit believes this lawsuit is without merit and intends to defend the litigation vigorously.

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

19. Related Party Transactions

Loans to Executive Officers and Other Employees

Prior to July 30, 2002, loans to executive officers were made generally in connection with their relocation and purchase of a residence near their new place of work. Consistent with the requirements of the Sarbanes-Oxley legislation enacted on July 30, 2002, we have not made or modified any loans to executive officers since July 30, 2002 and we do not intend to make or modify any loans to executive officers in the future. At July 31, 2004, no loans were overdue and all interest payments were current in accordance with the terms of the loan agreements.

During fiscal 2004, certain loan amounts became due within twelve months and are thus being classified as prepaid expenses and other current assets on our balance sheet. Loans to executive officers and other employees, including these current amounts, were as follows at the dates indicated.

	July 31, 2003	July 31, 2004
(In thousands)		
Short-term:		
Loans to executive officers	$ —	$ 1,066
Loans to other employees	—	230
	—	1,296
Long-term:		
Loans to executive officers	14,891	11,575
Loans to other employees	4,799	4,234
	19,690	15,809
Total loans to employees:		
Loans to executive officers	14,891	12,641
Loans to other employees	4,799	4,464
	$ 19,690	$ 17,105

Of the total loans to executive officers at July 31, 2004, $9.4 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, 2004 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, 2004, loans with a remaining principal balance of $16.0 million were secured by real property. The loans outstanding at July 31, 2004 have original terms that range from four to ten years.

Repurchases of Vested Restricted Stock

In March 2003 our chief executive officer vested in 37,500 shares of restricted stock. To provide Mr. Bennett with the funds to pay the related payroll tax withholding obligation we repurchased 17,532 shares of common stock from him at $39.02 per share, the closing market price of Intuit stock on the date the restricted stock vested. This repurchase was approved by our Board of Directors.

In February 2004 our chief executive officer vested in 37,500 shares of restricted stock. To provide Mr. Bennett with the funds to pay the related payroll tax withholding obligations we repurchased 17,157 shares of common stock from him at $44.64 per share, the closing market price of Intuit stock on the date the restricted stock vested. This repurchase was approved by our Board of Directors.

20. Selected Quarterly Financial Data (Unaudited)

The following tables contain selected quarterly financial data for fiscal years 2003 and 2004. We accounted for the February 2003 sale of our Japanese subsidiary, Intuit KK, as discontinued operations and as a result the operating results of Intuit KK have been segregated from continuing operations in our financial statements and in these tables. See Note 9.

	Fiscal 2003 Quarter Ended			
	October 31	January 31	April 30	July 31
(In thousands, except per share amounts)				
Total net revenue	$ 212,872	$ 558,076	$ 634,698	$ 245,097
Cost of revenue	72,891	119,301	92,368	73,200
All other costs and expenses	235,438	268,096	233,803	212,414
Net income (loss) from continuing operations	(60,449)	125,371	222,968	(24,688)
Net income from discontinued operations	5,764	3,059	71,009	—
Net income (loss)	(54,685)	128,430	293,977	(24,688)
Basic net income (loss) per share from continuing operations	$ (0.29)	$ 0.61	$ 1.08	$ (0.12)
Basic net income per share from discontinued operations	0.03	0.01	0.35	—
Basic net income (loss) per share	$ (0.26)	$ 0.62	$ 1.43	$ (0.12)
Diluted net income (loss) per share from continuing operations	$ (0.29)	$ 0.59	$ 1.06	$ (0.12)
Diluted net income per share from discontinued operations	0.03	0.01	0.34	—
Diluted net income (loss) per share	$ (0.26)	$ 0.60	$ 1.40	$ (0.12)

	Fiscal 2004 Quarter Ended			
	October 31	January 31	April 30	July 31
(In thousands, except per share amounts)				
Total net revenue	$ 242,528	$ 636,289	$ 712,953	$ 275,893
Cost of revenue	77,927	118,580	99,493	79,053
All other costs and expenses	254,015	299,099	266,329	252,840
Net income (loss)	(53,965)	149,066	264,033	(42,104)
Basic net income (loss) per share	$ (0.27)	$ 0.75	$ 1.36	$ (0.22)
Diluted net income (loss) per share	$ (0.27)	$ 0.73	$ 1.33	$ (0.22)

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, 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
Year ended July 31, 2003				
Allowance for doubtful accounts	$ 5,696	$ 1,793	$ (2,080)	$ 5,409
Reserve for product returns	$ 32,095	$ 134,558	$ (132,247)	$ 34,406
Year ended July 31, 2004				
Allowance for doubtful accounts	$ 5,409	$ 6,050	$ (3,618)	$ 7,841
Reserve for product returns	$ 34,406	$ 165,131	$ (162,660)	$ 36,877

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

ITEM 9
CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A
CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Based on our management’s evaluation (with the participation of our principal executive officer and principal financial officer) of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as required by Rules 13a-15 and 15d-15 under the Exchange Act, as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during our fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10
DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Except for the information about our executive officers that can be found in Item 4A and information concerning our Business Conduct Guide as described below, the information required for this Item is incorporated by reference from our Proxy Statement to be filed for our December 2004 Annual Meeting of Stockholders.

We have adopted a code of ethics, which we call our Business Conduct Guide, that applies to all employees, including our principal executive officer, principal financial officer, principal accounting officer/controller, and persons performing similar functions. Our business conduct guide is filed as Exhibit 14.01 to this report. The Business Conduct Guide is also available on our Web site at http://www.intuit.com/about_intuit/investors/corporate_gov. We intend to post at this address any future amendments or waivers of our Business Conduct Guide that would otherwise be required to be disclosed in Form 8-K.

ITEM 11
EXECUTIVE COMPENSATION

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our December 2004 Annual Meeting of Stockholders.

ITEM 12
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our December 2004 Annual Meeting of Stockholders.

ITEM 13
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our December 2004 Annual Meeting of Stockholders.

ITEM 14
PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required for this Item is incorporated by reference from our Proxy Statement to be filed for our December 2004 Annual Meeting of Stockholders.

PART IV

ITEM 15
EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements — See Index to Consolidated Financial Statements in Part II, Item 8.

2. Financial Statement Schedules — See Index to Consolidated Financial Statements in Part II, Item 8.

3. Exhibits

			Incorporated by Reference		
Ex. No.	Exhibit Description	Filed with this 10-K	Form	File No.	Date Filed
3.01	Restated Intuit Certificate of Incorporation, dated as of January 19, 2000		10-Q		06/14/00
3.02	Third Amended and Restated Rights Agreement, dated as of January 30, 2003		8-A/A	000-21180	02/18/03
3.03	Bylaws of Intuit, as amended and restated effective May 1, 2002		10-Q		05/31/02
4.01	Form of Specimen Certificate for Intuit's Common Stock		10-K		09/25/02
4.02	Form of Right Certificate for Series B Junior Participating Preferred Stock (included in Exhibit 3.02 as Exhibit B)		8-A/A	000-21180	02/18/03
10.01+	Intuit 2002 Equity Incentive Plan and related plan documents, as amended through July 30, 2003		10-K		9/19/03
10.02+	Intuit 1993 Equity Incentive Plan, as amended through January 16, 2002		10-Q		02/28/02
10.03+	Intuit 1996 Employee Stock Purchase Plan, as amended through October 30, 2003		10-Q		12/05/03
10.04+	Intuit 1996 Directors Stock Option Plan and forms of Agreement, as amended by the Board on January 30, 2003		10-Q		02/28/03
10.05+	Intuit 1998 Option Plan for Mergers and Acquisitions and form of Agreement, as amended through July 29, 2003		10-K		9/19/03
10.06+	Intuit Form of Amendment to All Stock Options Outstanding at February 19, 1999		10-K		10/12/99
10.07+	Intuit Performance Incentive Plan, effective August 1, 2002		10-K		09/25/02
10.08+	Intuit Executive Deferred Compensation Plan, effective March 15, 2002		10-Q		05/31/02
10.09+	Intuit Senior Executive Incentive Plan adopted on December 12, 2002		DEF 14A Appendix 3		10/23/02
10.10+	Form of Indemnification Agreement entered into by Intuit with each of its directors and certain officers		10-K		09/25/02
10.11+	Form of Stock Bonus Agreement (Matching Unit) under the Intuit 2002 Equity Incentive Plan related to the Executive Stock Ownership Program		10-Q		12/05/03
10.12+	Amended and Restated Employment Agreement between Intuit and Stephen M. Bennett, dated July 30, 2003		8-K		08/01/03
10.13+	Restricted Stock Purchase Agreement, with respect to 150,000 shares of Intuit Common Stock between Intuit and Stephen M. Bennett, dated January 24, 2000		S-8	333-51700	12/12/00

10.14+	Restricted Stock Purchase Agreement, with respect to 75,000 shares of Intuit Common Stock between Intuit and Stephen M. Bennett, dated January 24, 2000		S-8	333-51700	12/12/00
10.15+	Amendment No. 1 to Restricted Stock Purchase Agreement, with respect to 150,000 shares of Intuit Common Stock dated January 24, 2000 between Intuit and Stephen M. Bennett, dated January 17, 2001		10-Q		06/13/01
10.16+	Amendment No. 1 to Restricted Stock Purchase Agreement, with respect to 75,000 shares of Intuit Common Stock dated January 24, 2000 between Intuit and Stephen M. Bennett, dated January 17, 2001		10-Q		06/13/01
10.17+	Amended and Restated Secured Balloon Payment Promissory Note between Intuit and Stephen M. Bennett, dated November 26, 2001		10-Q		02/28/02
10.18+	Amended and Restated Secured Full Recourse Balloon Payment Promissory Note (and related Stock Pledge Agreement) between Intuit and Stephen M. Bennett, dated February 19, 2002		10-Q		02/28/02
10.19+	Share Repurchase Agreement between Intuit and Stephen M. Bennett, dated March 27, 2003		10-Q		05/30/03
10.20+	2002 Equity Incentive Plan Stock Bonus Award Agreement between Intuit and Stephen M. Bennett dated July 30, 2003		10-K		9/19/03
10.21+	Share Repurchase Agreement dated February 23, 2004 between Intuit and Stephen M. Bennett		10-Q		06/14/04
10.22+	Amended and Restated Employment Agreement between Intuit and Lorrie M. Norrington, dated July 31, 2003		10-K		9/19/03
10.23+	Secured Balloon Payment Promissory Note for the principal amount of $5,500,000 between Intuit and Lorrie Norrington, dated May 20, 2002		10-K		09/25/02
10.24+	Secured Balloon Payment Bridge Loan Promissory Note for the principal amount of $1,000,000 between Intuit and Lorrie Norrington, dated May 20, 2002		10-K		09/25/02
10.25+	Lorrie Norrington Long Term Compensation Program dated December 18, 2003		10-Q		03/09/04
10.26+	Employment Agreement between Intuit and Robert “Brad” Henske, dated December 30, 2002		10-Q		02/28/03
10.27+	Employment Agreement between Intuit and Richard William Ihrie, dated October 14, 2000		10-K		10/05/01
10.28+	Amended and Restated Secured Balloon Payment Promissory Note for the principal amount of $1,800,000 between Intuit and Richard W. Ihrie, dated November 26, 2001		10-Q		02/28/02
10.29+	Employment Agreement between Intuit and Raymond Stern, dated October 23, 1997	X			
10.30+	Director Compensation Agreement between Intuit and Dennis D. Powell, dated February 11, 2004		10-Q		06/14/04
10.31#	Amended & Restated Services Agreement between Intuit and Ingram Micro Inc. dated September 11, 2001		10-Q		12/07/01
10.32#	Master Agreement between Intuit and Modus Media International, Inc. dated November 1, 2000, as amended on August 27, 2001		10-Q		12/07/01
10.33	Master Services Agreement between Intuit and Arvato Services, Inc., dated May 28, 2003		10-K		9/19/03

10.34	Lease Expiration Advancement Agreement effective July 31, 2003 between Intuit and Charleston Properties for 2475, 2500, 2525, 2535 and 2550 Garcia Avenue and 2650, 2675, 2700 and 2750 Coast Avenue, Mountain View, CA		10-K	9/19/03
10.35	Lease Agreement dated as of July 31, 2003 between Intuit and Charleston Properties for 2475, 2500, 2525, 2535 and 2550 Garcia Avenue, Mountain View, CA		10-K	9/19/03
10.36	Lease Agreement dated as of July 31, 2003 between Intuit and Charleston Properties for 2650, 2675, 2700 and 2750 Coast Avenue and 2600 Casey Avenue, Mountain View, California		10-K	9/19/03
10.37	Lease Agreement dated as of March 29, 1999 between Intuit and various parties as Landlord for 2632 Marine Way, Mountain View, California		10-K	10/13/01
10.38	Build-to-Suit Lease Agreement dated as of June 9, 1995 between Intuit and Kilroy Realty Corporation, successor to UTC Greenwich Partners, a California limited partnership for 6200 and 6220 Greenwich, San Diego, California	X		
10.39	Amendment to Lease Agreement dated as of June 9, 1995, dated April 14, 1998 between Intuit and Kilroy Realty L.P., successor to UTC Greenwich Partners, L.P.		10-K	10/6/98
10.40	Consent to Sublease Agreement dated March 31, 2000 among Intuit as subtenant, Spieker Properties, L.P. and Franklin Templeton Corporate Services, Inc. for Eastgate Mall, San Diego, California		10-Q	06/14/00
10.41	Build-to-Suit Lease Agreement dated as of April 8, 1998, between Intuit and TACC Investors, LLC for property located at 2800 East Commerce Center Place, Tucson, Arizona		10-K	10/06/98
10.42	Lease Agreement dated August 16, 2002 between Intuit and Pegasus Aviation, Inc. for property located at 6550 S. Country Club Road, Tucson, Arizona		10-K	9/19/03
10.43	Subordination Agreement; Acknowledgment of Lease Assignment, Estoppel, Attornment and Non-Disturbance Agreement dated August 22, 2002 among Intuit, Pegasus Aviation, Inc., and Bank One, Arizona, N.A.		10-K	9/19/03
10.44	Lease Agreement dated as of June 1, 1993 between Intuit as successor in interest to Computing Resources, Inc. who is successor in interest to Pioneer Bank and Dermody Properties for 5400 Equity Avenue, Reno, Nevada		10-K	10/12/99
10.45	Lease Agreement dated as of January 1, 1994 between Intuit as successor in interest to Computing Resources, Inc. and 1285 Financial Boulevard, Inc. for 1285 Financial Boulevard, Reno, Nevada		10-K	10/12/99
10.46	Sublease Agreement and Amendments between Lacerte Software Corporation and Oryx Energy Company for 13155 Noel Road, Suite 2200, Dallas, Texas		10-K	10/12/99
10.47	Office Lease Agreement dated February 22, 2000 between Lacerte Software Corporation and KCD-TX 1 Investment Limited Partnership for office space in Plano, Texas		10-Q	06/14/00

10.48	Assignment and Assumption of Lease dated as of September 27, 2002 between KCD-TX I Investment Limited Partnership and Wells Operating Partnership, L.P., re office space in Plano, Texas		10-K	9/19/03
14.01	Code of Ethics: Intuit Business Conduct Guide adopted July 31, 2003, and as amended through May 4, 2004		8-K	05/07/04
21.01	List of Intuit's Subsidiaries	X		
23.01	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm	X		
24.01	Power of Attorney (see signature page)	X		
31.01	Certification of Chief Executive Officer	X		
31.02	Certification of Chief Financial Officer	X		
32.01	Section 1350 Certification (Chief Executive Officer)	X		
32.02	Section 1350 Certification (Chief Financial Officer)	X		

+ Indicates a management contract or compensatory plan or arrangement

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

(b) Reports on Form 8-K filed during the fourth quarter of fiscal 2004:

On May 7, 2004, Intuit filed a report on Form 8-K to report under Item 7 and Item 10 to disclose revision of Section 5 of its Business Conduct Guide, which describes specific obligations of its Senior Executive and Financial Officers. The revised section (now Section 6) clarifies that the Business Conduct Guide meets all of the requirements for a Code of Ethics for Senior Executive and Financial Officers (as defined in S-K Item 406(b)), and that Intuit therefore has not established any additional standards of conduct for its Senior Executive and Financial Officers. Intuit Inc.'s Business Conduct Guide, as amended through May 4, 2004 was included in the 8-K.

On May 19, 2004, Intuit furnished a report on Form 8-K to report under Item 12 its financial results for the quarter ended April 30, 2004, and to list under Item 7 a press release provided with the filing. Intuit's balance sheet and statement of operations for the three and nine months ended April 30, 2004 were included with the press release that is an exhibit to the report.

(c) Exhibits

See Item 15(a)(3) above.

(d) Financial Statement Schedules

See Item 15(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

INTUIT INC.

Dated: September 24, 2004

By: /s/ ROBERT B. HENSKE
Robert B. Henske
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

POWER OF ATTORNEY

By signing this Form 10-K below, I hereby appoint each of Stephen M. Bennett and Robert B. Henske as my attorney-in-fact to sign all amendments to this Form 10-K on my behalf, and to file this Form 10-K (including all exhibits and other documents related to the Form 10-K) with the Securities and Exchange Commission. I authorize each of my attorneys-in-fact to (1) appoint a substitute attorney-in-fact for himself and (2) perform any actions that he believes are necessary or appropriate to carry out the intention and purpose of this Power of Attorney. I ratify and confirm all lawful actions taken directly or indirectly by my attorneys-in-fact and by any properly appointed substitute attorneys-in-fact.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
Principal Executive Officer: /s/ STEPHEN M. BENNETT Stephen M. Bennett	President, Chief Executive Officer and Director	September 24, 2004
Principal Financial Officer: /s/ ROBERT B. HENSKE Robert B. Henske	Senior Vice President and Chief Financial Officer	September 24, 2004
Principal Accounting Officer: /s/ DOROTHY D. HAYES Dorothy D. Hayes	Vice President, Corporate Controller	September 24, 2004
Additional Directors: /s/ CHRISTOPHER W. BRODY Christopher W. Brody	Director	September 24, 2004
/s/ WILLIAM V. CAMPBELL William V. Campbell	Chairman of the Board of Directors	September 24, 2004
/s/ SCOTT D. COOK Scott D. Cook	Director	September 24, 2004
/s/ L. JOHN DOERR L. John Doerr	Director	September 24, 2004
/s/ DONNA L. DUBINSKY Donna L. Dubinsky	Director	September 24, 2004
/s/ MICHAEL R. HALLMAN Michael R. Hallman	Director	September 24, 2004
/s/ DENNIS D. POWELL Dennis D. Powell	Director	September 24, 2004
/s/ STRATTON SCLAVOS Stratton Sclavos	Director	September 24, 2004

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
10.29+	Employment Agreement between Intuit and Raymond Stern, dated October 23, 1997
10.38	Build-to-Suit Lease Agreement dated as of June 9, 1995 between Intuit and Kilroy Realty Corporation, successor to UTC Greenwich Partners, a California limited partnership for 6200 and 6220 Greenwich, San Diego, California
21.01	List of Intuit's Subsidiaries
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31.02	Certification of Chief Financial Officer
32.01	Section 1350 Certification (Chief Executive Officer)
32.02	Section 1350 Certification (Chief Financial Officer)

+ Indicates a management contract or compensatory plan or arrangement

EXHIBIT 10.29

[INTUIT LETTERHEAD]

October 23, 1997

Raymond C. Stern

Dear Raymond,

We are thrilled to extend to you this offer of Intuit employment as Senior Vice President, Finance and Administration reporting to me. Below are the terms of our offer.

Monthly Salary	$22,916.67 ($275,000 annually).
Performance-Sharing	You will also participate in Intuit's employee performance-sharing program. Performance-sharing payments are made semi-annually to employees in good standing. Performance sharing depends on the company's growth and profitability.
Annual Variable Bonus Program	You will also participate in the Annual Variable Bonus Program. In addition to Performance and Profit Sharing, the Annual Variable Bonus program will pay 40% of your cumulative FY98 base salary at target. Payouts are tied to the achievements of the Company and individual objectives. (You must be an employee of the company for at least 90 days of the fiscal year and an employee on the last day of the fiscal year to be eligible for a bonus payment.)
Equity	You will receive rights, subject to approval by Intuit's Board of Directors, to purchase 100,000 shares of Common Stock in the form of non-qualified stock options in the Intuit Inc. at an exercise price not less than the fair market value of Intuit's Common Stock on the date of grant by the Board. Your stock will vest 25% upon hire date and then monthly until fully vested on the third anniversary of your start date. Such options shall be subject to the terms of the Intuit Inc. 1993 Equity Incentive Plan. New hire options are normally approved on the third Monday of the month in which the employee begins work at Intuit. The beginning of the vesting period coincides with the first day of Intuit employment. However, the option price is the close of market price of Intuit's publicly traded stock on the day the option is approved.

401k

Intuit will match $.75 for every $1.00 you contribute, up to $1,500 per year into a 401k account.

Signing/Relocation Bonus

Intuit is pleased to offer you a one time signing and relocation bonus of $125 000 payable once you commence employment with us. If you leave Intuit voluntarily, or involuntarily for reasons of "cause" (breach of Intuit policy and/or any criminal or fraudulent activity) within twelve (12) months of your hire date, you agree to reimburse Intuit 1-12 of your bonus for each month of service less than 12 months.

Paid Vacation

You will accrue three (3) weeks vacation. Your vacation will accrue at the rate of 4.62 hours per pay period (bi-weekly).

Performance/Salary Reviews

Performance and Salary reviews are conducted at least once per year.

Insurance

You will be covered by the company's group health, life and dental insurance plans. Coverage will begin the first day of your employment. Intuit provides life insurance of 2 times annual salary to a maximum of $500,000. Intuit will pay for additional coverage up to $1,000,000 coverage, subject to insurability.

Start Date

I anticipate that your start date will be as soon as possible after receipt of this of this offer. Please confirm the specific date.

Confidentiality

Compensation information is confidential. Please do not share these arrangements with others.

This letter confirms our trade standing mat you are not subject to any employment agreement that would preclude us from offering this position to you or your joining our organization. This also confirms that you will not be asked to disclose to us any secrets or your prior places of employment. In addition, you will agree to execute a non-disclosure agreement as a condition of employment

This letter also confirms the understanding that employment at Intuit is at the mutual consent of you and Intuit, and is at will in nature and can be terminated at anytime by yourself or Intuit.

You will be required to show proof of citizenship, permanent residency in the United States, or authorization to work in the United States, when you begin working at Intuit. We will be asking for these documents during the Orientation on the Monday on or following your first day of work. If you have any questions regarding benefits or which documents are required, please feel free to contact Fred Kaseman at 415-944-6605 or Lynette Hamel, Sr. Benefits Specialist at 415-944-3078.

Please review these terms to make sure they are consistent with your understanding. If so, please sign and date both copies of this letter and confirm your planned start date. The original of this letter is for your records; return the copy to me as soon as you can.

Again, we very much look forward to your joining the Intuit team.

Sincerely,

/s/ WILLIAM V. CAMPBELL

William V. Campbell

President, CEO

Accepted: ____________________________ Date: ____________

Start Date: ____________________________

Exhibit 10.38

BUILD-TO-SUIT LEASE

BETWEEN

UTC GREENWICH PARTNERS,
a California limited partnership

and

INTUIT, INC.,
a Delaware corporation

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BUILD-TO-SUIT LEASE

THIS BUILD-TO-SUIT LEASE (“Lease”) dated June 9, 1995, is entered into by and between UTC GREENWICH PARTNERS, a California limited partnership, or assignee (“Landlord”), and INTUIT, INC., a Delaware corporation (“Tenant”).

1. Demised Premises.

1.1. Upon and subject to the conditions and limitations set forth below, Landlord undertakes to construct and leases to Tenant, and Tenant rents from Landlord, certain improvements which are to be constructed by Landlord on approximately 9.24 acres of land known as Lots 18 & 19 of Governor Park which are located on Greenwich Drive, San Diego, California, in an area known as Governor Park (the “Land”). The Land is legally described in Exhibit “A”, attached hereto and incorporated herein by reference.

1.2. The improvements are presently expected to consist of a two-story building approximately 140,000 square feet of Gross Area in size (the “Building”) and other associated improvements, including, without limitation, all landscaped areas, parking facilities, open parking areas, open space, slope embankment areas, and other improvements and hardscape, driveways, sidewalks, drainage, irrigation, lighting and appurtenances related thereto, (together with the Building referred to herein as the “Improvements”). For purposes of this Lease, the terms “Rentable Area” and “Usable Area” shall have the meanings ascribed to them in the Standard Method for Measuring Floor Area in Office Buildings published by the Building Owners and Managers Association International (“BOMA”) and the term “Gross Area” shall mean the floor areas to the outside finished surface of permanent outer Building walls, where such walls intersect each floor, without deduction for columns, projections or vertical penetrations such as stairs, elevator shafts, flues, pipe shafts, vertical ducts and the like and their enclosing walls.

1.3. A preliminary site plan depicting the Land, the Building and the Improvements (the “Site Plan”) is attached hereto as Exhibit “B,” The Land, the Building and the Improvements, are hereinafter referred to collectively as the “Demised Premises.”

2. Basic Lease Provisions. For the convenience of the parties, certain basic provisions of this Lease are set forth herein. The provisions set forth herein are subject to the remaining terms and conditions of this Lease and are to be interpreted in light of such remaining terms and conditions:

2.1. **Location of the Demised Premises:**
Governor Park, Greenwich Drive,
San Diego, California.

2.2. **Description of the Building:** A two (2) - story office building approximately 140,000 square feet in Gross Area in size.

2.3. **Estimated Term Commencement Date:** One (1) year after the date of this Lease.

2.4. **Term:** The term of this Lease shall be eight (8) years commencing on the Term Commencement Date, plus any partial calendar month following the Term Commencement Date, if the Term Commencement Date is other than the first day of a calendar month (the "Initial Term"). (See Section 4.2)

Extension: In addition, Tenant shall twice have the option of extending the Term for five (5) years, (See Section 4.3)

2.5. **Annual Rent:** Annual Rent payable by Tenant to Landlord under this Lease is the following: Monthly

		Monthly
Months 01 - 30	$1,420,906	$118,408.83
Months 31 - 60	1,527,474	$127,289.50
Months 61 - 90	1,642,034	$136,836.17
Months 91 - 96	1,765,186	$147,098.83

Rental Adjustment: The Annual Rent, as scheduled above, has been calculated based on the assumption that (i) the Building will be 140,000 square feet in Gross Area, (ii) the Total Project Cost of the construction of the Demised Premises, including the Tenant Improvements (but excluding the Additional Tenant Improvements), will equal Ten Million Eight Hundred Eight Thousand Dollars ($10,808,000), and (iii) the Land Cost, for purposes of calculating Annual Rent, will be set at Two Million Five Hundred Thousand Dollars ($2,500,000). Once construction of the Demised Premises, including the Tenant Improvements, has been completed, and the Total Project Cost has been determined, the Annual Rent shall be adjusted in accordance with Section 6.4 of this Lease.

Option Term Annual Rent: If Tenant exercises its option to extend the Term of the Lease, the Annual Rent at the commencement of each Option Term shall be the greater of (i) ninety-five percent (95 %) of the then Fair Market Rental Value of the Demised Premises, as then configured, or (ii) the Annual Rent during the most recent year of the Term. The Annual Rent shall be increased in the twenty-fifty (25th) month and the fifty-fifth (55th) month of each Option Term by seven and one-half percent (7.5%).

2.6. **Right to Vacate:** On the sixtieth (60th) month of the Term, Tenant shall be entitled to vacate all or some (but in no event less than 10,000 contiguous square feet of Rentable Area) of the "Contraction Space" as identified on Exhibit "B-2" to this Lease, subject to the payment to Landlord of a sum calculated as provided in Section 4.4, below.

2.7. Address for Rent Payment and Notices to Landlord:

UTC Greenwich Partners,
a California limited partnership
c/o The Allen Group
1029 North Demaree
Visalia, CA 93291-4117
or
Post Office Box 3028
Visalia, CA 93278-3028

Address for Notices to Tenant:

Intuit, Inc.
6256 Greenwich Drive
San Diego, CA 92122
Attention: Ms. Lynette Bergamini
Facilities Manager

With copies to (which copies shall not constitute notice and
which shall not be required for effective notice to
be given):

Intuit, Inc.
P.O. Box 3014, MS 246
Menlo Park, CA 94026-3014
Attention: Mr. Jade Dauser

Intuit, Inc.
MS 184 - Legal Department
P.O. Box 3014
Menlo Park, CA 94026-3014
Attention: Catherine Valentine, Esq.
General Counsel

2.8. The following Exhibits are attached hereto and incorporated herein by this reference, and Landlord and Tenant hereby agree to the terms of these Exhibits:

Exhibit	Title
"A"	Legal Description of Land
"B"	Site Plan
"C"	Work Letter
"D"	Multi-Tenant Addendum
"E"	Acknowledgment of Term Commencement Date and Annual Rent Form

Exhibit	Title
"F"	Form of Subordination, Non-Disturbance and Attornment Agreement
"G"	Form of Estoppel Certificate

3. Construction of Improvements. Landlord owns the Land and agrees to construct the Improvements at its cost and expense and in accordance with the terms and provisions of this Lease, including the Work Letter Agreement for Improvements (the "Work Letter"), which is attached to this Lease as Exhibit "C". The Improvements shall be constructed in a good, workmanlike manner and substantially in accordance with the Improvement Plans created in accordance with the provisions of the Work Letter, Applicable Laws (as defined in Section 7.1 of this Lease) and Instruments of Record (as defined in Section 7.1 of this Lease).

3.1. Time for Commencement and Completion.

3.1.1. Completion Date. Landlord shall use reasonable diligence to commence construction of the Improvements within three (3) calendar months after finalization of the Schematic Design Drawings (as defined in Section I.D.2. of the Work Letter), and to substantially complete such construction within nine (9) calendar months after Landlord obtains the Building Permit (as defined in Section I.F. of the Work Letter) (the "Target Completion Date").

3.1.2. Substantial Completion. The Improvements shall be deemed "substantially complete" on the date when (and the terms "substantial completion," "substantially complete," and "substantially completed" shall mean) (i) the Project Architect (as defined in Section I.A.1 of the Work Letter) has certified that construction of the Improvements is substantially complete in accordance with the Improvement Plans (as defined in Section I.B.4 of the Work Letter), (ii) Tenant can physically and legally occupy the Demised Premises (e.g. a temporary or permanent Certificate of Occupancy ("Certificate of Occupancy") has been issued for the Demised Premises by the City of San Diego ("City")), and (iii) all parking areas and related driveways and sidewalks on the Demised Premises are substantially available for Tenant's use, all subject to minor punch-list items (as described in Section I.G.8 of the Work Letter) that may still need to be corrected. Landlord shall deliver to Tenant a copy of any Certificate of Occupancy issued by City for the Demised Premises. The Project Architect shall determine said "substantial completion" based upon the generally accepted professional standards of the American Institute of Architects, and not as an advocate, consultant, or agent for either Tenant or Landlord.

3.2. Delays.

3.2.1. Finalized Target Completion Date. No later than eight (8) months prior to the Estimated Term Commencement Date, Landlord shall deliver to Tenant a written notice setting a definitive Target Completion Date and which shall, thereafter, remain the Target Completion Date for purposes of this Section 3.2.

3.2.2. Length of Delay; Tenant's Right to Terminate. In the event the Term Commencement Date has not occurred (or been deemed to have occurred pursuant to Section 5.2(iii) of this Lease) on or before the Target Completion Date, Landlord shall not be liable for any damage caused thereby and this Lease shall remain in full force and effect, provided, however, that, subject to Section 27 of this Lease, if the construction of the Improvements is not substantially completed within fifteen (15) months after Landlord obtains the Building Permit, then Tenant may, within thirty (30) days following the end of such fifteen (15) month period (provided that no Event of Default then exists), give Landlord written notice that it desires to terminate this Lease, in which case this Lease shall terminate thirty (30) days thereafter; provided, however, if the Improvements are substantially complete, as defined in Section 3.1.2, above, by the end of such thirty (30) day period following notice to Landlord, this Lease shall remain in full force and effect.

3.2.3. Delay Penalty. In the event the Term Commencement Date has not occurred (or been deemed to have occurred pursuant to Section 5.2(iii) of this Lease) on or before the Target Completion Date, plus up to an additional thirty (30) days for Force Majeure Delays, Landlord shall pay to Tenant, as liquidated damages, the sum of One Thousand Dollars ($1,000) per day until the earlier to occur of (i) the date three (3) months thereafter, or (ii) the Term Commencement Date and, thereafter, if the Term Commencement Date has not yet occurred, the sum of Five Thousand Dollars ($5,000) per day for each day after such three (3) month period until the Term Commencement Date or this Lease is otherwise terminated.

3.2.4. Landlord's Right to Terminate. Subject to Section 27 of this Lease, if the Term Commencement Date has not occurred (or been deemed to have occurred pursuant to Section 5.2(iii) of this Lease) on or before one (1) year after the Target Completion Date, and Tenant has not otherwise terminated this Lease pursuant to Section 3.2.2, above, then Landlord may, at any time thereafter, give Tenant written notice of Landlord's intention to terminate this Lease, which notice shall specifically include a statement that Tenant has ten (10) days in which to respond in accordance with this Section 3.2.4. Upon receipt of such notice, Tenant may, by providing Landlord written notice within ten (10) days after such notice, elect either to (i) keep the Lease in effect, in which case the liquidated damages provided for in Section 3.2.3, above, shall immediately cease being assessed against Landlord, or (ii) terminate this Lease, in which case this Lease shall immediately terminate and neither Landlord nor Tenant shall have any further rights hereunder. Failure of Tenant to make an election between subsections (i) and (ii), above, within such ten (10) day period shall be deemed an election under subsection (i).

3.2.5. Notification of Delays. Following the execution of this Lease, and until substantial completion of the Improvements, Landlord shall provide Tenant, on a monthly basis, a written statement of the number of days of Force Majeure Delay or Tenant-Caused Delay which occurred during the prior month and since the execution of this Lease. This statement shall be delivered together with the statement required to be delivered pursuant to Section 5.2.1.

4. Lease; Term Additional Improvements; Signage.

4.1. Immediate Effect of Lease. This Lease shall take effect upon the date of execution hereof by both parties hereto and, except as specifically provided otherwise herein, each of the provisions hereof shall be binding upon and inure to the benefit of Landlord and Tenant thereafter.

4.2. Lease Term. The term of this Lease (the “Term”) shall be eight (8) years from the Term Commencement Date (as defined in Section 5.2, below), plus any period extending from the end of the Term until the last day of the calendar month in which the Term would otherwise expire, subject to extension pursuant to Section 4.3, below. For example only, if the Term Commencement Date were April 15, 1996, the Term would expire on April 30, 2004.

4.3. Option to Extend. Tenant shall have two (2) options to extend (“Extension Option”) the Term for a period of five (5) years each (the foregoing option terms (or either of them) shall be referred to hereinafter sometimes individually or collectively as the “Option Term”), in accordance with the following terms and conditions:

4.3.1. Option Term Rent. The Annual Rent during each Option Term (the “Option Term Annual Rent”) shall be determined as follows:

(a) At the commencement of each Option Term the Option Term Annual Rent shall be an amount equal to the greater of (i) ninety-five percent (95 %) of the then Fair Market Rental Value of the Demised Premises as then configured (the “Fair Market Rental Value”), as stated on an annual basis and determined pursuant to Section 4.3.3, below and (ii) the Annual Rent for the Demised Premises which was in effect immediately prior to the commencement of the Option Term in question. Tenant shall also continue to pay during any Option Term all Operating Expenses and Additional Rent as required in this Lease.

(b) On the first day of the twenty-fifth (25th) and the fifty-fifth (55th) month of any Option Term, the Annual Rent shall increase to an amount equal to the product of (i) the then applicable Annual Rent for the Demised Premises and (ii) 1.075.

4.3.2. Exercise of Option. Tenant may exercise the Extension Option only by delivering a binding written notice of exercise to Landlord (“Tenant’s Extension Notice”), so that Landlord receives Tenant’s Extension Notice at least three hundred sixty (360) days prior to the commencement of the Option Term in question. Tenant may not exercise the Extension Option if an uncured Event of Default exists at the time for such exercise.

4.3.3. Determination of Fair Market Rental Value. Upon receipt by Landlord of Tenant’s Extension Notice under Section 4.3.2, above, Landlord and Tenant shall meet in an effort to negotiate, in good faith, the Option Term Annual Rent which will become effective, as of the first day of the Option Term (the “Option Term Commencement Date”). If Landlord and Tenant have not agreed upon the Option Term Annual Rent within fifteen (15) days after the delivery of Tenant’s Extension Notice, the Option Term Annual Rent shall be determined as follows:

(a) Landlord and Tenant shall attempt to agree in good faith upon a single appraiser not later than one (1) month after delivery of Tenant’s Extension Notice. If

Landlord and Tenant are unable to agree upon a single appraiser within such time period, then Landlord and Tenant shall each appoint one appraiser not later than fifteen (15) days after the deadline for selecting a single appraiser. Landlord and Tenant shall each give written notice to the other as to the name of the appraiser it has selected, as soon as the selection is made. Within ten (10) days thereafter, the two appointed appraisers shall appoint a third appraiser. All appraisers shall be independent from, and disinterested in, both Landlord and Tenant.

(b) The only task which the appraisers will perform will be forming and reporting to Landlord and Tenant an opinion of the Fair Market Rental Value of the Demised Premises for use in determining the Option Term Annual Rent.

(c) If either Landlord or Tenant fails to appoint its appraiser within the prescribed time period, the single appraiser appointed shall determine the Fair Market Rental Value of the Demised Premises. If both parties fail to appoint appraisers within the prescribed time periods, then the first appraiser thereafter selected by a party shall determine the Fair Market Rental Value of the Demised Premises.

(d) Each party shall bear the cost of its own appraiser and the parties shall share equally the cost of any single or third appraiser, if applicable. All appraisers so designated herein shall have at least five (5) years' experience in the appraisal of commercial office properties in the San Diego area and shall be members of professional organizations such as MAI or its equivalent.

(e) For the purpose of such appraisal and this Section 4.3.3, the term "Fair Market Rental Value" shall mean the price that a ready and willing single tenant would pay, as of the Option Term Commencement Date, as annual rent to a ready and willing landlord of a comparable property to the Demised Premises on the terms of this Lease, if such property were exposed for lease on the open market for a reasonable period of time, and taking into account all of the purposes for which such property may be legally used. A "comparable property" shall mean a commercial office facility located in the Golden Triangle, Sorrento Hills, Sorrento Mesa, Torrey Pines and Del Mar Heights areas of San Diego (collectively the "North City Area"), with improvements similar in age and character to the Demised Premises, which has been improved with the tenant improvements comparable to those constructed in the Demised Premises; provided, however, that the appraisal shall disregard the value of the equipment which Tenant is entitled to remove at the expiration or termination of the Term of this Lease. The appraiser shall give appropriate consideration to all relevant factors, including, without limitation, (i) the fact that this Lease is a "triple net" lease, (ii) rental concessions and tenant improvement allowances generally being offered by landlords of comparable properties, (iii) the age of the Improvements, (iv) the condition of the Demised Premises on the assumption that Tenant has complied with its obligations to maintain and repair the Demised Premises, (v) current rental market conditions and the alternative uses and users for the Demised Premises, and (vi) whether Landlord will or will not be required to pay a real estate brokerage commission in connection with Tenant's exercise of the Extension Option.

(f) If a single appraiser is chosen, then such appraiser shall determine the Fair Market Rental Value of the Demised Premises. Otherwise, the Fair Market

Rental Value of the Demised Premises shall be the arithmetic average of the two (2) appraisals which are closest in amount, and the third appraisal shall be disregarded.

(g) Landlord and Tenant shall instruct the appraiser(s), in writing, to complete their written determination of the Fair Market Rental Value not later than nine (9) months prior to the Option Term Commencement Date. If the Fair Market Rental Value is not determined prior to the Option Term Commencement Date, then Tenant shall continue to pay Landlord monthly installments of Annual Rent in the amount applicable to the Demised Premises immediately prior to the Option Term Commencement Date until the Fair Market Rental Value is determined. When the Fair Market Rental Value of the Demised Premises is determined, Landlord shall deliver notice thereof to Tenant, and Tenant shall pay to Landlord, or Landlord shall pay to Tenant, as the case may be, within ten (10) days after receipt of such notice, the difference between the monthly installments of Annual Rent actually paid by Tenant to Landlord subsequent to the Option Term Commencement Date and the new monthly installments of Annual Rent which are determined to have been actually owing during such period in accordance with Section 4.3.1 (a).

(h) On or before the date eight (8) months prior to the Option Term Commencement Date, or if earlier, ten (10) days after the final determination of the Option Term Annual Rent, Tenant may elect to rescind its Tenant’s Extension Notice to Landlord under Section 4.3.2 of this Lease by delivering a binding written notice of rescission to Landlord. Should Tenant so elect, Tenant shall immediately reimburse Landlord for any expenses reasonably incurred by Landlord in accordance with this Section 4.3.3. If Tenant does not rescind its Tenant’s Extension Notice as provided in this subsection (h), Tenant’s Extension Notice shall thereafter be irrevocable. Notwithstanding the foregoing, if the final determination of the Option Term Annual Rent has not been made by the date eight (8) months prior to the Option Term Commencement Date due solely to Landlord’s failure to timely follow the procedure described in this Section 4.3.3, then Tenant shall have until ten (10) days after the final determination of the Option Term Annual Rent to rescind its Tenant’s Extension Notice.

4.4. Tenant’s Option to Vacate. On the first day of the sixtieth (60th) month of the Term (“Contraction Date”), Tenant shall have the right to vacate all or some (but in no event less than 10,000 contiguous square feet of Rentable Area) of the “Contraction Space” as identified in the Site Plan attached to this Lease as Exhibit “B-2.” In order to exercise the right to vacate described in this Section 4.4, Tenant shall have delivered written notice to Landlord (“Contraction Notice”), not less than 360 days prior to the Contraction Date, advising Landlord of Tenant’s intention to vacate some or all of the Contraction Space, and identifying with specificity the portion (if less than all) of the Contraction Space Tenant intends to vacate. The Contraction Notice shall be accompanied by payment, in cash, of a fee equal to eighty percent (80%) of the then net present value of the Annual Rent which Tenant would have owed for the Contraction Space during the balance of the Term (excluding any Option Term). The net present value shall be calculated using a ten percent (10%) interest rate. In the event Tenant exercises its rights under this Section 4.4 and vacates a portion of the Demised Premises, the provisions of the “Multi-Tenant Addendum”, attached to this Lease as Exhibit “D” shall apply and shall, to the extent contradictory of other provisions of this Lease, govern the matters addressed in such addendum, The provisions of this Section 4.4 shall not apply so long as an uncured Event of

Default exists. Should Tenant fail or be disabled from exercising its rights under, and in strict compliance with, this Section 4.4, Tenant shall have no further rights to vacate the Contraction Space or any other portion of the Demised Premises.

4.5. Tenant's Opportunity to Lease Additional Improvements. During the first eighteen (18) months of the Term, Landlord shall not be entitled to construct buildings or other permanent improvements intended for occupancy or storage (e.g. excluding landscaping, associated hardscape, sidewalks and parking areas) on the Land, other than the Improvements. Thereafter, Landlord may at any time during the Term elect to proceed with the construction and leasing of an additional office building or buildings on the Land (the "Additional Improvements") in Landlord's sole and absolute discretion, subject to the following limitations:

4.5.1. The construction of the Additional Improvements shall not result in the reduction of the parking spaces available for Tenant's non-exclusive use to an amount less than the number of parking spaces contained within the Demised Premises as of the Term Commencement Date.

4.5.2. Provided that no uncured Event of Default then exists, before offering the Additional Improvements for lease to another tenant, Landlord shall offer to Tenant, in writing ("Landlord's Lease Offer Notice"), the opportunity to lease some or all (but not less than 10,000 square feet of Rentable Area) of the Additional Improvements (the "Additional Premises");

4.5.3. Landlord's Lease Offer Notice shall be on the same terms and conditions under which Tenant is then leasing the Demised Premises, except that:

(a) the Annual Rent for the Additional Premises (the "Additional Premises Rent") shall be the greater of (i) the Annual Rent then applicable to the Demised Premises (as calculated on a per-square-foot-of-Rentable-Area basis) and (ii) an amount equal to the sum of (1) the product of (a) the Total Project Costs incurred by Landlord in the construction of the Additional Improvements, and (b) .11 (adjusted on a pro rata basis to reflect the square footage of Rentable Area in the Additional Premises) and (2) any payments required to be made by Landlord to San Diego Gas & Electric Company to secure additional parking area on land adjacent to the Land (the "SDG&E Land");

(b) the Term of the Lease with respect to the Additional Premises (the "Additional Premises Term") shall be eight (8) years from the Term Commencement Date for the Additional Premises, plus any period extending from the end of the Additional Premises Term until the last day of the calendar month in which the Additional Premises Term would otherwise expire, subject to extension pursuant to Section 4.3, above.

(c) the Additional Premises Rent shall increase at the beginning of the thirty-first (31st), sixty-first (61st) and ninety-first (91st) months of the Additional Premises Term to an amount equal to the product of (i) the Additional Premises Rent then payable and (ii) 1.075.

4.5.4. Tenant shall have thirty (30) days following receipt of Landlord’s Lease Offer Notice to deliver to Landlord unconditional and irrevocable acceptance of Landlord’s Lease Offer Notice identifying the size of the Additional Premises.

4.5.5. Tenant and Landlord shall then have thirty (30) days thereafter to (i) determine and identify the exact size and location of the Additional Premises, if they are smaller than the entire Additional Improvements (which shall be mutually determined in good faith), and (ii) execute a definitive addendum to this Lease or similar instrument formalizing the addition of the Additional Premises and the terms under which they are being leased to Tenant.

4.5.6. If Tenant either (i) rejects Landlord’s Lease Offer Notice, (ii) accepts Landlord’s Lease Offer Notice, but subject to conditions or contingencies, (iii) submits a counter-offer to Landlord’s Lease Offer Notice (iv) accepts Landlord’s Lease Offer Notice but fails to execute definitive documents within the thirty (30) day period provided, or (v) fails to respond to Landlord’s Lease Offer Notice, Tenant shall be deemed to have rejected Landlord’s Lease Offer Notice, in which case Landlord shall have no further responsibility under this Section 4.5 and shall be free to lease the Additional Improvements to a party other than Tenant.

4.5.7. The foregoing commitments by Landlord shall not constitute a right of first refusal which Tenant can enforce against Landlord to the detriment of any lease to a third party which Landlord may elect to make so long as the provisions of this Section 4.5 have been observed.

4.6. Identification of “Common Facilities”.

4.6.1. Additional Improvements. If Additional Improvements are ever built and leased to a tenant other than Tenant, some of the parking areas, driveways, sidewalks, landscaped areas, open space and adjacent areas may be, as appropriate and as determined by Landlord in its reasonable discretion, removed from the definition of the Demised Premises, and instead such areas will become “common facilities” to be shared by Tenant and the tenant(s) of the Additional Improvements; provided, however, Tenant shall retain the non-exclusive use of at least 5 parking spaces for each 1,000 square feet of Usable Area contained within the Demised Premises. If and when the Additional Improvements are so constructed and the Demised Premises modified, then the provisions of the “Multi-Tenant Addendum”, attached to this Lease as Exhibit “D,” shall apply and shall, to the extent contradictory with other provisions of this Lease, govern the rights and obligations of Landlord and Tenant with regard to the matters addressed in such addendum.

4.6.2. Contraction Space. If Tenant exercises its right pursuant to Section 4.4 of this Lease to vacate a portion of the Demised Premises, certain portions of the Demised Premises which are available for use by all tenants in the Building (i.e. common areas) shall become subject to the provisions of the “Multi-Tenant Addendum” and the rights and obligations of Landlord and Tenant shall, to the extent contradictory with other provisions of this Lease, be thereafter governed by such addendum.

4.6.3. Mutual Rights of Ingress and Egress. In addition to Landlord’s rights under Section 10 of this Lease, Landlord, and its officers, agents, employees, contractors, subcontractors, invitees, and tenants shall be entitled to ingress and egress over and to park on the exterior portions of the Demised Premises (e.g. sidewalks, roads, ramps and parking areas) as may be reasonably necessary in connection with the use, construction, ownership, maintenance or occupancy of the Additional Improvements and such ingress and egress shall not be or deemed to be an actual or constructive eviction of Tenant or an interference with Tenant’s rights under this Lease. Tenant, and its officers, agents, employees, contractors, subcontractors, and invitees, shall be entitled to ingress and egress over and to park on the exterior portions of the Additional Improvements (e.g. sidewalks, roads, ramps and parking areas) as may be reasonably necessary in connection with the use, maintenance or occupancy of the Demised Premises.

4.6.4. Subdivision of Land; Reciprocal Easements. Nothing in this Lease shall prohibit Landlord from subdividing the Land into separate legal parcels or lots, whether in connection with the construction of Additional Improvements, or otherwise. In such an event, Landlord may, in its sole and absolute discretion, formalize the rights of reciprocal access and parking of the nature described in Section 4.6.3, above, in a reciprocal easement agreement or similar instrument reasonably acceptable to Tenant and Tenant shall not unreasonably withhold or delay its approval and, if necessary, execution and acknowledgment of such an instrument.

4.7. Signs.

4.7.1. Tenant as Sole Occupant - Exclusive Rights. So long as Tenant is the sole occupant of the Building and the Additional Improvements, if any, then Tenant shall have the exclusive right (subject to Landlord’s rights under Section 10 of this Lease) to affix exterior signs to the Building or to construct a monument sign identifying Tenant’s occupancy of the Building or the Additional Improvements, subject, however, to (i) Landlord’s prior written approval, which shall not be unreasonably withheld, and (ii) compliance with all Applicable Laws and Instruments of Record, including permit, design review and approval requirements.

4.7.2. Shared Signage. If, at any time during the Term of this Lease, Tenant is not the sole occupant of either the Building or the Additional Improvements, then the right to affix signs to the exterior of the Building or the Additional Improvements or to construct or appear on any monument sign(s) shall be shared among Tenant and any other tenant in proportion to the Rentable Areas of their respective premises; provided that Tenant shall not be required to incur any cost in the reconfiguration of any existing signage; and provided further that Tenant’s consent shall be obtained before any existing signage is changed, such consent not to be unreasonably withheld or delayed.

4.7.3. Initial Signage. Subject to the approval and legal compliance requirements of Section 4.7.1, above, Tenant may request that Landlord construct a monument sign on the Demised Premises identifying Tenant’s occupancy and the cost thereof shall be included as part of Total Project Cost.

5. Possession and Commencement Date.

5.1. Landlord and Tenant acknowledge that it is very important to both parties to complete the construction of the Improvements as soon as reasonably feasible and both parties agree to use diligent and good faith efforts to cause construction of the Improvements to be completed as soon as reasonably feasible. Landlord shall use reasonably diligent efforts to tender possession of the Demised Premises to Tenant, substantially completed, on the Estimated Term Commencement Date.

5.2. The term commencement date of the Term of this Lease shall be the earlier of (i) the date Landlord tenders possession of the Demised Premises to Tenant with construction of the Improvements substantially complete; (ii) the date Tenant actually accepts possession of the entire Demised Premises and commences to conduct business therefrom; or (iii) the date that construction of the Improvements would have been substantially completed but for Tenant-Caused Delays, as that term is defined in Section 27.2 (the "Term Commencement Date").

5.2.1. Commencing with the notice required to be delivered to Tenant pursuant to Section 3.2.1, above, and continuing monthly thereafter, Landlord shall also deliver to Tenant written estimates of the expected actual Term Commencement Date. Notwithstanding anything to the contrary in this Lease, Landlord shall provide Tenant with no less than thirty (30) days' prior notice, in writing, that the Demised Premises are, or shortly shall be, available for occupancy.

5.2.2. Landlord and Tenant shall each execute and deliver to the other written acknowledgment of the actual Term Commencement Date and the date when the Term will expire when such is established and shall attach it to this Lease as Exhibit "E"; however, failure to execute and deliver such acknowledgment shall not affect Tenant's liability hereunder.

5.2.3. Tenant may elect, by delivering written notice to Landlord within ten (10) business days prior to the Target Commencement Date (as established in accordance with Section 3.2.1, above), to occupy the Demised Premises for a period of fifteen (15) days following the Term Commencement Date for the purpose of installation of fixtures and other equipment or improvements which are not part of the Improvements, without the immediate obligation to pay Annual Rent for such fifteen (15) day period; provided, however, that the Annual Rent which would have been applicable to and payable for such fifteen (15) day period shall be added to the Annual Rent payable during the remainder of the Initial Term and equally amortized over the remainder of the Initial Term and the Annual Rent payable by Tenant during the remainder of the Initial Term shall be increased accordingly.

5.3. Landlord shall allow Tenant to enter upon the Demised Premises prior to the Term Commencement Date for the purpose of installation of fixtures and other equipment or improvements which are not part of the Improvements, provided such entry shall be coordinated in advance with Landlord and Landlord's Contractor (as defined in the Work Letter) so as to not interfere with the construction by Landlord or Landlord's Contractor of the Improvements. Such entry shall be subject to all the terms and conditions of this Lease, and the

Work Letter, other than for the payment of Annual Rent or Additional Rent. Such entry shall not constitute possession for purposes of establishing the Term Commencement Date.

5.4. Prior to Tenant's initial entry onto the Demised Premises for the purpose of (i) installing improvements that are not a part of the Improvements, or (ii) placing Tenant's personal property within the Demised Premises, Tenant and Landlord shall furnish each other evidence satisfactory to the other that insurance coverages required under the provisions of Section 18 herein are in effect.

6. Rent.

6.1. Annual Rent. Tenant agrees to pay Landlord as annual rent (the "Annual Rent") for the Demised Premises the sums set forth in Section 2.5 of this Lease, subject to adjustment as provided in Section 5.2.3, above, and Section 6.4, below. Annual Rent shall be paid in equal monthly installments, with each payment made in advance on the first day of each and every calendar month during the Term of this Lease, except that the first full month's installment of Annual Rent (plus the monthly installment of Annual Rent pro rated for any partial month at the beginning of the Term hereof) shall be paid by Tenant to Landlord on the Term Commencement Date (i.e. if the Term Commencement Date is April 15, 1996, Tenant will pay its monthly installment of Annual Rent for May, together with a prorated portion of the Annual Rent for April, on April 15, 1996; the next monthly installment of Annual Rent will be due on June 1, 1996).

6.2. Additional Rent. In addition to Annual Rent, Tenant agrees to pay, as additional rent ("Additional Rent"), at times hereinafter specified in this Lease (i) all Operating Expenses which, pursuant to Section 11 of this Lease, are paid by Landlord, (ii) all Operating Expenses which, pursuant to Section 11 of this Lease, Tenant is obligated to pay directly, and (iii) any other amounts that Tenant assumes or agrees to pay under this Lease that are owed to Landlord, including, without limitation, any and all other sums that may become due by reason of an Event of Default by Tenant or by reason of Tenant's failure to comply with the agreements, terms, covenants and conditions of this Lease to be performed by Tenant.

6.3. No Deduction or Offset. Annual Rent and Additional Rent are together denominated in this Lease as "Rent". Rent shall be paid to Landlord, without abatement, deduction or offset, in lawful money of the United States of America, at the office of Landlord as set forth in Section 2.7, herein or to such other person or at such other place as Landlord may from time to time designate in writing with not less than three (3) business days advance notice to Tenant. In the event the Term of this Lease commences or ends on a day other than the first day of a calendar month, then the Rent for such fraction of a month shall be prorated for such period on the basis of a thirty (30) day month and shall be paid at the then current rate for such fractional month.

6.4. Adjustments in Annual Rent.

6.4.1. Changes in Size of Building; Initial Adjustment in Annual Rent. Landlord and Tenant acknowledge that the final design, configuration, and square footage of the

Demised Premises, including Tenant Improvements, has not been finalized as of the execution of this Lease. The schedule of Annual Rent which appears in Section 2.5 was based on the following projections: (a) the Building will contain 140,000 square feet of Gross Area (as defined in Section 1.2 of this Lease) (the "Projected Gross Area"), (b) the Total Project Cost, including the Tenant Improvements will be Ten Million Eight Hundred Eight Thousand Dollars ($10,808,000) (the "Projected Total Project Cost"), (c) the Land Cost (as defined in Section 6.4.1(b), below) will be Two Million Five Hundred Thousand Dollars ($2,500,000), and, (d) the Annual Rent during the first thirty (30) months of the Term will be One Million Four Hundred Twenty Thousand Nine Hundred Six Dollars ($1,420,906) (the "Projected Initial Annual Rent"). Upon the completion of the Improvement Plans and a final determination of the Gross Area of the Building to be constructed by Landlord ("Actual Gross Area"):

(a) the Projected Total Project Cost shall be adjusted by applying to it a fraction, the numerator of which is the Actual Gross Area and the denominator of which is the Projected Gross Area;

(b) the "Land Cost" of the Demised Premises shall equal the total cost to Landlord of acquiring and holding the Land until commencement of construction of the Demised Premises, and will include, (x) the purchase price paid to the seller of the Land ($2,350,000), (y) any costs, fees or other expenses incurred to third parties in connection with the acquisition of the Land (e.g. title insurance premiums, the costs of surveyors, environmental consultants and soils engineers, loan fees and points, demolition costs, etc.), and (z) expenses incurred in connection with the ownership of the Land from and after such acquisition until the commencement of construction, including real property taxes, property owners' association fees and dues, and debt service on mortgage-secured financing used to acquire the Land, including any interest paid thereon.

(c) the Projected Initial Annual Rent (and the projected Annual Rent for each succeeding period described in Section 2.5) shall be adjusted by applying to it a fraction, the numerator of which is the sum of (i) the Projected Total Project Cost, as adjusted pursuant to subsection (a), above, and (ii) the Land Cost, and the denominator of which is the sum of (y) the Projected Total Project Cost (without adjustment), and (z) the Land Cost.

By way of example only, if the Actual Gross Area of the Building is 130,000 square feet, then the Projected Total Project Cost will be decreased to Ten Million Thirty Six Thousand Dollars ($10,036,000) ($10,808,000 x [130,000 ÷ 140,000]). The Projected Initial Annual Rent will be decreased to One Million Three Hundred Thirty Eight Thousand Four Hundred Seventy Nine Dollars ($1,338,479) ($1,420,906 x [($10,036,000 + 2,500,000) ÷ (10,808,000 + 2,500,000)]). For purposes of this Lease, and this Section 6.4 in particular, the terms "Projected Total Project Cost" and "Projected Initial Annual Rent" shall mean the amounts as adjusted in accordance with this Section 6.4.1.

6.4.2. Changes in Total Project Cost; Final Adjustment of Annual Rent.

(a) Increase in Total Project Cost. If the Total Project Cost (as determined in accordance with Section 6.5, below) exceeds the Projected Total Project Cost (the "Total Project Cost Excess"), the Annual Rent, effective as of the Term Commencement Date, shall equal and be established as the sum of (i) the Projected Initial Annual Rent, and (ii) an amount equal to the product of (x) the Total Project Cost Excess and (y) eleven percent (.11), and the Annual Rent for the balance of the Term, as scheduled in Section 2.5 of this Lease, shall be adjusted accordingly. Notwithstanding the foregoing, provided the Improvement Plans have been prepared in substantial conformance with Schedule 1 to the Work Letter, only one-half (½) of any Total Project Cost Excess greater than Four Hundred Thousand Dollars ($400,000) shall be included in the calculation of the increase in Annual Rent.

By way of example only, if the Projected Total Project Cost and Projected Initial Annual Rent, were the amounts used in the example in Section 6.4.1, above, and a Total Project Cost Excess of Five Hundred Thousand Dollars ($500,000) were experienced, then the Annual Rent, effective as of the Term Commencement Date, would be One Million Four Hundred Seventy Thousand Four Hundred Six Dollars ($1,470,406) ($1,420,906 + [$400,000 x .11] + [$100,000 x .11 x. 50]) and the Annual Rent for each succeeding period would be increased by a like amount.

(b) Decrease in Total Project Cost. If the Total Project Cost (as determined in accordance with Section 6.5, below) is less than the Projected Total Project Cost (the "Total Project Cost Savings"), the Annual Rent, effective as of the Term Commencement Date, shall equal and be established as the sum of (i) the Projected Initial Annual Rent, less (ii) an amount equal to fifty percent (.50) of the product of (x) the Total Project Cost Savings and (y) eleven percent (.11), and the Annual Rent for the balance of the Term, as scheduled in Section 2.5 of this Lease, shall be adjusted accordingly.

By way of example only, if the Projected Total Project Cost and Projected Initial Annual Rent, were the amounts used in the example in Section 6.4.1, above, and a Total Project Cost Savings of Five Hundred Thousand Dollars ($500,000) were experienced, then the Annual Rent, effective as of the Term Commencement Date, would be One Million Three Hundred Ninety Three Thousand Four Hundred Six Dollars ($1,393,406) ($1,420,906 - [.50 x [$500,000 x .11]]) and the Annual Rent for each succeeding period would be decreased by a like amount.

(c) Timing of Adjustment of Annual Rent. As soon as practicable following the Term Commencement Date, the actual Total Project Cost will be determined in accordance with the terms of Section 6.5, below, and the Annual Rent, throughout the Term as scheduled in Section 2.5 of this Lease, shall be determined. Since the Total Project Cost, and resulting adjustments in Annual Rent, if any, will not be finally determined until after the Term Commencement Date and, accordingly, the Annual Rent, as scheduled in Section 2.5 of this Lease, will not have been finally determined prior to the Term Commencement Date, the Annual Rent as of the Term Commencement Date shall be the Projected Initial Annual Rent, as adjusted pursuant to Section 6.4.1, above. When any final adjustment in the Annual Rent is finally determined in accordance with this Section 6.4.2, Landlord and Tenant shall each execute and deliver to the other an addendum to this Lease formalizing the actual Annual Rent, as adjusted, in the form of Exhibit “E” to this lease. If, as a result of any such adjustment, there has been an underpayment of Annual Rent since the Term Commencement Date, Tenant shall, with the next scheduled monthly payment of Annual Rent, pay to Landlord any such underpayment. If, as a result of any such adjustment, there has been an overpayment of Annual Rent since the Term Commencement Date, Tenant shall, with the next scheduled monthly payment of Annual Rent, receive a credit against such monthly payment (and to the extent necessary succeeding monthly payments) in the amount of any such overpayment.

6.4.3. Excess Tenant Improvements. Landlord and Tenant acknowledge that the Projected Total Project Cost has been determined based on an expectation that twenty percent (20%) of the Building would be improved with “fixed wall” Tenant Improvements. Landlord and Tenant expect that, in fact, the Tenant Improvements will be substantially all “fixed wall.” Furthermore, the Projected Total Cost was not expected to include the cost of “side lights” installed in office demising walls located next to the doors it offices in the Building, although it is now expected that “side lights” will be installed next to each office door in the Building. The construction of these excess Tenant Improvements involves expenses to Landlord which have not been included in the Projected Total Project Cost and will, therefore, be treated separately from the calculation of Annual Rent. Landlord and Tenant have agreed that Landlord will incur Eight Hundred Sixty Thousand Dollars ($860,000) in expense in the construction of the additional “fixed walls” and that Landlord will incur One Hundred Twelve Thousand Dollars ($112,000) in expense in the installation of the “side lights.” The additional expenses associated with these specific excess Tenant Improvements shall be repaid to Landlord through the payment by Tenant of Additional Rent payable, on a monthly basis throughout the Initial Term, in an amount equal to Fourteen Thousand Ninety Two Dollars ($14,092). Such amount shall not be (i) subject to increases pursuant to Section 2.5 of this Lease, nor (ii) included in the determination of Option Term Annual Rent, nor (iii) considered a Tenant Change hereunder. In lieu of paying the Additional Rent described above, Tenant may elect, in a writing delivered to Landlord on or before June 30, 1995, to pay to Landlord the Nine Hundred Seventy Two Thousand Dollars ($972,000) cost of the excess Tenant Improvements, in a lump sum cash payment, which, if Tenant makes such election, shall be due and payable from Tenant, as Additional Rent, to Landlord within five (5) days after Landlord’s written demand therefor. It is Landlord’s expectation that these funds will be required at the time of the recordation of the construction loan for the Building.

6.4.4. Payment for Tenant Changes. Landlord and Tenant acknowledge that the Projected Total Project Cost reflected in Section 6.4.1, above, has been determined based on an expectation that the Improvement Plans will be prepared in substantial conformance with Schedule 1 to the Work Letter. The provisions of Section 6.4.2, above, which address the results of increases in Total Project Cost, use the Projected Total Project Costs as a baseline from which increases are measured. Increases in Total Project Costs which are the result of Tenant Changes (as such term is defined in Exhibit C, Section I.H.1) shall, therefore, be treated separately from the increases described in Section 6.4.2, as follows:

(a) With respect to a Tenant Change which is of a permanent nature and related to (1) the Building shell (i.e. the Building excluding Tenant Improvements),

(2) the size, configuration and location on the Land of the Building or improvements to the Building site, or (3) Building systems (e.g. HVAC), the Annual Rent shall be increased by an amount equal to the product of (i) the Total Project Cost associated with that Tenant Change and (ii) eleven percent (11%). Such amount shall not be (i) subject to increases pursuant to Section 2.5 of this Lease, or (ii) included in the determination of Option Term Annual Rent;

(b) With respect to a Tenant Change which involves items similar to Tenant Improvements (e.g. wall coverings, floor coverings, millwork, lighting) the cost of such Tenant Improvements shall be repaid to Landlord through the payment by Tenant of Additional Rent payable, on a monthly basis throughout the Initial Term, of an amount sufficient to fully amortize the Total Project Cost associated with that Tenant Change over the Initial Term while applying an interest rate of nine percent (9%) per annum. Such amount shall not be (i) subject to increases pursuant to Section 2.5 of this Lease, nor (ii) included in the determination of Option Term Annual Rent; and

(c) With respect to a Tenant Change which involves items of furniture, trade fixtures and non-permanent equipment (e.g. special data and telephone cabling (Landlord shall provide and install the conduit), security systems, kitchen improvements (including, without limitation, equipment, fixtures, furnishings and mechanical system alterations), fitness equipment, and signage in addition to that described elsewhere in this Lease), these shall either (A) be paid by Tenant, in full and in advance of installation, or, (B) if purchased by Landlord, Tenant shall pay Landlord for such items (at Landlord's cost) in advance of Landlord's commitment to purchase.

(d) In lieu of paying the additional Annual Rent described in subsection (a), above, and/or the additional payments described in subsection (b), above, Tenant may elect (which election shall be made at the time Landlord provides the written response to Tenant's request for the Tenant Change described in Section I.H.2 of the Work Letter), to pay directly to Landlord the cost of such Tenant Change, in cash, within five (5) days after written demand therefor delivered to Tenant by Landlord at the time of Landlord's approval of the requested Tenant Change or any time thereafter.

6.5. Total Project Cost. The term "Total Project Cost" shall mean costs reasonably and necessarily incurred by Landlord in the proper performance of its obligation to construct the Improvements, as determined in accordance with this Section 6.5 and the Work Letter.

6.5.1. Components of Total Project Costs. Subject to the foregoing general definition, Total Project Costs shall include all costs and expenses of the type and character described below and which are paid to third parties (with the exception of the development fee described in subsection (m) below), including, without limitation for:

(a) Architectural and engineering services.

(b) Space planning and design services.

(c) Consulting and professional services, including legal and accounting.

(d) Governmental permits, plan check inspections and approvals and other government imposed fees and charges.

(e) Utility company hook-ups, installation charges, sewer and water capacity fees, meter(s) and associated piping and other related charges.

(f) Insurance, bonds, assessments, and property taxes during course of construction.

(g) Sales and property taxes during course of construction.

(h) Grading, paving and landscaping of the Land.

(i) All payments and charges owed under any construction contract or subcontract entered into by Landlord in connection with the construction of the Improvements, including the Building and the Tenant Improvements.

(j) To the extent not included in (i), above, labor and material costs incurred in the construction of the Improvements.

(k) Contract bidding and cost budgeting services.

(l) Interest on construction and permanent financing and related costs and expenses, including points, loan charges and fees.

(m) A development fee payable to Landlord in the amount of Three Dollars ($3.00) per square foot of the Gross Area of the Building.

(n) Leasing commissions paid by Landlord to The Staubach Company and Colliers Illif Thorn.

(o) All other costs and services directly related to the construction or installation of the Improvements, including payments to San Diego Gas & Electric incurred during construction of Additional Improvements for use of the SDG&E Land.

6.5.2. Exclusions from Total Project Costs. Total Project Cost shall not include the following:

(a) Salaries and other compensation paid to Landlord's personnel located at Landlord's principal office or offices other than on the Demised Premises.

(b) Expenses of Landlord's principal office or offices other than on the Demised Premises, including overhead and general expenses.

(c) Costs incurred due to the active negligence of Landlord or any person directly or indirectly employed by Landlord and for whose acts Landlord is liable, and which result in costs for the correction of damaged, defective or nonconforming work, disposal and replacement of materials and equipment incorrectly ordered or supplied.

(d) Costs related to Landlord's acquisition of the Land, which shall be included in Land Cost for purposes of determining Annual Rent pursuant to Section 6.4.1, above.

6.5.3. Landlord's Maintenance of Records of Total Project Cost. Landlord shall keep and maintain full and detailed records and accounts of Total Project Costs incurred in the construction of the Improvements and exercise such controls as may be necessary for proper financial management and reporting under this Lease to the extent related to the construction of the Improvements. Tenant shall be afforded access to Landlord's records and accounts, books, correspondence, instructions, drawings, receipts, contracts and subcontracts, purchase orders, vouchers, memoranda and other data relating to Total Project Costs, and shall preserve them for a period of one (1) year after substantial completion of construction of the Improvements.

6.5.4. Determination of Total Project Cost; Arbitration of Differences.

(a) Within ninety (90) days following substantial completion of construction of the Improvements, Landlord shall calculate (i) the final Total Project Cost in accordance with this Section 6.5 and the Work Letter, (ii) any further adjustment of the Annual Rent resulting from the application of Section 6.4, above, in light of the final Total Project Cost (i.e. determine an increase or decrease in Annual Rent) and (iii) the initial Annual Rent and the Annual Rent for the balance of the Term as reflected in Section 2.5, and shall deliver the results of those calculations (together with reasonably detailed supporting explanations) to Tenant, in writing ("Final Rent Notice").

(b) Within thirty (30) days after Tenant's receipt of the Final Rent Notice, Tenant shall deliver to Landlord, either (i) a written acceptance of the Final Rent Notice, in which case the initial Annual Rent shall be the Annual Rent as reflected in the Final Rent

Notice, or (ii) a written rejection of the Final Rent Notice, identifying the specific basis upon which Tenant is challenging the Final Rent Notice ("Final Rent Response"), during which thirty (30) day period Landlord shall be reasonably available to meet with Tenant and explain and further substantiate the basis for the Final Rent Notice. Tenant's failure to deliver to Landlord a Final Rent Response within such thirty (30) day period shall be deemed Tenant's acceptance of the Final Rent Notice and the Annual Rent and Section 2.5 of this Lease shall be deemed modified accordingly.

(c) If Tenant rejects the contents of the Final Rent Notice, Landlord and Tenant shall meet and endeavor, in good faith, to resolve their differences. If, after fifteen (15) days following delivery to Landlord of the Final Rent Response, Landlord and Tenant have not resolved their differences, they shall immediately submit their differences to binding arbitration in accordance with the Construction Industry Arbitration Rules of the American Arbitration Association, and judgment upon the determination of the arbitrator may be entered in any court having jurisdiction thereof. Notice of demand for arbitration shall be filed by Landlord in writing with Tenant; provided, however, that if Landlord has not filed such demand for arbitration within ten (10) days after the end of such fifteen (15) day period, Tenant may file the demand for arbitration. At the commencement of such an arbitration, Landlord and Tenant shall each submit to the arbitrator a written statement of what they contend is the proper Total Project Cost and Annual Rent. The arbitrator's sole responsibility shall be to determine which of the two calculations of Total Project Cost and Annual Rent is most accurate and may select only Landlord's calculation or Tenant's calculation. Whichever party's calculation is accepted shall be considered the prevailing party and the losing party shall bear all costs associated with such arbitration, including the other party's reasonable legal expenses and reasonable expenses of other appropriate third party professional advisors not affiliated with either party (e.g. accountants, auditors).

7. Authorized Use. The Demised Premises are leased to Tenant for general office, production and distribution of Tenant's products; and shall be used for no other purpose without first securing the prior written consent of Landlord, which consent shall not be unreasonably withheld.

7.1. Tenant shall conduct its business operations and use the Demised Premises in compliance with all Applicable Laws and Instruments of Record. "Applicable Law(s)" is used in this Lease to mean all laws, rules, regulations, zoning requirements, ordinances, directives, covenants, easements and restrictions of record, permits, certificates of occupancy (temporary and permanent), the requirements of any applicable fire insurance underwriter or rating bureau relating in any manner to the Demised Premises (including but not limited to matters pertaining to (i) the Americans with Disabilities Act ("ADA") (ii) industrial hygiene, (iii) environmental conditions on, in, under or about the Demised Premises, including soil and groundwater conditions, and (iv) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, sale or release of any Hazardous Substance or storage tank), now in effect or which may hereafter come into effect, and whether or not reflecting a change in policy from any previously existing policy. The term "Instruments of Record" is used in this lease to mean all matters affecting title to the Demised Premises or the use thereof, including, without limitation, the Declaration of Restrictions (Summers' Governor Park) dated as of June

30, 1982, and the Summers Governor Park Design Guide promulgated thereunder. Tenant shall, upon five (5) days' written notice from Landlord, discontinue any use of the Demised Premises which is declared by any governmental authority having jurisdiction to be a violation of any Applicable Law or by any person or entity with competent jurisdiction to be a violation of an Instrument of Record. Throughout the Term of this Lease and/or Tenant's occupancy of the Demised Premises, Tenant shall, at its expense, comply with any direction of any governmental authority having jurisdiction which shall, by reason of the nature of Tenant's use or occupancy of the Demised Premises, impose any duty upon Tenant or Landlord with respect to the Demised Premises or with respect to the use or occupancy thereof.

7.2. Tenant shall not allow the Demised Premises to be used for unlawful purposes, nor shall Tenant cause, maintain or permit any nuisance or waste in or on the Demised Premises.

7.3. Landlord shall deliver the Demised Premises to Tenant in substantial compliance with the Improvement Plans, all Instruments of Record and all Applicable Laws. Tenant agrees, at its own cost, to comply with all Applicable Laws and Instruments of Record, whether or not compliance therewith shall require changes in the Improvements, except to the extent such changes are the result of Landlord's failure to deliver the Demised Premises in compliance with those Applicable Laws and Instruments of Record, and except to the extent of any required changes related to the public areas on (e.g. common areas, lobbies, public restrooms), or means of public access to (e.g. walkways, elevators), the Demised Premises, in which case Landlord shall be responsible for those changes at its sole cost and expense. Items considered "public" for purposes of this Section 7.3 shall be those which, by their nature or use, are not intended exclusively for use by Tenant or its employees and invitees.

7.4. The insurance required to be maintained by Landlord and Tenant pursuant to the provisions of Section 18.2 of this Lease shall be based on Tenant's actual use of the Demised Premises. If, after the Term Commencement Date, the use of the Demised Premises changes to another permitted use, such insurance shall, to the extent available, be changed to the extent necessary to provide the required coverages in a manner consistent with the changed use. Tenant shall not do or permit to be done anything which will invalidate any fire, extended coverage or any other insurance policy covering the Building or the Demised Premises. Tenant shall comply with all reasonable rules, orders, regulations and requirements of the insurers of the Demised Premises. Tenant shall pay for any additional premium charged for any policy by reason of Tenant's failure to comply with the provisions of this Lease, or by reason of Tenant's particular use of the Demised Premises.

7.5. Tenant shall keep the exterior appearance of the Demised Premises in a neat and attractive condition, comparable to the appearance as of the Term Commencement Date, subject to normal wear and tear, and at all times in accordance with all Applicable Laws and Instruments of Record, subject to Landlord's obligation to have delivered the Demised Premises in accordance therewith. In this regard, Tenant shall not place any unsightly items on the Demised Premises which are visible from the surrounding areas.

7.6. No equipment weighing in excess of the load per square foot which such floor was designed to carry, or which is allowed by law, shall be placed upon the Demised Premises. The Improvement Plans shall specify the load bearing capacities of all floors in the Building.

7.7. Tenant shall pay all costs, expenses, claims, fines, penalties and damages that may, in any manner, arise out of or be imposed as a result of the failure of Tenant to comply with the provisions of this Section 7.

8. Condition of the Premises.

8.1. Tenant acknowledges that the development of the Demised Premises has been undertaken on a "build-to-suit" basis and that neither Landlord nor any agent of Landlord has made any representations or warranties (i) with respect to the condition of the Demised Premises or the Building, as designed, except as set forth herein or in the Work Letter, or (ii) with respect to the suitability of the Demised Premises, as designed, for the conduct of Tenant's business.

8.2. Landlord makes no warranties or representations with regard to any portion of the Demised Premises, and Tenant shall accept the Demised Premises in the condition they are in on the Term Commencement Date (subject to the completion of minor "punch-list" items (as described in and in accordance with Section I.G.8 of the Work Letter) that may still need to be corrected), except that (i) the Demised Premises shall be constructed in substantial compliance with the Improvement Plans, Applicable Laws and the Instruments of Record, and (ii) for the Term of this Lease, the Improvements shall be free of latent defects in construction, workmanship and materials, and Landlord shall be responsible, at Landlord's sole cost and expense, for the prompt and diligent repair of any such latent defects which manifest themselves during the Term.

8.3. Except to the extent related to a latent defect which is the subject of Landlord's warranty in Section 8.2, above, and subject to Landlord's obligations regarding the condition of the Demised Premises when delivered to Tenant under Section 7.3 of this Lease, Tenant shall be entitled to pursue any available remedies and claims against the construction contractors, equipment suppliers, manufacturers and other responsible third parties for any defects that may be discovered in the Demised Premises. Landlord shall assign, on a non-exclusive basis, to Tenant any such claims if such an assignment is appropriate to enable Tenant to pursue said claims and remedies. Landlord shall also be entitled to pursue available remedies against said third parties. Any warranty made by any person in connection with the construction of the Demised Premises as to any materials, equipment or other items contained and incorporated herein shall inure to the benefit of and be deemed to have been made to Landlord, copies of all of which shall be delivered to Tenant.

9. Repairs and Maintenance.

9.1. Tenant's Obligations. Except to the extent specifically identified as Landlord's responsibility in Section 9.2, below, Tenant shall, at its own expense, keep the

Demised Premises, and every part thereof, including, but not by way of limitation, the grounds, landscaped areas, truck parking and loading and dock areas, the roof and roof membrane, drainage swales, gutters, downspouts, glass, interior and exterior portions of the Building, and the plumbing, heating, air-conditioning, wiring, elevators and other mechanical systems therein, the facilities thereof and all sidewalks, parking areas, driveways, passageways and alleys adjacent thereto and other appurtenances thereunto belonging, in good order, appearance, condition and repair (reasonable wear and tear excepted), free of obstructions, dirt, and rubbish, and so as to comply fully and at all times with all Applicable Laws consistent with other first-class business and industrial parks in the North City Area. Tenant agrees to make all replacements and repairs to the Demised Premises necessary to maintain the Demised Premises in the condition described in the preceding sentence. Tenant, at its own expense, shall also seal (paint) the exterior of the Building periodically during the Term (including the Option Term) of this Lease in accordance with the recommendations of the manufacturer of the material used for the exterior of said Building. All repairs, replacements and renewals shall be at least equal in quality and class to the original work. Any and all warranties to which Landlord is entitled in connection with the development and construction of the Demised Premises, including, without limitation, those referred to in Section 8 of this Lease, shall be assigned to Tenant when and where appropriate, on a non-exclusive basis, for the Term of this Lease. Because Tenant is undertaking the responsibility for most aspects of the ongoing maintenance of the Demised Premises, Tenant waives the provisions of California Civil Code Sections 1941 and 1942 with respect to Landlord's obligations for tenantability of the Demised Premises and Tenant's right to make repairs and deduct the expenses of such repairs from Rent.

9.2. Landlord's Obligations. In addition to Landlord's obligations under Sections 7.3 and 8.2 of this Lease, and as a limitation on Tenant's obligations under Section 9.1, above, Landlord shall, at its own expense, keep the structural elements of all exterior walls (except for painting of the exterior walls, which shall be Tenant's responsibility), the Building foundation and all underground utilities, in good order, condition and repair, and so as to comply fully and at all times with all Applicable Laws and all Instruments of Record consistent with other first-class business and industrial parks in the North City Area.

10. Right of Entry by Landlord. Landlord or Landlord's agents and representatives shall be permitted during the Term of this Lease to inspect the Demised Premises during reasonable business hours for the purposes inspecting the Demised Premises and ascertaining their condition and making such replacements and repairs and performing any other act as may be required of Landlord or Tenant under the terms of this Lease upon twenty-four (24) hours prior verbal notice to Tenant, except in the case of emergency, in which case no notice shall be required. Landlord shall also be permitted access to the Demised Premises during reasonable business hours, upon twenty-four (24) hours prior verbal notice to Tenant, for the purpose of showing the Demised Premises to prospective purchasers or mortgagees, Tenant shall have the right to accompany Landlord on any such inspection. Additionally, Tenant agrees to maintain keys for all locked doors in the Demised Premises in a fire department controlled lock box located on the Demised Premises. During the twelve (12) months prior to the expiration of the Term, Landlord shall be permitted access to the Demised Premises during reasonable business hours, upon twenty-four (24) hours prior verbal notice to Tenant, for the purpose of showing the Demised Premises to prospective Tenants. During the nine (9) months prior to the expiration

of the Term, Landlord shall be entitled to post suitable notice on the Demised Premises that the same are “for sale” or “for lease”. Landlord’s access shall be subject to such reasonable controls as are necessary to preserve Tenant’s trade secrets and to maintain Landlord’s safety.

11. Operating Expenses.

11.1. Definition of “Operating Expenses”. As used herein, the term “Operating Expenses” shall include, but not be limited to:

11.1.1. Government impositions including, without limitation, property tax costs consisting of real and personal property taxes (except as specified in Section 11.2 below), assessments, including amounts due under any improvement bond upon the Building and/or Demised Premises or assessments levied in lieu thereof imposed by any governmental authority or agency, any tax on or measured by gross rentals received from the rental of space in the Building, or tax based on the square footage of the Demised Premises or Building (if such tax is enacted in lieu of presently existing real property taxes).

11.1.2. Any parking charges, utilities, surcharges or any other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations, or interpretations thereof, promulgated by any federal, state, regional, municipal or local government authority in connection with the use or occupancy of the Building or the parking facilities serving the Building.

11.1.3. Any tax on any document to which Tenant is a party creating or transferring an interest in the Demised Premises (excluding any transfer tax upon a sale by Landlord of the Demised Premises).

11.1.4. Any fee for a business license to operate the Demised Premises.

11.1.5. Any expenses, including the cost of attorneys or experts, reasonably incurred in seeking reduction by the taxing authority of the applicable taxes, less tax refunds obtained as a result of an application for review thereof.

11.1.6. Costs paid or incurred directly related to the operation, maintenance and management of the Building and the Demised Premises including, by way of example, and not as a limitation upon the generality of the foregoing, costs of repairs and replacements to improvements within the Demised Premises as appropriate to maintain the Demised Premises in first-class condition, costs to comply with applicable governmental requirements for the Demised Premises, assessments, fees or dues paid to the Summers’ Governor Park Property Owners Association, special utility assessments, including sewer fees, trash collection, cleaning, maintenance of heating, ventilation and air conditioning systems, maintenance of landscape and grounds, maintenance of drives and parking areas, insurance premiums, portions of insured losses paid as part of the deductible portion of loss by reason of insurance policy terms, service contracts (including, by the way of example only, HVAC, elevator and roof maintenance, landscaping services, security and trash collection and removal) and costs of services of independent contractors retained to do work of the nature referenced above.

11.1.7. Ground Lease payments attributable to the SDG&E Land.

11.2. Exclusions from Operating Expenses. Operating Expenses shall not include:

11.2.1. Any net income, franchise, capital stock, estate or inheritance taxes.

11.2.2. Any increase in ad valorem real property taxes assessed against the Demised Premises which are the result of a reassessment of the value of the Demised Premises in connection with a sale of the Demised Premises during the Term, but only to the extent of those taxes which are assessed based on the value of the Demised Premises which exceed the sum of Total Project Costs and Land Cost.

11.2.3. All costs associated with the operation of the business of the Landlord, as distinguished from the costs of operations of the Demised Premises, including, but not limited to, costs of partnership accounting and legal matters, costs of defending any lawsuits with any Lender (except as the actions of Tenant may be in issue), costs of selling, syndicating, financing, mortgaging or hypothecating any of Landlord’ s interest in the Demised Premises (other than in connection with the construction and initial financing of the Demised Premises), costs of any disputes between Landlord and its employees, costs of disputes of Landlord with its own agents, employees and contractors, or costs paid in connection with disputes with Tenant or any other tenants.

11.2.4. Advertising and promotional costs.

11.2.5. Expenses resulting from Landlord’s failure to have constructed and delivered the Demised Premises in substantial conformance with the Improvement Plans, Applicable Laws and Instruments of Record, including costs incurred by Landlord ‘in connection with the construction of the Demised Premises, the correction of defects in construction, or to the extent related to Landlord’s active negligence or willful misconduct.

11.2.6. Expenses which, under generally acceptable accounting principles and sound management practices consistently applied would not be considered normal maintenance or operating expenses.

11.2.7. Expenses related to the creation or maintenance of reserves for equipment or capital replacement.

11.2.8. Depreciation and amortization of the Demised Premises.

11.2.9. Costs incurred due to violation by Landlord of the terms and conditions of this Lease.

11.2.10. Payments in respect to overhead or profit to subsidiaries or affiliates of Landlord (including any property management fees paid to Landlord or its affiliates), or to any party as a result of a non-competitive selection process, for services to the Demised Premises, or for supplies or other materials, all to the extent that such costs exceed the costs that would have been paid had the services, supplies or materials been provided by parties unaffiliated with Landlord on a competitive basis.

11.2.11. Interest on debt or amortization payments on any mortgages or deeds of trust or any other debt instrument encumbering the Demised Premises or any payments on ground leases, other than the lease, license or permit for the SDG&E Land.

11.3. Payment of Operating Expenses. Tenant shall pay all of the Operating Expenses directly to the third party to whom the expense is payable, as such Operating Expenses become due and payable. Within ten (10) business days following Landlord's written request to Tenant, Tenant shall furnish to Landlord appropriate evidence of the Operating Expenses which have been paid by Tenant directly to a third party.

11.3.1. Notwithstanding the foregoing, Landlord may elect to pay any or all of the Operating Expenses directly without relieving Tenant of financial responsibility for such expenses. In the event of such an election, Landlord shall give Tenant at least thirty (30) days prior written notice of Landlord's election and commitment to pay said Operating Expense(s), which notice shall identify which Operating Expenses Landlord is undertaking to pay directly and the date when such Operating Expenses become due. Any Operating Expenses which Landlord undertakes to pay directly shall be paid by Tenant to Landlord at least twenty (20) days prior to the scheduled due date ("Advance Expense Payment"). Any Operating Expenses which Landlord undertakes to pay directly and owed by Tenant to Landlord shall be deemed Additional Rent as defined in Section 6.2 of this Lease.

11.3.2. If Landlord makes the election described in Section 11.3.1 and Tenant fails to make an Advance Expense Payment when due, in addition to any other remedies available to Landlord under this Lease, Landlord may, thereafter, institute a procedure whereby Tenant shall pay to Landlord monthly installments of such Operating Expenses based upon Landlord's reasonable estimate of the annual amount of the Operating Expenses which Landlord has undertaken to pay directly. If such a monthly installment arrangement is instituted by Landlord, then Landlord shall provide Tenant, in writing, a statement containing an estimate of the amount of Operating Expenses which will be paid by Landlord for the current year and calculating the monthly installment due from Tenant to enable Landlord to pay those expenses when due (the "Monthly Installment"); and Tenant shall pay to Landlord, on the first day of each calendar month of the Term of this Lease thereafter, as Additional Rent, the Monthly Installment.

11.3.3. Within ninety (90) days after the conclusion of each calendar year during the Term, Landlord shall furnish to Tenant a statement showing, in reasonable detail, the actual Operating Expenses which Landlord paid during the previous calendar year. If the amounts paid by Tenant for said Operating Expenses (whether pursuant to Section 11.3.1 or 11.3.2, above) are less than the actual amount of said Operating Expenses for the previous year, that additional sum shall be due and payable by Tenant to Landlord within thirty (30) days after receipt by Tenant of said statement. If the amounts paid by Tenant to Landlord exceed the actual Operating Expenses paid by Landlord for the previous calendar year, the difference shall be credited by Landlord against the Rent next due and owing from Tenant; provided that, if the Term has expired, Landlord shall accompany said statement with a payment to Tenant for the amount of such difference.

11.4. Audit of Operating Expenses. Tenant shall have the right, at its own cost and expense, to audit or inspect Landlord's detailed records each year with respect to Operating Expenses, as well as all other additional rent payable by Tenant pursuant to this Lease for any year of the Term. Landlord shall maintain at its principal place of business for a period of at least twelve (12) months after the expiration of each calendar year during the Term, full and accurate books, records and supporting documents in connection with Landlord's annual statement of Operating Expenses. If Tenant's audit reveals an overpayment by Tenant, such overpayment shall be credited by Landlord against the Rent next due and owing from Tenant, and if such overpayment equals five percent (5%) or more, Landlord shall pay the costs and expenses of such audit and such overpayment shall be credited by Landlord against the Rent next due and owing from Tenant. In the event the Term has expired, any such overpayment and any such audit expense owed by Landlord to Tenant shall be paid to Tenant within ten (10) business days after determination thereof.

11.5. Further Limitations on Operating Expenses.

11.5.1. Tenant shall not be responsible for Operating Expenses attributable to the time period prior to the Term Commencement Date (other than as specified in the Work Letter); provided, however, if Tenant takes possession or occupancy of some or all of the Demised Premises prior to the Term Commencement Date (expressly excluding entry under Section 5.3, above), Tenant shall be responsible for Operating Expenses for the Demised Premises so occupied from such earlier date of possession or occupancy. The responsibility of Tenant for Operating Expenses attributable to the Demised Premises shall continue to the later of (i) the date of termination of this Lease, or (ii) the date Tenant has fully vacated the Demised Premises; but if termination of the Lease is due to an Event of Default by Tenant, Tenant shall be responsible for Operating Expenses even after Tenant has vacated the Demised Premises, as part of the damages to which Landlord is entitled, to the extent of Tenant's liabilities for an Event of Default.

11.5.2. Operating Expenses for the calendar year in which Tenant's obligation to reimburse Landlord commences, and for the calendar year in which such obligation ceases shall be prorated. Expenses such as taxes, assessments and insurance premiums which are incurred for an extended time period shall be prorated based upon time periods to which such items are applicable, so that the amounts attributed to the Demised Premises relate in a reasonable manner to the time period in which Tenant has an obligation to pay for Operating Expenses.

11.5.3. Any amount due for Operating Expenses attributable to any period which is less than a full month shall be prorated (based on a 30-day month) for such fractional month.

11.5.4. Landlord and Tenant shall share those Operating Expenses incurred which, although considered normal maintenance or operating expenses would, under generally acceptable accounting principles consistently applied, be considered related to capital improvements, the reasonable useful (i.e. depreciable) life of which would extend beyond the end of the Term ("Long-Term Item"), as follows:

(a) Tenant shall pay Operating Expenses related to Long-Term Items, subject to Sections 9.2, 11.2, 11.3.1 and 11.3.2, above.

(b) At any time Tenant intends to incur an Operating Expense related to a Long-Term Item, Tenant shall notify Landlord, in writing, and Landlord shall approve such expenditure, which approval shall not be unreasonably withheld or delayed. Landlord shall not be required to approve any expenditure which is not required under this Section 11 for the maintenance and operation of the Demised Premises.

(c) At that time, Landlord and Tenant shall also agree on the "useful" (i.e. depreciable) life of the Long-Term Item and shall determine a per-year useful life allocation (the "Useful Life Allocation") of financial responsibility for that Long-Term Item. By way of example only, financial responsibility for a Long-Term Item which requires the expenditure of $50,000 and which has a five-year "useful" life would be assigned a $10,000 per year Useful Life Allocation.

(d) The Useful Life Allocation will be applied to the Operating Expense related to the Long-Term Item, until the full amount of the Operating Expense has been amortized.

(e) If, at the end of the Term, there remains any unamortized Useful Life Allocation(s), Landlord shall, within thirty (30) days after the end of the Term, refund to Tenant, such unamortized Useful Life Allocations, in cash.

11.5.5. Operating Expenses shall be only the actual and reasonable expenses incurred, subject to proration as specified in Sections 11.5.2 and 11.5.3, above.

11.6. Payment of Taxes. Tenant shall pay not less than ten (10) days before delinquency, all taxes levied against any personal property or trade fixtures in or about the Demised Premises.

11.7. Taxes on Tenant's Property. If any taxes on Tenant's personal property or trade fixtures are levied against Landlord or Landlord's property or, if the assessed valuation of the Building is increased by the inclusion therein of a value attributable to Tenant's personal property or trade fixtures, and if Landlord, after written notice to Tenant, elects to pay the taxes based upon such increase in assessed value, then Tenant shall, within thirty (30) days after receipt of Landlord’s written demand, repay to Landlord the taxes so levied against Landlord.

12. Utilities and Services.

12.1. Tenant shall pay separately for all water, gas, electricity, telephone, trash removal and all other utilities and services supplied to the Demised Premises, whether arranged by Tenant or Landlord, together with any taxes thereon.

12.2. Landlord shall not be liable for, nor shall any eviction of Tenant result from, the interruption in delivery of any such utility or service to the Demised Premises when such failure is caused by accident, breakage, repairs, strikes, lockouts or other labor disturbances or labor disputes of any character, governmental regulation, moratorium or other governmental action, the inability to furnish such utility or service despite the exercise of reasonable diligence by Landlord or by any other cause beyond Landlord’s reasonable control, excluding only interruptions of service caused solely by Landlord’s active negligence or willful misconduct. In the event of an interruption which is solely the result of the Landlord’s active negligence or willful misconduct, and which prevents Tenant from conducting regular business on the Demised Premises, Rent shall be abated to the extent Tenant’s regular business operations are interrupted, commencing upon the date of interruption until the delivery of such utilities or services are restored to the Demised Premises and Landlord shall be responsible for Tenant’s damages directly caused by such active negligence or willful misconduct. The abatement of rent and Landlord’s liability for Tenant’s damages are conditioned upon Landlord’ s receipt of the proceeds of the rental interruption insurance which Tenant is required to maintain pursuant to Section 18.4 of this Lease, unless such rental insurance and proceeds are not available due solely to the fact that the interruption was caused by Landlord’s sole active negligence or willful misconduct. If an interruption in utilities or services which prevents Tenant from conducting regular business on the Demised Premises continues for more than thirty (30) consecutive days, then Tenant shall be entitled at any time thereafter (prior to the restoration of such utilities or services) to terminate this lease upon written notice to Landlord together with payment, in advance, of one (1) year’s worth of Annual Rent at the rate then in effect, less the amount of Annual Rent, if any, paid during the period of interruption whether directly by Tenant or from the proceeds of rental interruption insurance.

12.3. If Tenant shall require any utilities or services in excess of that initially provided in the Improvement Plans, such as by reason of equipment to be operated by Tenant, then Tenant shall make all necessary arrangements, at Tenant’s expense, for such excess services and utilities.

13. Mortgages and Liens.

13.1. Mortgages. Tenant may not mortgage, encumber or assign as collateral for any Tenant obligation, Tenant’s interests under this Lease or in the Demised Premises. In the event Tenant shall lease or finance the acquisition of equipment, furnishings or other personal property of a removable nature utilized by Tenant in the operation of Tenant’s business, Tenant warrants that any Uniform Commercial Code Financing Statement executed by Tenant will, upon its face or by exhibit thereto, indicate that such Financing Statement is applicable only to such removable personal property of Tenant located within the Demised Premises, the acquisition of which was financed by Tenant pursuant to said Financing Statement. In no event shall the address of the Building be furnished on the statement without qualifying language as to applicability of the lien only to removable personal property therein. Should any holder of a Financing Statement executed by Tenant record or place of record a Financing Statement which appears to constitute a lien against any interest of Landlord or against equipment which may be located other than within the Demised Premises, Tenant shall, within ten (10) days after filing such Financing Statement, cause (i) copies of the Security Agreement or other documents to which the Financing Statement pertains to be furnished to Landlord to show that such lien is not applicable to Landlord's interest, and (ii) its lender to amend documents of record so as to clarify that such lien is not applicable to any interest of Landlord in the Demised Premises. Landlord will, upon Tenant's written request, and without incurring any liability, execute such lien waiver documents as may be reasonably necessary for Tenant to finance its fixtures, furnishings and equipment located on the Demised Premises.

13.2. Mechanics Liens.

13.2.1. Tenant shall keep the Demised Premises free from any liens arising out of work performed, materials furnished and obligations incurred by Tenant. Tenant covenants and agrees that any mechanic's lien filed against the Demised Premises for work claimed to have been done for, or materials claimed to have been furnished to, Tenant will be discharged by Tenant, by bond or otherwise, within thirty (30) days after the filing thereof, at the sole cost and expense of Tenant. This provision does not apply to any claim or lien arising out of the original construction of the Demised Premises by Landlord pursuant to this Lease.

13.2.2. Tenant shall have the right to contest with due diligence the validity or amount of any lien or claimed lien created by Tenant if Tenant shall give to Landlord such security as Landlord may reasonably require to insure payment thereof and prevent any sale, foreclosure or forfeiture of the Demised Premises or any portion thereof by reason of such nonpayment. On final determination of the lien or claim for lien, Tenant shall immediately pay any judgment rendered with all proper costs and charges and shall have the lien released or judgment satisfied at Tenant's own expense, and if Tenant shall fail to do so, Landlord may at its option pay any such final judgment and clear the Demised Premises therefrom. If Tenant shall fail to contest with due diligence the validity or amount of any such lien or claimed lien created by Tenant, or to give Landlord security as hereinabove provided, Landlord may, but shall not be required to, contest the validity or amount of any such lien or claimed lien or settle or compromise the same without inquiring into the validity of the claim or the reasonableness of the amount thereof. Should any lien be filed against the Demised Premises or should any action of any character affecting the title thereto be commenced, Tenant shall give to Landlord written notice thereof as soon as notice of such lien or action comes to the knowledge of Tenant.

13.2.3. Should Tenant fail to discharge any such lien, Landlord may, at Landlord's election, pay such claim or post a bond or otherwise provide security to eliminate the lien as a claim against title, and the cost thereof shall be immediately due from Tenant as Additional Rent.

14. Assignment and Subletting.

14.1. Landlord’s Consent. Neither this Lease, nor any interest herein, may be assigned by Tenant voluntarily or involuntarily by operation of law and neither all nor any part of the Demised Premises shall be sublet by Tenant without the prior written consent of Landlord, which consent shall not be unreasonably withheld; provided, however, that, if Tenant is a corporation, Tenant may assign this Lease or sublet all or a portion of the Demised Premises to (i) a wholly-owned subsidiary corporation of Tenant, (ii) Tenant’s sole parent corporation, or (iii) a wholly-owned subsidiary corporation of Tenant’s sole parent corporation.

14.2. No Release of Tenant. Landlord may withhold approval of any proposed assignee or sublessee which, in the reasonable judgment of Landlord, does not have the financial capacity to promptly perform all of the terms and conditions of this Lease, including but not limited to the payment of all sums of money to be paid hereunder. No assignment of this Lease or subletting of the Demised Premises at any time shall relieve Tenant of any obligations required to be performed by Tenant. No extension of time or other indulgence granted by Landlord to any subsequent assignee whether or not notice thereof is given to any predecessor shall relieve Tenant or any future tenant hereunder of its obligations under this Lease.

14.3. Written Instrument. No assignment or sublease shall be valid or effective until there is delivered to Landlord and any Lender (as defined in Section 16.5.2), a duplicate original of the written instrument of assignment, in recordable form, containing the name or address of the assignee or sublessee, and an assumption by the assignee or sublessee of the Lease and of all obligations under this Lease to be performed by Tenant. Such assumption need relate only to the obligations thereafter to be performed by Tenant.

14.4. Assignment of Subrents. Tenant hereby irrevocably assigns to Landlord all rents due or to become due from any assignee of Tenant’s interest hereunder and any sublessee or any tenant or occupant of the Demised Premises or any part thereof, together with the right to collect and receive such rents. Upon any Default by Tenant under this Lease, Landlord shall have absolute title to such rents and the absolute right to collect the same. Tenant shall not demand or accept from any sublessee, tenant or occupant of the Demised Premises, or any part thereof, any payment, prepayment or advance payment in respect of more than one rental period under the applicable sublease and in no event shall Tenant demand or accept any payment, prepayment or advance payment for a period exceeding one month. So long as Tenant is not in Default under the terms of this Lease, Landlord shall apply as a credit against Tenant’s next month’s installment(s) of Rent (or refund to Tenant if the Term has expired) fifty percent (50%) of the amount by which the subrents collected from any sublessee exceed the Rent owed by Tenant with respect to the portion of the Demised Premises which are the subject of such sublease (i.e. 50% of the “bonus” sublease rent).

14.5. Continuation of Subleases. Whether or not Landlord elects to terminate this Lease on account of any Default by Tenant, as set forth in Section 20, below, Landlord shall have the right, following such Default, to terminate any and all subleases, licenses, concessions or other consensual arrangements for possession entered into by Tenant and affecting the Demised Premises or may, in Landlord's sole discretion, succeed to Tenant's interest in such subleases, licenses, concessions or arrangements. In the event of Landlord's election to succeed to Tenant's interest in any such subleases, licenses, concessions or arrangements, Tenant shall, as of the date of notice by Landlord of such election, have no further right or interest in the rent or other consideration receivable thereunder.

15. Alterations, Additions and Repairs. Tenant shall have the right to make changes, alterations or additions to the improvements on the Demised Premises ("Alterations"), subject to the following conditions:

15.1. No change, alteration or addition shall at any time be made which shall involve any structural component of the Building, or make any structural changes and alterations, or other changes that materially diminish the value of any improvement on the Demised Premises, or change the usage thereof.

15.2. No change, alteration or addition shall be made involving an expenditure in excess of Fifty Thousand Dollars ($50,000) without the prior written consent of the Landlord, which shall not be unreasonably withheld. Landlord will endeavor with reasonable diligence to obtain agreement from any Lender that its consent, when required, to a proposed change, alteration or addition, will not be unreasonably withheld.

15.3. No change, alteration or addition shall be undertaken until Tenant shall have procured and paid for all required municipal and other governmental permits and authorizations of the various municipal departments and governmental subdivisions having jurisdiction.

15.4. All work done in connection with any change, alteration or addition shall be done only by licensed and qualified contractors or mechanics in a good and workmanlike manner and in compliance with all Applicable Laws and in accord with all Instruments of Record, and Tenant shall procure certificates of occupancy and other licenses and certificates if required by law.

15.5. At all times when any change, alteration, or addition is in progress, there shall be maintained, at no expense to Landlord, workmen's compensation insurance in accordance with the law covering all persons employed in connection with the change or alteration and general liability insurance for the mutual benefit of Tenant and Landlord expressly covering the additional hazards, if any, due to the change, alteration or addition.

15.6. All alterations, additions or improvements made to the Demised Premises by Tenant after the initial build-out shall be removed at the expense of Tenant at the end of the Term of this Lease. When Tenant requests Landlord's consent for making a specific alteration, addition or improvement, or if Landlord's consent is not required, prior to commencing such alteration, addition or improvement, Tenant may request in writing that Landlord waive Tenant's obligation to remove said specific alteration, addition or improvement; and Landlord may deny said request for a waiver in Landlord's (good faith discretion, only if Landlord determines that such alteration, addition or improvement would likely result in a material diminution of the sale or lease value of the Demised Premises. Said denial shall be by written notice to Tenant stating Landlord's reasons and delivered within fifteen (15) days after Landlord's receipt of Tenant's written request.

15.7. Subject to the preceding section 15.6, any permanent alteration or improvement to the Demised Premises or any part thereof, and any replacement of fixtures forming an integral part of the improvements or any portion thereof, during the Term of this Lease shall at once become the absolute property of Landlord without payment of any kind therefor ("Permanent Alterations").

16. Damage or Destruction.

16.1. Definitions.

16.1.1. "Damage" shall mean damage or destruction to the improvements on the Demised Premises, by fire or other perils, other than the Tenant Owned Improvements.

16.1.2. "Total Destruction" shall mean Damage to the Demised Premises, the repair cost of which is fifty percent (50%) or more of the then Replacement Cost of the Demised Premises immediately prior to such Damage, excluding from such calculation the value of the Land and Tenant Owned Improvements.

16.1.3. "Insured Loss" shall mean Damage which was caused by an event required to be covered by the insurance described in Section 18 of this Lease, irrespective of any deductible amounts or coverage limits involved.

16.1.4. "Replacement Cost" shall mean the cost to repair or rebuild the Improvements owned by Landlord at the time of the occurrence of the Damage to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of applicable building codes, ordinances or laws, and without deduction for depreciation.

16.1.5. "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Section 32, in, on, or under the Demised Premises.

16.1.6. "Tenant Owned Improvements" shall mean Alterations made by Tenant that are not Permanent Alterations.

16.2. Damage to the Demised Premises.

16.2.1. Insured Loss. If Damage occurs to the Demised Premises, then Landlord shall, subject to the provisions of this Section 16, commence the repair of such Damage (but not Tenant Owned Improvements or Tenant's fixtures or personal property, the repair of which shall be Tenant's sole duty and financial responsibility), as soon as reasonably practicable, but in any event once (i) Landlord has, with the exercise of reasonable diligence, obtained all necessary building permits and approvals to repair the Demised Premises, (ii) received the proceeds, if any, of the insurance required to be maintained under Section 18 of this Lease, and (iii) received the proceeds, if any, of the amounts Tenant is obligated to contribute toward such restoration in accordance with Section 16.2.3, below (the "Restoration Commencement Date"), and shall complete such repair as soon as reasonably practicable, but in any event within one (1) year after the Restoration Commencement Date (the "Restoration Completion Date"), and this Lease shall continue in full force and effect; provided, however, that Tenant shall undertake, at Landlord's election, the repair of any damage or destruction the total cost of which is One Hundred Thousand Dollars ($100,000) or less, and, in such event, Landlord shall make any insurance proceeds available to Tenant on a reasonable basis for that purpose.

16.2.2. Uninsured Loss. If, because such Damage resulted from an event which was not an Insured Loss, (a) the proceeds of the casualty insurance required to be maintained pursuant to Section 18 of this Lease, and (b) the amounts to be paid by Tenant pursuant to Section 16.2.3, below; if any, are not in the aggregate sufficient to pay the cost of repair of Damage to the Demised Premises, Landlord may at Landlord's option either: (i) repair such damage at Landlord's expense, as soon as reasonably practicable, but in any event by the Restoration Completion Date, in which event this Lease shall continue in full force and effect, or (ii), if the cost to Landlord to repair such Damage exceeds the then applicable Annual Rent for the Demised Premises, give written notice to Tenant within thirty (30) days after receipt by Landlord of knowledge of the occurrence of such damage of Landlord's desire to terminate this Lease as of the date sixty (60) days following the giving of such notice. In the event Landlord elects to terminate this Lease, Tenant shall have the right within ten (10) days after the receipt of such notice to give written notice to Landlord of Tenant's commitment to pay for the cost of repair of such Damage in excess of the sum of the then applicable Annual Rent, without reimbursement from Landlord, and Tenant shall provide Landlord with the required funds or satisfactory assurance thereof within thirty (30) days following Tenant's said commitment; provided, however, that Tenant shall be entitled to the use of insurance proceeds which may be available for such repair. In such event this Lease shall continue in full force and effect, and Landlord shall proceed to make such repairs as soon as reasonably practicable, to be completed in no event later than the Restoration Completion Date. If Tenant does not give such notice and provide the funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Landlord's notice of termination.

16.2.3. Underinsured Loss. If the proceeds of the casualty insurance required to be maintained pursuant to Section 18 of this Lease are not sufficient to pay the cost of repair of Damage to the Demised Premises for any reason other than because the Damage was not an Insured Loss (e.g. the application of deductibles or co-insurance requirements, and/or the inadequacy of coverage amount) or Tenant's failure to maintain the insurance required to be maintained pursuant to Section 18 of this Lease, then Tenant shall be responsible for, and shall pay to Landlord as Additional Rent, the amount by which the cost to repair the Damage exceeds the available insurance proceeds and this Lease shall continue in full force and effect; provided, however, that Tenant's responsibility under this Section 16.2.3 shall not exceed an amount equal to the then applicable Annual Rent, although such payment shall not be in lieu thereof. In such event this Lease shall continue in full force and effect, conditioned upon Tenant paying the amount required under this Section 16.2.3, and, subject to Section 16.2.1, above, Landlord shall proceed to make such repairs as soon as reasonably practicable, but in no event later than the Restoration Completion Date.

16.2.4. Tenant's Responsibility. Notwithstanding the provisions of this Section 16.2, if insurance-proceeds are not available or are insufficient to pay the cost to repair any Damage to the Demised Premises as the result of either (i) Tenant's failure to maintain the insurance required pursuant to Section 18 of this Lease, or (ii) the fact that the Damage is not an Insured Loss solely because it resulted from Tenant's active negligence or willful act, then Tenant shall be responsible for, and shall pay to Landlord as Additional Rent, the amount by which the cost to repair the Damage exceeds the available insurance proceeds and this Lease shall continue in full force and effect, but subject to Landlord's rights under Section 20.

16.3. Total Destruction of the Demised Premises. Notwithstanding any other provision hereof, if a Total Destruction occurs (including any destruction required by any authorized public authority), and the loss is an Insured Loss, this Lease shall terminate effective as of the date of the Total Destruction, provided Landlord receives or is entitled to receive the full amount of the casualty and rental interruption insurance required to be maintained by Tenant under Section 18 of this Lease. In the event, however, that (i) the damage or destruction was caused by Tenant's active negligence or willful act, and the loss was not an Insured Loss, or (ii) the full proceeds of the rental interruption insurance are not available to Landlord, this Lease shall not terminate and such occurrence shall be an Event of Default and Landlord shall have the right to recover Landlord's damages from Tenant. In the event of the inadequacy of rental interruption insurance, Tenant's liability therefor shall be limited to the difference between the amount Landlord receives from such insurance, if any, and the amount of the rental interruption insurance Tenant is required to maintain.

16.4. Damage Near End of Term. If at any time during the last six (6) months of the Term of this Lease there is Damage for which the cost of repair exceeds one (1) month's worth of Annual Rent, whether or not an Insured Loss, Landlord or Tenant may, at either's option, terminate this Lease effective sixty (60) days following the date of occurrence of such Damage by giving written notice to the other of that party's election to do so within thirty (30) days after the date of occurrence of such Damage. Provided, however, if Tenant has an exercisable option to extend this Lease at that time, then Tenant may preserve this Lease by, within twenty (20) days following the occurrence of the Damage, or before the expiration of the time provided in such option for its exercise, whichever is earlier ("Exercise Period"), (i) exercising such option and (ii) providing Landlord with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs to the extent required of Tenant under Section 16.2. If Tenant duly exercises such option during said Exercise Period and provides Landlord with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds to the extent required of Tenant under Section 16.2, and subject to the provisions of Sections 16.2 and 16.3 of this Lease, Landlord shall commence repair of such Damage as soon as practicable, but no later than the Restoration Commencement Date and complete repair of such Damage as soon as practicable but no later than the Restoration Completion Date, and this Lease shall continue in full force and effect. If Tenant fails to exercise such option and provide such funds or assurance during said Exercise Period, then Landlord may at Landlord's option terminate this Lease as of the expiration of said sixty (60) day period following the occurrence of such Damage by giving written notice to Tenant of Landlord's election to do so within ten (10) days after the expiration of the Exercise Period, notwithstanding any term or provision in the grant of option to the contrary.

16.5. Abatement of Rent; Tenant's Remedies.

16.5.1. In the event of Damage described in Section 16.2, whether or not Landlord or Tenant repairs or restores the Premises, the Rent payable by Tenant hereunder for the period during which such damage, its repair or the restoration continues, or prior to a determination about whether it will be repaired or restored, shall be abated in proportion to the degree to which Tenant's use of the Demised Premises is impaired, conditioned, however, upon Landlord's receipt of the proceeds of the rental interruption insurance required to be maintained by Tenant under Section 18 of this Lease during the pendency of any such abatement. Except for abatement of Rent as aforesaid, all other obligations of Tenant hereunder shall be performed by Tenant to the extent practicable, and Tenant shall have no claim against Landlord for any damage suffered by reason of any such repair or restoration.

16.5.2. If Landlord shall be obligated to repair or restore the Premises under the provisions of this Section 16 and shall not commence, in a substantial and meaningful way, the repair or restoration of the Demised Premises as soon as reasonably practicable, but in any event on or before the Restoration Commencement Date, Tenant may, at any time after the Restoration Commencement Date but prior to the commencement of such repair, give written notice to Landlord and to any holders of any mortgages, deeds of trust or ground leases on the Demised Premises ("Lenders") of which Tenant has actual or constructive notice of Tenant's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Tenant gives such notice to Landlord and such Lenders and such repair or restoration is not commenced in a substantial and meaningful way within sixty (60) days after receipt of such notice, this Lease shall terminate as of the end of such sixty (60) day period. If Landlord or a Lender commences the repair of the Premises in a substantial and meaningful way within sixty (60) days after receipt of such notice, the Lease shall continue in full force and effect.

16.5.3. In the event of Damage described in Section 16.2 or 16.3 which is solely the result of Landlord's active negligence or willful misconduct, and which prevents Tenant from conducting regular business on the Demised Premises, Rent shall be abated as set forth in Section 16.5.1, above, and Landlord shall be responsible for Tenant's damages directly caused by such active negligence or willful misconduct. The abatement of Rent and Landlord's liability for Tenant's damages are conditioned upon Landlord's receipt of the proceeds of the rental interruption insurance which Tenant is required to maintain pursuant to Section 18.4 of this Lease, unless such rental interruption insurance and proceeds are not-available due solely to the fact that the Damage was caused by Landlord's sole active negligence or willful misconduct.

16.6. Delay in Restoration. Notwithstanding anything to the contrary contained in this Section 16, if Landlord cannot substantially complete the restoration of the Demised Premises following Damage by the Restoration Completion Date, this Lease may, at the election of Landlord or Tenant, terminate upon the delivery of written notice delivered by Landlord or Tenant to the other.

16.7. Limitation on Landlord's Restoration Obligation. If Landlord is obligated to or elects to repair Damage to the Demised Premises as herein provided, Landlord shall be obligated to repair or restore only those portions of the Building and the Demised Premises which were originally provided at Landlord's expense, plus such other portions for which insurance proceeds are available to pay the costs to repair or restore. The repair and restoration of Tenant Owned Improvements for which no insurance proceeds are available shall be the obligation of Tenant. Landlord's repairs shall be limited to those repairs which are payable from the available insurance proceeds; and if any additional repairs or improvements are desired by Tenant, Tenant shall pay for the same.

16.8. Hazardous Substance Conditions. If a Hazardous Substance Condition occurs (other than a Hazardous Substance Condition which existed at or prior to the Term Commencement Date which shall be Landlord's sole responsibility), unless Tenant is legally responsible therefor (in which case Tenant shall make the investigation and remediation thereof required by Applicable Law and this Lease shall continue in full force and effect, but subject to Landlord's rights under Section 20), Landlord may at Landlord's option either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Landlord's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds one year's worth of Annual Rent, give written notice to Tenant within thirty (30) days after receipt by Landlord of knowledge of the occurrence of such Hazardous Substance Condition of Landlord's desire to terminate this Lease as of the date sixty (60) days following the giving of such notice. In the event Landlord elects to give such notice of Landlord's intention to terminate this Lease, Tenant shall have the right within ten (10) days after the receipt of such notice to give written notice to Landlord of Tenant's commitment to pay for the investigation and remediation of such Hazardous Substance Condition totally at Tenant's expense and without reimbursement from Landlord except to the extent of an amount equal to the Annual Rent, which shall be paid by Landlord. Tenant shall provide Landlord with the funds required of Tenant or satisfactory assurance thereof within thirty (30) days following Tenant's said commitment. In such event this Lease shall continue in full force and effect, and Landlord shall proceed to make such investigation and remediation as soon as reasonably possible and the required funds are available. If Tenant does not give such notice and provide the required funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Landlord's notice of termination. If a Hazardous Substance Condition occurs for which Tenant is not legally responsible, there shall be abatement of Tenant's obligations under this Lease to the same extent as provided in Section 16.5.1, conditioned upon Landlord's receipt of the proceeds of the rental interruption insurance required to be maintained by Tenant pursuant to Section 18 of this Lease. If a Hazardous Substance Condition occurs which is solely the result of Landlord's active negligence or willful misconduct, and which prevents Tenant from conducting regular business on the Demised Premises, Landlord shall be responsible for Tenant's damages directly caused by such active negligence or willful misconduct. Landlord’s liability for Tenant’s damages are conditioned upon Landlord’s receipt of the proceeds of the rental interruption insurance which Tenant is required to maintain pursuant to Section 18.4 of this Lease, unless such rental interruption insurance and proceeds are not available due solely to the fact that the Hazardous Substance Condition was caused by Landlord’s sole active negligence or willful misconduct. Notwithstanding the foregoing, should a Hazardous Substance Condition exist, unless Tenant is legally responsible therefor, which creates a present danger to the health or safety of Tenant’s employees or invitees, if Landlord fails to take immediate steps to ameliorate or remediate such conditions as soon as practicable under the circumstances, and fails to prosecute those efforts with appropriate diligence and dispatch, Tenant may give written notice to Landlord and to any Lenders of which Tenant has actual or constructive notice of Tenant’s election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Tenant gives such notice to Landlord and such Lenders and such repair or restoration is not commenced within sixty (60) days after receipt of such notice, this Lease shall terminate as of the end of such sixty (60) day period.

16.9. Termination — Advance Payment. Upon termination of this Lease pursuant to this Section 16, an equitable adjustment shall be made concerning advance Rent and any other advance payments made by Tenant to Landlord.

16.10. Waiver of Statutes. Landlord and Tenant agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Demised Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

17. Indemnification, Limitation of Liability.

17.1. Indemnification by Tenant. Tenant shall protect, indemnify, defend and save harmless Landlord from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, attorneys’ fees and expenses), imposed upon or incurred by or asserted against Landlord or the Demised Premises by reason of any death of, or injury to, any person or damage to property (i) occurring in, upon or about the Demised Premises (other than to the extent arising as a result of Landlord’s active negligence or willful misconduct), (ii) arising from -or out of any act or omission of Tenant, its agents, contractors, employees, servants, tenants and invitees (“Tenant’s Agents”), (iii) arising from or out of any use, nonuse or condition of the Demised Premises or any part thereof or the adjoining sidewalks, curbs, vault space, if any, streets or ways (except to the extent caused by Landlord’s failure to maintain any such areas which are, under this Lease, Landlord’s obligation to maintain), or (iv) arising out of any failure on the part of Tenant to perform or comply with any of the terms of this Lease, except to the extent arising from Landlord’s active negligence or willful misconduct or from the acts or omissions of any other tenant(s) in the Building or the Additional Improvements or their respective agents, contractors, employees, servants or invitees. In case any action, suit or proceeding is brought against Landlord by reason of any such occurrence, Tenant, upon Landlord’s request, shall at Tenant’s expense resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel designated by Landlord, subject to Tenant’s reasonable approval. The obligation of Tenant under this section shall survive any termination of this Lease.

17.2. Indemnification by Landlord.

17.2.1. Landlord shall protect, indemnify, defend and save harmless Tenant from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, attorneys’ fees and expenses), imposed upon or incurred by or asserted against Tenant by reason of any death of, or injury to, any person or damage to property arising from or out of any active negligence or willful misconduct of Landlord, its agents, contractors, employees, servants, tenants or invitees or arising out of any failure on the part of Landlord to perform or comply with any of the terms of this Lease. In case any action, suit or proceeding is brought against Tenant by reason of any such occurrence, Landlord, upon Tenant’s request, shall at Landlord’s expense resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel designated by Landlord, subject to Tenant’s reasonable approval. The obligation of Landlord under this section shall survive any termination of this Lease.

17.2.2. Notwithstanding the provisions of Section 16.8 of this Lease to the contrary, Landlord shall protect, indemnify, defend and save harmless Tenant from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, attorneys’ fees and expenses), imposed upon or incurred by or asserted against Tenant by reason of any Hazardous Substance Condition which existed prior to the Term Commencement Date. In case any action, suit or proceeding is brought against Tenant by reason of any such pre-existing Hazardous Substance Condition, Landlord, upon Tenant’s request, shall at Landlord’s expense resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel designated by Landlord, subject to Tenant’s reasonable approval. The obligation of Landlord under this section shall survive any termination of this Lease.

17.3. Limitations on Indemnification.

17.3.1. Notwithstanding any provision of Sections 17.1 and 17.2, above, to the contrary, Landlord shall not be liable to Tenant or any other party, and Tenant assumes all risk of damage to personal property, including loss of records kept within the Demised Premises, if the cause of such damage is of a nature which, if Tenant had elected to maintain fire and theft insurance with extended coverage and business records endorsement, would be a loss subject to settlement by the insurance carrier, including but not limited to damage or losses caused by fire, electrical malfunctions, gas explosion and water damage of any type, including but not limited to broken water lines, malfunction of sprinkler systems, roof leakage or stoppages of lines, unless and to the extent such loss is due to Landlord’s active negligence or willful misconduct. Tenant further waives any claim, for injury to Tenant’s business or loss of income relating to any such damage or destruction of personal property, including any loss of records. The foregoing waivers are limited to the extent of the insurance coverage described above that could have been obtained.

17.3.2. Neither Landlord nor its agents shall be liable for any damage to property entrusted to employees, agents or representatives of Tenant, nor for loss of or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water or rain which may leak from any part of the Improvements on the Demised Premises or from the pipes, appliances or plumbing therein or from the roof, street or subsurface or from any other place or resulting from dampness or any other cause whatsoever, it being the intent and agreement of the parties hereto that all property placed by Tenant on the Demised Premises, together with the maintenance and repair of any and all Improvements constructed on the Demised Premises, shall be at the sole risk and expense of Tenant, except to the extent related to or arising from Landlord's active negligence or willful misconduct.

17.3.3. Nothing in this Section 17.3 shall limit Landlord's liabilities under its warranties set forth in this Lease.

17.4. Notice. Each party shall promptly notify the other of any claim asserted against that party on account of any occurrence to which the foregoing indemnities relate, but failure to do so shall not affect the obligation of either party under this section.

18. Insurance.

18.1. Tenant's Extended Coverage Policy. Tenant shall obtain and keep in force from the Term Commencement Date or the date Tenant occupies the Demised Premises, whichever first occurs, throughout the Term of this Lease and until Tenant has surrendered control and possession of the Demised Premises to Landlord, a commercial general liability policy of insurance protecting Tenant and Landlord (as an additional insured) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the tenancy, use, occupancy or maintenance of the Demised Premises. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $3,000,000 per occurrence with an "Additional Insured-Managers or Lessors of Premises" endorsement and contain the "Amendment of the Pollution Exclusion" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall, to the extent commercially available in the marketplace, include coverage for liability assumed under this Lease as an "insured contract" for the performance of Tenant's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Tenant shall not, however, limit the liability of Tenant nor relieve Tenant of any obligation hereunder. All insurance to be carried by Tenant shall be primary to and not contributory with any similar insurance carried by Landlord, whose insurance shall be considered excess insurance only.

18.2. Property Insurance. Tenant shall, during the Term of this Lease, obtain and keep in force insurance upon the Demised Premises in an amount equal to the full Replacement Cost (exclusive of the costs of excavation, foundations and footings, and without reference to depreciation taken by Landlord upon its books or tax returns), or the amount of such insurance as the Lenders may require be maintained, with loss payable to Landlord and to any Lenders insuring loss or damage to the Demised Premises. Such insurance shall provide protection against any peril generally included within the “All-Risk, Broad Form 1020” form of property insurance policy, which includes insurance against sprinkler damage, vandalism and malicious mischief. Subject to availability thereof, Tenant shall further insure, as the Lenders may require, against flood and/or earthquake, loss or failure of building equipment, rental loss during the period to repair or rebuild, and worker’s compensation insurance. If Tenant is required to maintain earthquake insurance, Tenant shall pay one-half (1/2) toward the costs of such insurance, but shall not be required to expend more than Twenty Thousand Dollars ($20,000) during any one (1) year for premiums for such insurance and Landlord shall be responsible for paying any premiums in excess thereof. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage, including coverage for any additional costs resulting from debris removal and reasonable amounts of coverage for the enforcement of any ordinance or law regulating the reconstruction or replacement of any undamaged sections of the Demised Premises required to be demolished or removed by reason of the enforcement of any building, zoning, safety or land use laws as the result of a covered cause of loss. Said policy or policies shall also contain (i) an agreed valuation provision in lieu of any coinsurance clause and (ii) a waiver of subrogation. The cost of all said insurance shall be an Operating Expense which shall be paid directly by Tenant as Additional Rent. Tenant shall furnish to Landlord evidence reasonably satisfactory to Landlord of said property insurance policy. Landlord shall be named as an additional insured on Tenant’s property insurance policy; and all of the specifications and provisions applicable to the extent appropriate to Tenant’s liability insurance policy shall also be applicable to Tenant’s property insurance policy, on a reciprocal basis for the benefit of Landlord. The amount of insurance coverage maintained by Tenant under this Section 18.2 shall be reviewed every two (2) years during the Term to determine whether the amount is adequate to assure coverage of the Replacement Cost and shall be increased to the extent reasonably determined by Landlord to be inadequate.

18.3. Insurance on Tenant’s Property. Tenant assumes the risk of damage to any fixtures, goods, inventory, merchandise, equipment, personal property of any kind located on the Demised Premises. Landlord shall not be liable for injury to Tenant’s business or any loss of income therefore relative to damage to such items. Tenant, at its sole cost and expense shall, either by separate policy or at Tenant’s option, by endorsement to a policy already carried, maintain insurance coverage on all of Tenant’s personal property or fixtures to the Demised Premises installed by Tenant, in, on, or about the Demised Premises similar in coverage to that required to be maintained by Tenant under Section 18.2, above. Such insurance shall be full replacement cost coverage. The proceeds from any such insurance shall be used by Tenant for the replacement of personal property or the restoration of fixtures installed by Tenant in the Demised Premises. Tenant shall provide Landlord with written evidence that such insurance is in force on the Term Commencement Date or the date Tenant occupies the Demised Premises, whichever occurs first, and, thereafter, upon each anniversary of the Term Commencement Date, or upon the request of the Lenders. Tenant, at Tenant’s cost, shall carry such other insurance as Tenant desires for Tenant’s protection with respect to business interruption or loss of income.

18.4. Rental Interruption Insurance. Tenant shall obtain and keep in force from the Term Commencement Date or the date Tenant occupies the Demised Premises, whichever first occurs, throughout the Term of this Lease and until Tenant has surrendered control and possession of the Demised Premises to Landlord, a policy of insurance, either as a separate policy or an endorsement to another policy of insurance maintained by Tenant, whether denominated as business interruption insurance or rent interruption insurance, which insures the loss of the full Rent and other charges payable by Tenant to Landlord under this Lease for one (1) year (including all real estate taxes, insurance costs, and any scheduled rental increases). Said insurance shall provide that in the event this Lease is terminated or Tenant's obligation to pay Rent is abated by reason of an Insured Loss or an interruption in the delivery of utilities, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Demised Premises, to provide for one (1) full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, property taxes, insurance premium costs and other expenses, if any, otherwise payable by Tenant, for the next twelve (12) month period. Tenant shall be liable for any deductible amount in the event of such loss.

18.5. Landlord's Extended Coverage Policy. Landlord shall obtain and keep in force from the Term Commencement Date or the date Tenant occupies the Demised Premises, whichever first occurs, throughout the Term of this Lease and until Tenant has surrendered control and possession of the Demised Premises to Landlord, a commercial general liability policy of insurance protecting Landlord and Tenant (as an additional named insured) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Demised Premises and the Additional Improvements, if any. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $3,000,000 per occurrence with an "Additional Insured- Managers or Lessors of Premises" endorsement and contain the "Amendment of the Pollution Exclusion" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Landlord's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Landlord shall not, however, limit the liability of Landlord nor relieve Landlord of any obligation hereunder. All insurance to be carried by Landlord shall be primary to and not contributory with any similar insurance carried by Tenant, whose insurance shall be considered excess insurance only.

18.6. Insurance Requirements.

18.6.1. Insurance required hereunder shall be in companies duly licensed to transact business in the state of California, and maintaining during the policy term a "General Policyholders Rating" of at least A- and financial category rating of Class VII in "Best's Insurance Guide," unless otherwise mutually approved in writing by Landlord, Lender and Tenant.

18.6.2. Any of Tenant's or Landlord's policies may be in the nature of a "blanket policy" which specifically provides that the amount of insurance shall not be prejudiced by other losses covered by the policy.

18.6.3. Neither Tenant nor Landlord shall not do or permit to be done anything which shall invalidate the insurance policies referred to in this Section 18. All such policies shall be written as primary policies, not contributing with and not in excess of the coverage which Landlord or Tenant, respectively, may carry.

18.6.4. Tenant and Landlord shall cause to be delivered to the other certified copies of policies of such insurance or certificates evidencing the existence or amounts of such insurance with the insured and loss payable clauses as required by this Lease.

18.6.5. No such policy shall be cancelable or subject to material modification except after thirty (30) days prior written notice to Landlord or Tenant or any Lender, as the case may be. Tenant and Landlord shall, at least thirty (30) days prior to the expiration of such policies, furnish the other with evidence of renewals or "insurance binders" evidencing renewal thereof.

18.6.6. If Tenant or Landlord shall fail to procure and maintain the insurance required to be carried by it this Section 18, Landlord or Tenant may, but shall not be required to, procure and maintain the same, but, in the case of Tenant's failure to maintain its required insurance, as an Operating Expense. In the case of Landlord's failure to carry its required insurance, Tenant shall be entitled to a credit against Rent next coming due for any premiums actually paid by Tenant.

18.7. Waiver of Subrogation. Without affecting any other rights or remedies, Tenant and Landlord ("Waiving Party") each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss of or damage to the Waiving Party's property arising out of or incident to the perils required to be insured against under Section 18. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto.

18.8. Tenant's Right to Self-Insure. Notwithstanding the provisions of Sections 18.1, 18.2, 18.3, 18.4 and 18.6 above, Tenant may elect to self-insure against the types of losses which are required to be insured against thereunder; provided that, during any period of such self-insurance Tenant shall, at all times, maintain a book value net worth of no less than One Hundred Million Dollars ($100,000,000) and a debt-to-equity ratio of not less than fifty percent (50%). Tenant shall provide Landlord, as well as any Lender, with written notice of Tenant's election to self-insure no less than sixty (60) days prior to terminating Tenant's third-party insurance and commencing self-insurance, together with sufficient documentation, as determined by Landlord and Lender, in their reasonable discretion, that Tenant satisfies the financial thresholds set forth in the preceding sentence. In such an event, those provisions of this Lease which address the rights and responsibilities of Landlord and Tenant in relation to insurance, including, without limitation, their obligations to maintain insurance, the availability of insurance and the lack of sufficient insurance proceeds, shall be interpreted as if Tenant was maintaining the required insurance. Nevertheless, Tenant and Landlord agree to make such modifications to or enter into such amendments of this Lease as may be reasonably necessary to address any ambiguities or anomalies in their respective rights and obligations hereunder, including, without limitation, under Section 16, caused by Tenant’s election to self-insure.

19. Eminent Domain.

19.1. Taking. In the event the whole of the Demised Premises, or such critical and essential parts thereof as shall substantially deprive Tenant of the usefulness to Tenant of the Demised Premises (as mutually and reasonably determined by Landlord and Tenant) be taken for any public or quasi-public purpose by any lawful power or authority by exercise of the right of appropriation, condemnation or eminent domain, or sold to prevent such taking, either Tenant or Landlord may terminate this Lease effective as of the date possession is required to be surrendered to said authority by delivering written notice to the other of such termination.

19.2. Restoration of Demised Premises. Upon any taking, if this Lease is not terminated pursuant to Section 19.1 above, then Landlord shall promptly and diligently proceed to restore the Demised Premises to substantially their same condition, to the extent reasonably possible, prior to such partial taking (exclusive of Tenant’s fixtures, furnishings, equipment, supplies and other personal property and contents), but Landlord’s financial obligation under this Section 19.2 shall be limited in amount to the amount of the award in condemnation. Tenant, at Tenant’s expense, shall make all necessary repairs and alterations to Tenant’s fixtures, furnishings, equipment, supplies and other personal property and contents; provided, however, that Landlord shall make available to Tenant for” the restoration of any Tenant Owned Improvements any portion of the award in condemnation which remains unspent and available after completion of the restoration of the Demised Premises as required above. Until such restoration has been completed, Rent shall be abated proportionately based on the percentage of the rental value of the Demised Premises after such taking as compared to the rental value of the Demised Premises prior to such taking, conditioned, however, on Landlord’s receipt during such period of restoration of the proceeds of the rental interruption insurance required to be maintained by Tenant for Landlord’s benefit pursuant to Section 18 of this Lease.

19.3. Award. Landlord shall receive the total amount awarded in any proceeding resulting in the total or partial taking of the Demised Premises, Notwithstanding the provisions of this Section 19.3, if Lender shall refuse to allow such award to be used to restore the Demised Premises; and Landlord does not arrange alternate financing for such purpose, then either party hereto may terminate this Lease upon ninety (90) days notice in writing to the other. To the extent it does not result in a reduction in the award which would otherwise be payable to Landlord, Tenant shall be entitled to any award which is specifically awarded as compensation (i) for the taking of Tenant’s personal property and fixtures, including excess tenant improvements and Alterations which were installed at Tenant’s expense, and (ii) for costs of Tenant moving to a new location, and (iii) for Tenant’s loss of business.

20. Defaults and Remedies

20.1. Events of Default. Any one or more of the following events shall be an event of default by Tenant (“Event of Default”) under this Lease (and while an Event of Default exists, Tenant shall be considered “in Default” as that term is used in this Lease):

20.1.1. Tenant fails to pay any Rent within five (5) business days after the same becomes due and payable, provided, however, that on no more than two (2) occasions during any twelve (12) month period and no more than five (5) occasions during the Term, Tenant shall not be considered in Default under this Section 20.1.1 until five (5) business days have elapsed following written notice from Landlord to Tenant that Rent has not been paid when due; or

20.1.2. Tenant fails to pay any other sum required by this Lease when and as the same becomes due and payable and such failure shall continue for more than ten (10) days, provided, however, that on no more than two (2) occasions during any twelve (12) month period and no more than five (5) occasions during the Term (including any such notices delivered under Section 20.1.1, above), Tenant shall not be considered in Default under this Section 20.1.2 until ten (10) business days have elapsed following written notice from Landlord that the amount due hereunder has not been paid when due; or

20.1.3. Tenant fails to perform or comply with any other term hereof, and such failure shall continue for more than thirty (30) days after notice thereof from Landlord, and Tenant shall not within such period commence with due diligence and dispatch the curing of such default, or, having so commenced, shall thereafter fail or neglect to prosecute or complete with due diligence and dispatch the curing of such default; or

20.1.4. Tenant makes a general assignment for the benefit of creditors or shall admit in writing its inability to pay its debts, as they become due or shall file a petition in bankruptcy, or shall be adjudicated a bankrupt or insolvent, or shall file a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law, or regulation, or shall file an answer admitting or shall fail reasonably to contest the material allegations of a petition filed against it in any such proceeding, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of Tenant or any material part of its properties; or

20.1.5. Within ninety (90) days after the commencement of any proceeding against Tenant seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such proceeding shall not have been dismissed, or if, within ninety (90) days after the appointment without the consent or acquiescence of Tenant, of any trustee, receiver or liquidator of Tenant or of any material part of its properties, such appointment shall not have been vacated; or

20.1.6. A final judgment for the payment of money shall be rendered against Tenant and, within sixty (60) days after the entry thereof, such judgment shall not have been discharged or execution thereof stayed pending appeal, or if, within sixty (60) days after the expiration of any such stay, such judgment shall not have been discharged; or

20.1.7. Tenant shall permit the abandonment or nonoccupancy of the Demised Premises except for temporary vacancies or portions thereof, or to the extent caused by damage, destruction or condemnation, although Landlord's sole remedy for such Event of Default shall be termination of the Lease and possession of the Demised Premises.

20.2. Landlord's Remedies. Upon the occurrence of an Event of Default, Landlord, at its option, without further notice or demand to Tenant, shall have, in addition to all other rights and remedies provided in this Lease, at law or in equity, the option to pursue any one or more of the following remedies, each and all of which shall be cumulative and nonexclusive, without any notice or demand whatsoever:

20.2.1. Terminate this Lease, in which event Tenant shall immediately surrender the Demised Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in Rent, enter upon and take possession of the Demised Premises and expel or remove Tenant and any other person who may be occupying the Demised Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

(i) The worth at the time of award of any unpaid Rent which has been earned at the time of such termination; plus

(ii) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of award of the amount by which the unpaid Rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iv) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and

(v) Such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

The term "Rent" as used in this Section 20 shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Section 20.2.1 (i) and (ii) , above, the "worth at the time of award" shall be computed by allowing interest at the rate set forth in Section 20.9, below, but in no case greater than the maximum amount of such interest permitted by law. As used in Section 20.2.1 (iii) above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1 %).

20.3. Right to Collect Rent as Due. Landlord shall have the remedy described in California Civil Code Section 1951.4 (Landlord may continue lease in effect after Tenant's breach and abandonment and recover Rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all Rent as it becomes due.

20.4. New Lease Following Termination. In the event Landlord elects to terminate this Lease and relet the Premises, it may execute any new lease in its own name. Tenant hereunder shall have no right or authority whatsoever to collect any Rent or other sums from such tenant. The proceeds of any such reletting shall be applied as follows:

20.4.1. First, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord, including but not limited to storage charges or brokerage commissions owing from Tenant to Landlord as the result of such reletting;

20.4.2. Second, to the payment of the costs and expenses of reletting the Premises, including alterations and repairs which Landlord deems reasonably necessary and advisable, and reasonable attorneys' fees incurred by Landlord in connection with the retaking of the Demised Premises and such reletting;

20.4.3. Third, to the payment of Rent and other charges due and unpaid hereunder; and

20.4.4. Fourth, to the payment of future Rent and other damages payable by Tenant under this Lease.

20.5. Cumulative Rights; No Waiver. All rights, options and remedies of Landlord contained in this Lease shall be construed and held to be non-exclusive and cumulative. Landlord shall have the right to pursue any or all of such remedies or any other remedy or relief which may be provided by law, whether or not stated in this Lease. No waiver of any Default of Tenant hereunder shall be implied from the acceptance by Landlord of any Rent or other payments due hereunder (except with respect to the amount so collected) or any omission by Landlord to take any action on account of such Default if such Default persists or is repeated, and no express waiver shall affect Defaults other than as specified in said waiver.

20.6. Tenant Not Released From Liability. No expiration or termination of the Term pursuant to this Section 20 or by operation of law, or otherwise (except as expressly provided herein), and no repossession of the Demised Premises or any part thereof pursuant to this Section 20, or otherwise, shall relieve Tenant of its liabilities and obligations hereunder, all of which shall survive such expiration, termination or repossession.

20.7. Landlord Default and Liability.

20.7.1. Landlord shall be in default under this Lease (a "Landlord Default") if Landlord fails to perform an obligation required of Landlord under this Lease within a reasonable time, but in no event until the lapse of thirty (30) days after written notice to

Landlord by Tenant specifically identifying the obligation Landlord has failed to perform; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance, then Landlord shall not be in default if Landlord commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion. Except in the case of Landlord's active negligence or willful misconduct, Landlord's liability for a Landlord Default shall be only for damages arising from and after Landlord's receipt of Tenant's written notice claiming a Landlord Default. Any claims for a Landlord Default concerning the construction of the Improvements shall be asserted in writing, if at all, not later than 360 days following the substantial completion of construction of the Improvements, except with regard to matters related to Landlord's warranty against latent defects contained in Section 8.2 of this Lease, in which case such claim shall be made within sixty (60) days after such defect is discovered. In the event that there is any insurance coverage for the damages claimed to be caused by a Landlord Default, said insurance proceeds shall be exhausted and Landlord shall be obligated to pay only the remainder of said damages.

20.7.2. If Landlord is a limited partnership, limited liability company or joint venture, the limited partners of such partnership or members of such limited liability company shall not be personally liable and no limited partner or member of Landlord shall be sued individually or named individually as a party in any suit or action or service of process be made against any limited partner or member of Landlord. If Landlord is a corporation, the shareholders, directors, officers, employees and/or agents of such corporation shall not be personally liable and no shareholder, director, officer, employee or agent of Landlord shall be sued or named as a party in any suit or action or service of process be made against any shareholder, director, officer, employee or agent of Landlord (excluding however the corporation's statutory agent for service of process). No limited partner, member, shareholder, director, employee or agent of Landlord shall be required to answer or otherwise plead to any service of process and no judgment will be taken or writ of execution levied against any limited partner, member, shareholder, director, employee or agent of Landlord.

20.8. Notice to Lender. In the event of any Landlord Default, Tenant shall give notice, by registered or certified mail, at any address provided to Tenant, to any Lender whose address shall have been furnished to Tenant and Tenant shall offer such Lender a reasonable opportunity to cure the default. The period of time for Lender to cure a Landlord Default shall begin on the receipt of notice by Lender from Tenant of the Landlord Default and shall continue until thirty (30) days thereafter (which thirty (30) day period shall run concurrently with the thirty (30) day period provided in Section 20.7.1, above).

20.9. Late Payments. If Tenant is in Default in its obligation to pay any Rent to Landlord, in addition to any other remedies to which Landlord may be entitled under this Lease, Tenant shall pay to Landlord the following as Additional Rent:

(a) A late charge equal to the late charge Landlord is required to pay to Landlord's mortgagee, provided such late charge is assessed to Landlord and Landlord provides Tenant with written evidence of such late charge; and

(b) Interest on the overdue amount Tenant has not paid accruing from and as of the day it was due, at the rate of interest equal to the rate of interest charged by Lender on the mortgage financing secured by the Demised Premises (as evidenced by Landlord in writing to Tenant).

Late charges and interest owing pursuant to this Section 20.9 shall be due and payable within two (2) business days after proper written demand from Landlord. Tenant acknowledges that Landlord’s sole source of funds to cover debt service under the fee mortgage relating to the Real Property is Tenant’s Rent payments hereunder and that Tenant’s late payment of Rent will result in Landlord’s late payment of debt service and will, therefore, cause Landlord to incur the late payment charges to the fee mortgagee and related costs and expenses.

21. Notice and Payment of Rent to Landlord.

21.1. Payment of Rent and Delivery of Notice. Rent and all other sums due Landlord under the terms and conditions of this Lease, and any notice, consent, demand, bill, statement or other communication required or permitted to be given hereunder to either Landlord or Tenant shall be in writing and shall be deemed duly delivered upon personal delivery, or as of the second business day after mailing by United States mail, postage prepaid, return receipt requested, or upon the next business day if delivered by overnight courier or similar overnight delivery system, addressed to Tenant at the Demised Premises or to Tenant or Landlord at the address(es) shown and to the person(s) identified in Section 2.7 herein. Either party may, by notice to the other given pursuant to this Section, specify additional or different addresses for notice purposes, of may change the identity of the person to whom the notices are to be addressed.

21.2. Personal Service. Notwithstanding the foregoing, a notice from one party to the other shall be deemed sufficient if personally served by the agent of the serving party upon the President or any Vice-President, or the Secretary or Treasurer or any General Partner of the other party, and, in the event of a judicial proceeding with respect to this Lease, a notice, service of process or other communication shall be deemed properly given if served or otherwise delivered in accordance with the laws and rules of civil procedure of the jurisdiction in which such judicial proceeding is pending.

22. Subordination and Attornment.

22.1. This Lease shall be subject and subordinate to the lien of any mortgage, deed of trust or lease in which Landlord is tenant, now or hereafter in force against the Demised Premises, and to all advances made or hereafter to be made upon the security thereof without the necessity of the execution and delivery of any further instruments on the part of Tenant to effectuate such subordination; provided, however, that Tenant shall execute and deliver, within ten (10) days after request therefor, such further instrument or instruments evidencing such subordination of this Lease to the lien of any such mortgages, deeds of trust or leases in which Landlord is tenant as may be reasonably required for that purposes; provided, further, that the holder of any such mortgage, deed of trust or lease delivers to Tenant a non-disturbance agreement in a form reasonably similar to the form of Subordination, Nondisturbance and

Attornment Agreement which is attached to this Lease as Exhibit "F," providing that so long as Tenant performs all of its obligations under the Lease, Tenant's quiet enjoyment and use of the Demised Premises shall not be disturbed.

22.2. If any mortgagee, beneficiary or landlord under a lease wherein Landlord is tenant so elects, this Lease shall be deemed prior in lien to any such lease, mortgage or deed of trust upon or including the Demised Premises, regardless of date, and Tenant shall execute a statement in writing to such effect within ten (10) days after receipt of Landlord's request therefor.

22.3. Subject to Section 22.1, above, Tenant agrees to attorn to any successor in interest to Landlord whether by purchase, foreclosure, sale in lieu of foreclosure, power of sale, termination of any lease of land only or land and buildings in a sale-leaseback transaction or otherwise, if so requested or required by such successor in interest, and Tenant agrees, within ten (10) days after receipt of demand therefor, to execute such agreement or agreements in confirmation of such attornment. If any person shall succeed to all or part of Landlord's interest in the Demised Premises upon the exercise of any remedy provided for in any mortgage of the Demised Premises now or hereafter recorded to which this Lease is prior, Tenant shall attorn and recognize such person as Tenant's landlord as above provided and this Lease shall continue in full force and effect as a direct Lease between such person and Tenant as fully and with the same force and effect as if this Lease had originally been entered into by such person and Tenant, except that such person shall not be liable for any act or omission of Landlord prior to such person's succession to title, nor be subject to any offset, defense or counterclaim occurring prior to such person's succession to title, nor be bound by any material modification of this Lease or any waiver, compromise, release or discharge of any obligation of Tenant hereunder unless such modification, waiver, compromise, release or discharge shall have been specifically consented to in writing by the mortgagee under said mortgage; provided that nothing in this Section 22.3 shall be deemed to alter or diminish such successor's liability and responsibilities under this Lease.

22.4. If Landlord obtains a loan commitment from a lender for the financing or refinancing of the Demised Premises, and said loan commitment requires some amendment(s) to this Lease, then Tenant shall cooperate with Landlord in executing said amendment(s), so long as the amendment(s) do not adversely affect any of the material rights, obligations or privileges of Tenant under this Lease.

23. Fixtures. All fixtures, furniture and equipment installed in the Demised Premises by Tenant shall at all times be and remain the sole and exclusive property of Tenant, and at its option, the same, or any portion thereof, may be removed by Tenant at the expiration or termination of this Lease. The term "Trade Fixtures" as used in this Lease shall mean Tenant's machinery, personal property and equipment that can be removed without doing material damage to the Demised Premises, or which can be removed by Tenant and any damage caused by such removal can be repaired by Tenant. Any damage caused by such removal by Tenant shall be repaired at the expense of Tenant. Anything hereinbefore to the contrary notwithstanding, if Tenant shall be in Default under this Lease, Landlord shall, to the extent permitted by law, have (in addition to all other rights) a right of distress for rent as security for all rent and other sums

payable under this Lease. In addition, if any of Tenant's furniture, equipment or fixtures are not removed by Tenant at its expense within twenty (20) days after any repossession of the Demised Premises (whether or not this Lease has been terminated) such furniture, equipment and fixtures shall be considered abandoned by Tenant and may be appropriated, sold, destroyed, or otherwise disposed of by Landlord without notice to Tenant and without obligation to account therefor, except as may be required by applicable law; and Tenant shall pay Landlord, upon demand, all costs and expenses incurred by Landlord in removing, storing or disposing of any of Tenant's furniture, equipment and fixtures. Landlord may exercise its right to remove Tenant's furniture, equipment and fixtures sooner than twenty (20) days if necessary to make the Demised Premises suitable for another tenant and such furniture, equipment and fixtures shall be deemed abandoned by Tenant if Tenant fails to recover them from Landlord within twenty (20) days. Landlord shall not be responsible for any replacement and loss of, or damages to Tenant's furniture, equipment or fixtures unless caused solely by Landlord's active negligence or willful misconduct.

24. Holding Over. At the expiration of this Lease, should Tenant hold over without Landlord's consent, such holding over shall create only a tenancy from month to month, terminable on thirty (30) days notice from either party to the other, provided that the amount of rent due and payable during any such period shall be one hundred and ten percent (110%) of the then applicable Rent, provided, however, that if such holding over extends for more than three (3) months after the expiration of this Lease, then the amount of rent due and payable during a further period of hold over shall be one hundred twenty-five percent (125%) of the then applicable Rent.

25. Quitclaim Deed. Tenant shall execute and deliver to Landlord on the expiration or termination of this Lease, immediately upon Landlord's request, a quitclaim deed to the Demised Premises or other document in recordable form suitable to evidence of record the termination of this Lease.

26. Quiet Enjoyment. If and so long as Tenant pays the Rent reserved by this Lease and performs and observes all the covenants and provisions hereof, Tenant shall quietly enjoy the Demised Premises, subject, however, to the terms of this Lease, and Landlord shall warrant and defend Tenant in the enjoyment and peaceful possession of the Demised Premises throughout the Term of this Lease.

27. Delays. In any case, where either party hereto is required to do any act, except the payment of Rent or other money, the term for the performance thereof shall be extended by a period equal to any delay caused by any delay in commencement or completion resulting from a Tenant Caused Delay or a Force Majeure Delay, whether such time be designated by a fixed date, a fixed time or a "reasonable time". Both parties shall use their respective reasonable efforts to minimize any such delay.

27.1. A "Force Majeure Delay" shall mean any delay in completing or performing any required act under this Lease, other than Tenant's obligation to pay Rent on a timely basis, which is the result of acts of God, war, governmental restrictions, inability to procure the necessary labor or materials, strikes or other causes beyond the control of the party from whom the performance is required.

27.2. A “Tenant-Caused Delay” shall mean (i) any delay, caused by the failure of Tenant, its officers, directors, partners, agents, employees, or contractors or any other representative of Tenant to act within the time limits set forth in the Lease or the Work Letter; and (ii) any delay resulting from Tenant Changes (as defined in the Section I.H.1. of the Work Letter).

28. Surrender.

28.1. Subject to Section 4.4 of this Lease, no surrender of possession of any part of the Demised Premises shall release Tenant from any of its obligations hereunder unless accepted by Landlord.

28.2. The voluntary or other surrender of this Lease by Tenant shall not work a merger, unless Landlord consents, and shall, at the option of Landlord, operate as an assignment to it of any or all subleases or subtenancies.

28.3. The voluntary or other surrender of any ground or underlying lease that may hereafter be executed affecting the Building or the Demised Premises, or a mutual cancellation thereof or of Landlord’s interest therein, shall not work a merger and shall, at the option of the successor of Landlord’s interest in the Building or the Demised Premises, operate as an assignment of this Lease.

28.4. Tenant shall, on the last day of the Initial Term or Option Term, or on the last day of any holdover, surrender the Demised Premises in as good condition as when Tenant took possession, except for ordinary wear and tear, loss by fire or casualty, loss by any cause beyond Tenant’s control, and alterations, additions and improvements herein permitted.

29. Release of Landlord Upon Conveyance. In case the original or any successor Landlord shall convey, transfer or otherwise dispose of Landlord’s interest in the Demised Premises, it shall thereupon be released from all liabilities and obligations of Landlord under this Lease (except those occurring prior to such conveyance or other disposition) and such liabilities and obligations shall be binding solely on the then owner of the Demised Premises.

30. Performance on Behalf of Tenant. In the event that Tenant shall fail to make any payment or perform any act required hereunder to be made or performed by Tenant, then Landlord may, but shall be under no obligation to, after such notice to Tenant, if any, as may be reasonable under the circumstances, or as may otherwise be required by the terms of this Lease, make such payment or perform such act with the same effect as if made or performed by Tenant. Entry by Landlord upon the Demised Premises for such purpose shall not waive or release Tenant from any obligation or Default hereunder. Tenant shall reimburse Landlord, within three (3) business days after demand therefor, for all sums so paid by Landlord and all

costs and expenses incurred by Landlord, together with interest thereon as provided in Section 20 hereof, in connection with the performance of any such act.

31. Estoppel Certificate by Tenant.

31.1. Tenant agrees at any time and from time to time, upon not less than ten (10) days prior request by Landlord, to execute, acknowledge and deliver to Landlord a statement in writing, substantially in the form attached to this Lease as Exhibit “G” with the blanks filled in, or on any other form reasonably requested by a proposed lender or purchaser, certifying that this Lease is unmodified and in full force and effect (or if there have been modifications that the same is in full force and effect as modified and stating those modifications), and the dates to which the Rent and other charges, if any, have been paid in advance, that Landlord is not in default on and has complied with all the terms and conditions of this Lease, it being intended that any such statement delivered pursuant to this section may be relied upon by any prospective purchaser of the fee or mortgagee or assignee of any mortgage upon the fee of the Demised Premises. Nothing in any such estoppel certificate shall change the rights or obligations of Landlord and Tenant as between themselves.

31.2. Landlord agrees at any time and from time to time, upon not less than ten (10) days prior request by Tenant, to execute, acknowledge and deliver to Tenant a statement in writing, certifying that this Lease is unmodified and in full force and effect (or if there have been modifications that the same is in full force and effect as modified and stating those modifications), and the dates to which the Rent and other charges, if any, have been paid in advance, that Tenant is not, to Landlord’s knowledge, in default on and has complied with all the terms and conditions of this Lease. Any such statement may be relied upon by the party to whom it is issued. Nothing in any such estoppel certificate shall change the rights or obligations of Landlord and Tenant as between themselves.

32. Hazardous Substances.

32.1. Landlord’s Consent. The term “Hazardous Substance” as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Demised Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Demised Premises, (ii) regulated or monitored by any governmental authority or (iii) a basis for liability of Landlord to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products, by-products or fractions thereof. Tenant may without Landlord’s prior consent, but in compliance with all Applicable Law, use any ordinary and customary materials reasonably required to be used by Tenant in the normal course of Tenant’s business permitted on the Demised Premises, so long as such use does not expose the Demised Premises or neighboring properties to any meaningful risk of contamination or damage or expose Landlord to any liability therefor. Tenant shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Demised Premises (including through the plumbing or sanitary sewer system) and shall promptly, at

Tenant’s expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Demised Premises, the elements surrounding same, or neighboring properties, that was caused or materially contributed to by Tenant, or pertaining to or involving any Hazardous Substance and/or storage tank brought onto the Demised Premises by or for Tenant or under its control.

32.1.1. Duty to Inform Landlord. If Tenant knows, or has reasonable cause to believe, that a Hazardous Substance, or a condition involving or resulting from same, has come to be located in, on, under or about the Demised Premises, other than as expressly allowed by this Lease or otherwise previously consented to by Landlord, Tenant shall immediately give written notice of such fact to Landlord. Tenant shall also immediately give Landlord a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action or proceeding given to, or received from, any governmental authority or private party, or persons entering or occupying the Demised Premises, concerning the presence, spill, release, discharge of, or exposure to, any Hazardous Substance or contamination in, on, or about the Demised Premises.

32.1.2. Tenant’s Indemnification. Tenant shall indemnify, protect, defend and hold Landlord, its agents, employees, Lenders and ground lessor, if any, and the Demised Premises, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, costs, claims, liens, expenses, penalties, permits and attorney’s and consultant’s fees arising out of or involving any Hazardous Substance or storage tank brought onto the Demised Premises by or for Tenant or under Tenant’s control. Tenant’s obligations under this Section 32.1.2 shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Tenant, and the cost of investigation (including consultant’s and attorney’s fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Landlord and Tenant shall release Tenant from its obligations under this Lease with respect to Hazardous Substances or storage tanks brought onto the Demised Premises by or for Tenant or under Tenant’s control, unless specifically so agreed by Landlord in writing at the time of such agreement.

32.2. Tenant’s Compliance with Law. Except as otherwise provided in this Lease, and further subject to Landlord’s warranties and obligations set forth in Sections 7.3, 8.2 and 9.2 of this Lease, Tenant, shall, from and after the Term Commencement Date at Tenant’s sole cost and expense, fully, diligently and in a timely manner, comply with all Applicable Laws. Tenant shall, within ten (10) days after receipt of Landlord’s written request, provide Landlord with copies of all documents and information, including, but not limited to, permits, registrations, manifests, applications, reports and certificates, evidencing Tenant’s compliance with any Applicable Law specified by Landlord, and shall immediately upon receipt, notify Landlord in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Tenant or the Demised Premises to comply with any Applicable Law.

32.3. Inspection; Compliance. Landlord and any Lenders (as defined in Section 16.5.2 of this Lease) shall have the right to employ experts and/or consultants in connection therewith and/or to advise Landlord with respect to Tenant's activities, including but not limited to the installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance or storage tank on or from the Demised Premises. The costs and expenses of any such inspections, to the extent related to Hazardous Materials, shall be paid by the party requesting same, unless a Default of this Lease related to Hazardous Materials, violation of Applicable Law related to Hazardous Materials, or a contamination, caused or materially contributed to by Tenant is found to exist or be imminent, or unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination.

33. Commissions. Tenant represents and warrants that there are no commissions, fees and sums which are now or in the future may be due and payable with regard to leasing, acquisition or other such matters related to the Demised Premises, other than those owed to Colliers Illif Thorn and The Staubach Company, for which Landlord shall be solely responsible. Landlord and Tenant agree to indemnify and hold each other harmless from any and all liability for the payment of commissions, fees and other sums other than those specifically enumerated above.

34. Financial Statements. Tenant, from time to time, at Landlord's request, shall provide Landlord with Tenant's most recent financial statements which, so long as Tenant is an entity which files periodic financial disclosures to securities regulatory authorities, shall be those which are periodically filed with those authorities. Unless Tenant is in Default of the Lease, in no event shall Tenant be obligated to provide financial statements more frequently than two (2) times in a fiscal year.

35. Waiver and Modification. No provision of this Lease may be modified, amended or added to except by an agreement in writing executed by Landlord and Tenant. The waiver by Landlord or Tenant of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant or condition herein contained.

36. Waiver of Jury Trial and Counterclaims. The parties hereto shall and do hereby waive trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other on any matters whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, Tenant's use or occupancy of the Demised Premises and/or any claim of injury or damage.

37. Miscellaneous.

37.1. Terms and Headings. Where applicable in this Lease, the singular includes the plural and the masculine or neuter includes the masculine, feminine and neuter. The headings used in this Lease are not a part hereof and shall have no effect upon the construction or interpretation of any part hereof.

37.2. Examination of Lease. Submission of this Lease for examination or signature by Tenant does not constitute a reservation of, or option for, lease, nor is it effective as a lease or otherwise until execution by, and delivery to, both Landlord and Tenant.

37.3. Time. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

37.4. Covenants and Conditions. Each provision of this Lease performable by Landlord or Tenant shall be deemed both a covenant and a condition.

37.5. Consents. Whenever consent or approval of either party is required, that party shall not unreasonably withhold such consent or approval, except as may be expressly set forth herein to the contrary.

37.6. Entire Agreement. This Lease (together with its Exhibits) is intended by the parties as a final expression of their agreement with respect to the terms as are included herein, and all prior agreements, understandings, representations and statements, oral or written, are merged herein, excepting only for written agreements signed contemporaneously with or after the signing of this Lease.

37.7. Severability. Any provision of this Lease which shall be deemed or proven to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and all such other provisions shall remain in full force and effect.

37.8. Recording. Landlord and Tenant shall execute, acknowledge and record a short form memorandum of this Lease.

37.9. Impartial Construction. The language in all parts of this Lease shall be in all cases construed as a whole according to its fair meaning, and not strictly for or against either Landlord or Tenant. As both parties participated in the drafting and review of this Lease, any ambiguity in the language will not be constructed against either party as the drafter of that language.

37.10. Inurement. Each of the covenants, conditions and agreements herein contained shall inure to the benefit of and shall apply to and be binding upon the parties hereto and their respective heirs, legatees, devisees, executors, administrators, successors, assigns, sublessees or any person who may come into possession of the Demised Premises or any part thereof in any manner whatsoever. Nothing contained in this Section shall in any way alter the provisions against assignment or subletting provided in this Lease.

37.11. Exhibits. All exhibits and schedules referred to herein and attached hereto are a part hereof, and incorporated herein by this reference.

37.12. Periods of Time. All periods of time referred to in this Lease shall include all Saturdays, Sundays and state or United States holidays, unless the period of time specifies business days, provided that if the date or last date to perform any act or give any notice with respect to this Lease shall fall on a Saturday, Sunday or state or national holiday, such act or notice may be timely performed or given on the next succeeding day which is not a Saturday, Sunday or state or national holiday.

37.13. Choice of Law. This Lease shall be construed and enforced in accordance with the laws of the State of California, and venue for any legal action under this Lease shall be San Diego County, California.

37.14. Interpretation. In the event any conflict exists between the provisions of this Lease, the order of priority in the interpretation hereof shall be as follows: (a) any supplemental agreement, memorandum of understanding or addendum signed simultaneously with, or after, the signing of this Lease, (b) Work Letter Exhibit B, (c) Exhibits (except Work Letter Exhibit B), (d) basic Lease provisions, and (e) general provisions.

37.15. Right of First Offer. In the event Landlord decides to market the Demised Premises for sale, Landlord shall notify Tenant of that intention, in writing ("Landlord's Offer Notice"), which Landlord's Offer Notice shall specify the terms and conditions under which Landlord is willing to sell the Demised Premises and under which it intends to offer the Demised Premises for sale to third parties (the "Terms and Conditions"). Landlord's Offer Notice shall be deemed an offer to sell the Demised Premises which is available for acceptance or rejection by Tenant on the terms expressed in this Section 37.15. If Tenant wishes to accept the offer to purchase the Demised Premises on the Terms and Conditions, Tenant shall, within twenty (20) days following receipt of Landlord's Offer Notice, deliver to Landlord written and unconditional acceptance of the Terms and Conditions ("Tenant's Acceptance Notice"), together with a non- refundable deposit in the amount of five percent (5%) of the purchase price. Tenant shall then have ninety (90) days to complete the purchase of the Demised Premises. If Tenant either (i) rejects Landlord's Offer Notice, (ii) accepts Landlord's Offer Notice, but subject to conditions or contingencies, (iii) submits a counter-offer to Landlord's Offer Notice, (iv) accepts Landlord's Offer Notice but fails to complete the purchase with the ninety (90) day period provided, or (v) fails to respond to Landlord's Offer Notice, Tenant shall be deemed to have rejected Landlord's Offer Notice, in which case Landlord will have no further responsibility under this Section 37.15 and will be free to sell the Demised Premises to a party other than Tenant on substantially the same terms as were offered to Tenant. If Landlord subsequently decides to market the Demised Premises on terms substantially more favorable to a prospective purchaser than those originally presented to Tenant, then Landlord shall again deliver Landlord's Offer Notice to Tenant and the procedure described in this Section 37.15 shall be repeated. If any Lender or successor to a Lender acquires title to the Demised Premises by "deed-in-lieu of foreclosure" or by foreclosure, the procedures' of this Section 37.15 shall not be applicable to such a sale or any sale by the Lender; provided, however, it shall continue to be applicable to any sale by any person or entity other than Lender, other than the foreclosure sale itself. The foregoing commitments by Landlord shall not constitute a right of first refusal which Tenant can enforce against Landlord to the detriment of any sale to a third party which Landlord may elect to make so long as the provisions of this Section 37.15 have been observed.

37.16. Counterparts. This Lease may be signed in counterparts, each of which shall be deemed an original, and all of which together shall be deemed one and the same Lease when both parties have signed a counterpart.

IN WITNESS WHEREOF, the parties have caused these presents to be executed as of the day and year first above written.

LANDLORD:

UTC GREENWICH PARTNERS, a California limited
partnership

By: Allen Development, Inc.,
a California corporation,
General Partner

By: /s/ MARTIN V.
Title: CHIEF FINANCIAL OFFICER

TENANT:

INTUIT, INC.,
a Delaware corporation

By: /s/ WILLIAM H. LANE
Title: VP/CFO

EXHIBIT “D”
to
BUILD-TO-SUIT LEASE

MULTI-TENANT ADDENDUM

This Multi-Tenant Addendum (“Addendum”) is a part of the Build-to-Suit Lease, dated as of May   , 1995, by and between Intuit, Inc., a Delaware corporation, and UTC Greenwich Partners, a California limited partnership (the “Lease”) with regard to the lease of certain land and improvements, including a two-story commercial office building, of approximately 140,000 square feet of Gross Area in size (the “Building”) (collectively the “Demised Premises”). The defined terms used in this Addendum have the same meanings as ascribed to them in the Lease, including, without limitation, the terms “Rentable Area” and “Usable Area.”

1. Purpose of the Addendum. Under certain circumstances described in the Lease, it is possible that (i) one or more tenant(s) other than Tenant will occupy the Building or, (ii) more than one tenant other than Tenant will occupy the Additional Improvements, or (iii) Additional improvements will be constructed on the Land and no portion occupied by Tenant. The provisions of the Lease addressing Operating Expenses, payment and reimbursement of Operating Expenses and the responsibility for the actual maintenance of the Demised Premises are primarily designed for the circumstance wherein Tenant is the sole tenant of the Land, Building and Additional Improvements. This Addendum is intended to address those same issues in the context where (i) either or both of the Building or the Additional Improvements (“Building Multi-Tenancy’) are occupied by Tenant together with another tenant(s), and (ii) the Demised Premises are occupied solely by Tenant and the Additional Improvements are occupied by a tenant(s) other than Tenant (“Land Multi-Tenancy”).

2. Establishment of “Common Facilities”.

a. Building Multi-Tenancy. If either or both of the Building or the Additional Improvements are ever leased to a tenant other than Tenant while Tenant continues to occupy a portion of the Building or the Additional Improvements, whichever is applicable, then the areas or facilities of the Building or the Additional Improvements which are not reserved for use by a tenant to the exclusion of all other tenants shall be, as appropriate and as determined by Landlord in its reasonable discretion, removed from the definition of the Demised Premises, and instead such facilities and areas will become “Building Common Facilities” to be shared by Tenant and the other tenant(s) in the Building. Building Common Facilities shall include common lobbies, hallways, public restrooms, stairwells and stairways, all parking areas, driveways, passageways, sidewalks, landscaped, areas, truck parking areas, loading and dock areas, the roof and roof membrane, drainage swales, gutters, downspouts, exterior glass, and exterior Building walls. Landlord shall promptly notify Tenant of any such determination with an explanation thereof as appropriate.

b. Land Multi-Tenancy. If Additional Improvements are ever leased to a tenant other than Tenant and Tenant does not occupy any portion thereof, then the parking areas, driveways, passageways, sidewalks, landscaped areas, truck parking areas, and loading and dock areas, shall be, as appropriate and as determined by Landlord in its reasonable discretion, removed from the definition of the Demised Premises, and instead such facilities and areas will become "Land Common Facilities" to be shared by Tenant and the tenant(s) of the Additional Improvements. Landlord shall promptly notify Tenant of any such determination with an explanation thereof as appropriate.

3. Maintenance of "Common Facilities". In addition to Tenant's responsibilities under Section *9*.1 of the Lease, and except to the extent specifically identified as Landlord's responsibility in Section 9.2 of the Lease (including Landlord's responsibilities under Sections 7.3 and 8.2 of the Lease), Tenant shall keep the Building Common Facilities and/or the Land Common Facilities, as appropriate, and every part thereof, in good order, appearance, condition and repair, free of obstructions, dirt and rubbish, and so as to comply fully and at all times with all Applicable Laws consistent with other first-class business and industrial parks in the North City Area. Tenant shall make all replacements and repairs to the Building Common Facilities and/or the Land Common Facilities in the condition described in the preceding sentence, reasonable wear and tear excepted. All repairs, replacements and renewals shall be at least equal in quality and class to the original work. Any and all warranties to which Landlord is entitled in connection with the development and construction of the Demised Premises or the Additional Improvements related to the Building Common Facilities or the Land Common Facilities, including, without limitation, those referred to in Section 8 of the Lease, shall be assigned to Tenant when and where appropriate, on a non-exclusive basis, for the Term of this Lease for the purpose of fulfilling Tenant's responsibilities under this section.

4. Payment of Operating Expenses. Tenant shall pay all of the Operating Expenses related to its maintenance obligations regarding the Building Common Facilities and the Land Common Facilities directly to the third party to whom the expense is payable, as such Operating Expenses become due and payable. Within ten (10) days following Landlord's written request to Tenant, Tenant shall furnish to Landlord appropriate evidence of payment of the Operating Expenses which have been paid by Tenant directly to a (third party.

a. Notwithstanding the foregoing, Landlord may elect to pay any or all of the Operating Expenses related to the Building Common Facilities or the Land Common Facilities directly without relieving Tenant of financial responsibility for such expenses. In the event Landlord so elects, Landlord shall give Tenant at least thirty (30) days prior written notice of Landlord's election and commitment to pay said Operating Expense(s), which notice shall identify which Operating Expenses Landlord is undertaking to pay directly and the date when such Operating Expenses become due. Tenant's Share of Common Operating Expenses (as defined below) which Landlord undertakes to pay directly shall be paid by Tenant to Landlord at least twenty (20) days prior to the scheduled due date ("Advance Expense Payment"). Tenant's Share of Common Operating Expenses which Landlord undertakes to pay directly and owed by Tenant to Landlord shall be deemed Additional Rent as defined in Section 6.2 of the Lease.

b. If Landlord makes the election described in subsection a, above, and Tenant fails to make an Advance Expense Payment when due, in addition to any other remedies available to Landlord under the Lease, Landlord may, thereafter, institute a procedure whereby Tenant shall pay to Landlord monthly installments of Tenant's Share of Common Operating Expenses based upon Landlord's reasonable estimate of the annual amount of Tenant's Share of Common Operating Expenses which Landlord has undertaken to pay directly. If such a monthly installment arrangement is instituted by Landlord, then Landlord shall provide Tenant, in writing, a statement containing an estimate of the amount of Tenant's Share of Common Operating Expenses which will be paid by Landlord for the current year and calculating the monthly installment due from Tenant to enable Landlord to pay those expenses when due (the "Monthly Installment"); and Tenant shall pay to Landlord, on the first day of each calendar month of the Term of this Lease thereafter, as Additional Rent, the Monthly Installment.

c. Within ninety (90) days after the conclusion of each calendar year during the Term, Landlord shall furnish to Tenant a statement showing, in reasonable detail, the actual Common Operating Expenses which Landlord paid during the previous calendar year. If the amounts paid by Tenant for Tenant's Share of Common Operating Expenses are less than the actual amount of Tenant's Share of Common Operating Expenses for the previous year, that additional sum shall be due and payable by Tenant to Landlord within thirty (30) days after receipt by Tenant of said statement. If the amounts paid by Tenant to Landlord exceed the actual Tenant's Share of Common Operating Expenses paid by Landlord for the previous calendar year, the difference shall be credited by Landlord against the Rent next due and owing from Tenant; provided that, if the Term has expired, Landlord shall accompany said statement with a payment to Tenant for the amount of such difference.

d. Notwithstanding the foregoing, if Tenant is not occupying any portion of the Additional Improvements, Tenant may elect to have Landlord undertake responsibility for and pay any or all of the Operating Expenses related to the Building Common Facilities related to the Additional Improvements or the Land Common Facilities without relieving Tenant of financial responsibility for Tenant's Share of Common Operating Expenses. In the event of such an election, Tenant shall notify Landlord, in writing, of such election within thirty (30) days after Landlord completes construction of the Additional Improvements and notifies Tenant of its determination of the Building Common Facilities, if any, and Land Common Facilities pursuant to Sections 2.a. and 2.b., above.

5. Tenant's Share of Common Operating Expenses. Although Tenant will be responsible for paying all Operating Expenses related to operation and maintenance of the Building Common Facilities and/or the Land Common Facilities, Tenant's share of those Operating Expenses ("Tenant's Share of Common Operating Expenses") shall be limited as follows:

a. The percentage of Tenant's Share of Common Operating Expenses related to operation and maintenance of the Building Common Areas shall be a fraction, the numerator of which is in the total square footage of Usable Area contained in the Demised Premises which is reserved exclusively for use by Tenant (i.e. excluding Building Common

Facilities and areas reserved for rental to others) and the denominator of which is the total square footage of Usable Area contained in the Demised Premises.

b. The percentage of Tenant's Share of Common Operating Expenses related to operation and maintenance of the Land Common Areas shall be a fraction, the numerator of which is in the total square footage of the Land comprising the Demised Premises (excluding the SDG&E Land) and the denominator of which is the sum total square footage of (i) the Land comprising the Demised Premises and (ii) the Land comprising the Excess Land.

c. Tenant's Share of Common Operating Expenses related to operation and maintenance of the Building Common Areas and the Land Common Areas shall be determined by applying the appropriate percentage calculated pursuant to subsections a. and b., above, to the amount of Common Operating Expenses incurred related to the Building Common Areas and the Land Common Areas, respectively.

d. In addition to the exclusions from Operating Expenses contained in Section 11.2 of the Lease, during a period of Building Multi-Tenancy or Land Multi-Tenancy, Operating Expenses shall not include:

i. costs (including permit, license and inspection fees) incurred in renovating or otherwise improving or decorating, painting or redecorating space for tenants or other occupants of the Building or Additional Improvements or in renovating or redecorating vacant space, including the cost of alterations or improvements to the premises of any other tenant or occupant of the Building, the Additional Improvements or the Building Common Facilities or the Land Common Facilities;

ii. cash or other consideration paid by Landlord on account of, with respect to, or in lieu of, the tenant improvements work or alterations described in clause (i) above;

iii. costs of any services sold or provided to Tenant, or tenants or other occupants of the Building or the Additional Improvements other than Tenant, for which Landlord is entitled to be reimbursed by such tenants or other occupants as an additional charge or rental over and above the basic rent charged to such tenants or other occupants (and escalations thereof);

iv. costs of any services which are provided to another tenant or occupant of the Building or the Additional Improvements which are not provided to Tenant;

v. costs incurred due to violation by Landlord or any tenant of the terms and conditions of any lease;

vi. real estate taxes actually paid by Tenant or any other tenant in the Building or Additional Improvements pursuant to the terms of their respective leases; and

vii. real estate taxes allocable to the tenant improvements of other tenants or occupants in the Building or the Additional Improvements which are over and above the tenant improvement allowance Landlord generally offers to tenants.

6. Tenant’s Recovery of Operating Expenses. Tenant shall be entitled to recover from Landlord the amount of Common Operating Expenses paid by Tenant which exceeds Tenant’s Share of Common Operating Expenses as determined pursuant to Section 5, above. Within thirty (30) days following the end of each calendar month during the Term, Tenant shall furnish to Landlord appropriate evidence of the Common Operating Expenses which have been paid by Tenant directly to a third party. Within thirty (30) days thereafter, Landlord shall pay to Tenant the amount by which the Common Operating Expenses paid by Tenant exceeds Tenant’s Share of Common Operating Expenses paid by Tenant.

7. Audit of Common Operating Expenses. Landlord and Tenant shall each have the right, at their own cost and expense, to audit or inspect the other’s detailed records each year with respect to Common Operating Expenses. Landlord shall maintain at its principal place of business and Tenant shall maintain on the Demised Premises, each for a period of at least twelve (12) months after the expiration of each calendar year during the Term, full and accurate books, records and supporting documents in connection with their payments of Common Operating Expenses. If an audit by either reveals an overpayment or an underrefund by or to the other, such overpayment or underrefund shall be settled directly between Landlord and Tenant by payment within thirty (30) days thereafter. If such audit reveals an overpayment or underrefund which is five percent (5%) or more, then the party who owes such overpayment or underrefund shall pay the costs and expenses of such audit. In the event the Term has expired, any such overpayment or underrefund and any such audit expense owed by Landlord to Tenant shall be paid to Tenant within ten (10) business days after determination thereof.

8. Further Limitations on Common Operating Expenses.

a. Common Operating Expenses shall be prorated for any partial calendar year during which this Addendum applies. Expenses such as taxes, assessments and insurance premiums which are incurred for an extended time period shall be prorated based upon time periods to which such items are applicable, so that the amounts attributed to the Demised Premises relate in a reasonable manner to the time period in which Tenant has an obligation to pay for Common Operating Expenses.

b. Any amount due for Operating Expenses attributable to any period which is less than a full month shall be prorated (based on a 30-day month) for such fractional month.

c. The provisions of the Lease governing the sharing of Long-Term Items shall also apply to Long-Term Items related to Building Common Facilities or Land Common Facilities.

EXHIBIT “E”

ACKNOWLEDGMENT OF TERM COMMENCEMENT DATE AND ANNUAL RENT

This Acknowledgment of Term Commencement Date and Annual Rent is entered into by and between KILROY REALTY, L.P., a Delaware limited partnership, or assignee (“Landlord”), and INTUIT, INC., a Delaware corporation (“Tenant”), dated as of April 20, 1999, with reference to that certain Amendment to Lease dated April 14, 1998 (“Lease Amendment”) by and between Landlord and Tenant, for the purpose of definitely establishing the Term Commencement Date and the Annual Rent, as those terms are defined in the Lease Amendment.

1. The New Term Commencement Date of the Initial Term of the Lease is the 16th day of April, 1999, and the Expiration Date is the 15th day of April, 2007, subject however to the. terms and conditions of the Lease Amendment.

2. Upon the New Term Commencement Date, the term of the entire Lease, including the existing Demised Premises and the Additional Premises (together the “Combined Demised Premises”) shall continue until the Expiration Date. Tenant shall be entitled to the Extension Options granted in accordance to Section 4.3 of that certain Build-To-Suit Lease dated June 9, 1995 (“Lease”), by and between Landlord (as successor to UTC Greenwich Partners, L.P.) and Tenant.

3. The Annual Rent for the Combined Demised Premises, as of the New Term Commencement Date, including the Additional Rent for the Excess Tenant Improvement Allowance, payable by the Tenant to Landlord under this Lease Amendment is as follows:

Combined Rent for Initial Term:

MONTHS	ANNUAL RENT	MONTHLY RENT
01-30	$3,161,561	$263,463.42
31-60	$3,381,827	$281,818.92
61-90	$3,618,614	$301,551.17
91-96	$3,873,159	$322,763.25

All rental payments shall be made payable to Kilroy Realty, L.P., a Delaware limited partnership, at the office of the Landlord at:

Kilroy Realty Corporation
2250 East Imperial Highway, Suite 1200
El Segundo, California 90245
Attention: Chief Financial Officer

4. The Combined Premises consists of the existing Demised Premises of 141,214 rentable square feet and the Additional Premises of 71,000 rentable square feet of floor area.

5. Other than as set forth above, all of the terms and conditions of the Lease Amendment are hereby ratified and confirmed, and shall continue in full force and effect.

IN WITNESS WHEREOF, the instrument has been duly executed by the parties as of the date first written above.

LANDLORD:

KILROY REALTY, L.P., a Delaware limited partnership
By: Kilroy Realty Corporation., a Maryland corporation,
General Partner

By: -s- Steven L. Black
Steven L. Black
Title: Executive Vice President

TENANT:

INTUIT INC., a Delaware corporation

By: -s- L. WOLFE
Name:
Title:

EXHIBIT “F”
to
BUILD-TO-SUIT LEASE

RECORDING REQUESTED BY AND
WHEN RECORDED RETURN TO:

SUBORDINATION,
NON-DISTURBANCE AND ATTORNMENT AGREEMENT

NOTICE: THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT RESULTS IN YOUR LEASEHOLD ESTATE IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY INSTRUMENT.

THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT is made by and among Intuit, Inc., a Delaware corporation (“Tenant”), UTC Greenwich Partners, a California limited partnership (“Landlord”), and (“Beneficiary”), and affects that certain real property described in Exhibit “A” attached hereto (the “Property”). This Agreement is entered into with reference to the following facts:

A. Landlord and Tenant have entered into that certain Build-to-Suit Lease (the “Lease”) by and between Landlord and Tenant dated May , 1995, covering the portion of the Property described therein (the “Demised Premises”).

B. Beneficiary has issued that certain commitment letter executed by Beneficiary, as Lender, and Landlord, as Borrower, dated (the “Commitment Letter”), setting forth the terms and conditions of its agreement to make a loan in the amount of Dollars ($)to Landlord (the “Loan”) to be evidenced by that certain Secured Promissory Note executed by Landlord in favor of Beneficiary, dated as of , in the amount of the Loan (the “Note”). The Note is to be secured by, among other things, that certain [Construction] Deed of Trust and Security Agreement with Assignment of Rents and Fixture Filing dated as of , encumbering the Property, executed by Landlord, as trustor, in favor of Beneficiary, securing repayment of the Loan evidenced by the Note, to be recorded in the records of the county recorder of the county in which the Property is located (the “Deed of Trust”).

C. For the purpose of completing the Loan, the parties hereto desire expressly to subordinate the Lease to the Deed of Trust, it being a condition precedent to Beneficiary’s making of the Loan to Landlord that the Deed of Trust shall be unconditionally and at all times a lien or charge prior and superior to the Lease and the leasehold estate created thereby.

D. It is to the mutual benefit of all of the parties hereto that the Loan be consummated.

NOW, THEREFORE, in order to induce Beneficiary to enter into and/or accept the Note, the Deed of Trust, and the other documents evidencing and/or securing the Loan and to make the Loan, and in consideration of the mutual covenants contained herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Subordination. Notwithstanding anything to the contrary set forth in the Lease, the Lease and the leasehold estate created thereby and all of Tenant’s rights, powers, privileges and benefits thereunder shall be and the same hereby are unconditionally made, and shall at all times remain, subject, subordinate and inferior to the Deed of Trust and the agreements, lien and charge thereof, and all rights, powers, privileges and benefits of Beneficiary thereunder and to any and all renewals, modifications, consolidations, replacements and extensions thereof, and Tenant hereby intentionally and unconditionally waives, relinquishes and subordinates the priority and superiority of the Lease and the leasehold estate created thereby and the rights, powers, privileges and benefits of Tenant thereunder in favor of the agreements contained in the Deed of Trust and the other documents evidencing and/or securing the Loan, and the lien and charge upon the Property of, the Deed of Trust. The parties hereto acknowledge and agree that Beneficiary would not make the Loan except in reliance on this Agreement and the execution, acknowledgment, delivery and recordation hereof, and in connection therewith, specific monetary and other obligations are being entered into which would not be made or entered into but for Beneficiary’s reliance upon this subordination and upon all of the other terms, covenants, conditions and provisions of this Agreement.

2. Acknowledgment and Agreement by Tenant. Tenant acknowledges and agrees that:

a. In making or causing to be made any disbursements of the Loan to Landlord or otherwise, Beneficiary is under no obligation or duty to, nor has Beneficiary represented or agreed that it will, oversee, direct or see to the application of the proceeds of such disbursements. Tenant acknowledges that proceeds of the Loan may not be applied to the construction of improvements on the Property or for the refinancing of a loan with respect thereto.

b. Any application of all or any portion of the proceeds of the Loan other than as provided for in the Note, the Deed of Trust, or in any other documents, agreements and instruments between Landlord and Beneficiary with respect to the Loan, and among Landlord, Beneficiary and any other person with respect to the disbursement of the funds of Beneficiary for the Loan, and any of them, shall not defeat in whole or in part the subordination hereby effected of the Lease and the leasehold estate created thereby.

c. Beneficiary may, without affecting the subordination of the Lease (i) release or compromise any obligation of any nature with respect to the Note, the Deed of Trust or the other documents evidencing and/or securing the Loan, (ii) release its security interest in, or surrender, release or permit any substitution or exchange of all or any part of any property securing payment of the Note and/or any other sums secured by the Deed of Trust, (iii) retain or obtain a security interest in any property to secure payment of the Note and/or any other sums secured by the Deed of Trust, or (iv) modify, amend, defer, extend, consolidate or supplement any original or subsequent promissory note, deed of trust, assignment of leases (including the Note and the Deed of Trust) and any other documents or instruments now or hereafter executed by Landlord with respect to the Loan.

d. From and after the date hereof, in the event of any act or omission by Landlord or any other circumstance or occurrence (each such act, omission, circumstance and occurrence, being referred to as a “default or condition”) which would give Tenant the right, either immediately or after a lapse of time, or both, to terminate the Lease, to claim a partial or total eviction, or to declare a breach or default, then Tenant immediately shall give written notice of such default or condition to Beneficiary, and notwithstanding anything in the Lease to the contrary, Tenant shall not exercise any one or more of such rights unless and until the period of time described below available to Beneficiary to cure such default or condition has elapsed and no cure has occurred. Such period of time shall begin on the receipt of notice by Beneficiary from Tenant of the default or condition, and shall continue until thirty (30) days thereafter and shall run concurrently with the thirty (30) day period provided in the Lease for Landlord to cure a default or such longer period as is already provided in the Lease. If the nature of the default or condition is such that Beneficiary reasonably requires more than such period of time for its cure, then such period of time shall be extended until such cure is complete if Beneficiary commences such cure within such period and thereafter diligently pursues the same to completion.

e. Tenant has notice that the Lease and the rent and all other sums due and to be due thereunder and the performance of all other obligations of Tenant thereunder are to be assigned to Beneficiary as security for the Loan by the Deed of Trust and by an assignment of leases. In the event that Beneficiary notifies Tenant of a default under the Deed of Trust or the other documents evidencing the Loan and demands that Tenant pay its rent and all other sums due under the Lease to Beneficiary, Tenant shall honor such demand and shall pay its rent and all other sums due under the Lease directly to Beneficiary or as otherwise required by Beneficiary pursuant to such notice. Beneficiary and Landlord acknowledge and agree that notwithstanding any provision, right or remedy to the contrary provided in the Lease or by law, complete payments (to the extent required under the Lease) by Tenant to Beneficiary of rent or any other sum pursuant to such notice and demand by Beneficiary shall constitute payment of rent and/or other sums pursuant to and in accordance with the Lease. Further, without in any way limiting the foregoing, Landlord hereby consents to such payments to Beneficiary in such circumstances, and waives any right to declare any such payment to Beneficiary an Event of Default, or to pursue any rights or remedies against Tenant provided in the Lease or by law.

f. Tenant shall send a copy to Beneficiary of any notice or other written communication which, under the terms of the Lease, Tenant is required to deliver to Landlord (e.g. notices of Default, notices of election to terminate) at the same time such notice or communication is sent to Landlord.

g. Tenant has no right or option of any nature whatsoever, whether pursuant to the Lease, or otherwise, to purchase the Property, or any portion thereof or any interest therein, and to the extent that Tenant has had, or hereafter acquires, any such right or option, the same is hereby acknowledged, declared and agreed to be subject and subordinate to the Deed of Trust and is hereby waived, relinquished and released as against Beneficiary, any purchaser at a foreclosure of the Deed of Trust or any sale by power of sale under the Deed of Trust, and any transferee of the Property in lieu of such foreclosure or sale under power of sale (hereinafter, collectively, "Successor Owner of the Property"), their successors and assigns. Notwithstanding the foregoing, Tenant is entitled to a right of first offer in connection with a sale of the Property pursuant to Section 37.15 of the Lease, provided that such rights are not applicable to the foreclosure of the Deed of Trust or to any sale by Beneficiary.

3. Non-Disturbance. In the event of any enforcement action under any of the documents evidencing and/or securing the Loan, including but not limited to foreclosure of the Deed of Trust, or upon a sale of the Property pursuant to the trustee's power of sale contained therein, or upon a transfer of the Property by conveyance in lieu thereof, then:

a. So long as Tenant complies with this Agreement and an Event of Default under the terms, covenants, or conditions of the Lease is not then occurring, the Lease shall continue in full force and effect as a direct lease between Beneficiary or other Successor Owner of the Property and Tenant, upon and subject to all of the terms, covenants and conditions of the Lease, for the balance of the term of the Lease. Tenant hereby agrees to attorn to and accept Beneficiary and any such other Successor Owner of the Property, as applicable, as landlord under the Lease, and to be bound by and perform all of the obligations to be performed by Tenant under the Lease and under this Agreement (such attornment to be effective and self-operative without the execution of any further instruments on the part of any of the parties to this Agreement immediately upon Beneficiary or such other Successor Owner of the Property succeeding to the interest of the prior landlord (including Landlord) under the Lease), and in such event, Beneficiary, or any such other Successor Owner of the Property, so long as there is not an Event of Default under the Lease, and pursuant to the terms of the Lease, will not disturb the possession of Tenant, will be bound by all of the obligations imposed on the Landlord by the Lease, and will cure continuing defaults by Landlord. Notwithstanding the foregoing, in the event of such foreclosure or sale under power of sale or transfer in lieu thereof, Beneficiary, and any other Successor Owner of the Property, their successors and assigns, shall not be:

(1) liable for any act or omission of a prior landlord (including Landlord), obligated to cure any defaults of any prior landlord (including Landlord), or subject to any offsets, credits, defenses or deductions which Tenant might have against any prior

landlord (including Landlord), provided, however this subsection (1) does not apply to continuing defaults;

(2) bound by any rent or other charge which Tenant might have paid in advance to any prior landlord (including Landlord) for a period in excess of one month;

(3) obligated to pay any improvement allowance or other sum owed by any prior landlord (including Landlord) to Tenant or any other person or entity, except for Operating Expenses incurred by Tenant and which the Lease permits Tenant to recover;

(4) bound by any amendment, modification or other agreement with respect to the Lease made without the prior written consent of Beneficiary, which consent may be granted or denied in Beneficiary's reasonable discretion;

(5) liable for any security deposit not actually received by Beneficiary; or

(6) bound by any notice given by Tenant to any prior landlord (including Landlord), whether or not such notice is given pursuant to the terms of the Lease, unless a copy thereof was also given to Beneficiary.

b. Upon the written request of Beneficiary given at the time of or at any time after any such foreclosure, trustee's sale or other transfer, Tenant shall execute an amended and restated lease of the Premises with Beneficiary or a Successor Owner upon the same terms, covenants, conditions and provisions as the Lease between Landlord and Tenant, as modified by this Agreement for the duration of the Term of the Lease.

c. Beneficiary and any other Successor Owner of the Property shall be liable for the performance of the obligations of the landlord under the Lease only with respect to those obligations which arise and accrue during Beneficiary's or such other Successor Owner of the Property's ownership of the Property, as applicable; and from and after the transfer by Beneficiary or such other Successor Owner of the Property of its ownership of the Property, Beneficiary and such other Successor Owner of the Property shall be relieved of all liability with respect to the landlord's obligations under the Lease thereafter to be performed.. Any liability of Beneficiary or any such other Successor Owner of the Property to Tenant for damages as a result of the default of Beneficiary or such other Successor Owner of the Property in the performance of the landlord's obligations under the Lease to be performed by it as provided in this Agreement shall be satisfied only out of Beneficiary's or such other Successor Owner of the Property's interest in the Premises.

4. No Obligation of Beneficiary. Beneficiary and any other Successor Owner of the Property shall have no obligation or liability with respect to the erection or completion of the improvements in which the Premises are located or for completion of the Premises, or any improvements for Tenant's use or occupancy, or any other improvements with respect to the Property; provided, however, that Tenant shall have no obligation or liability to Beneficiary or

any other Successor Owner if the Improvements are not delivered to Tenant as provided pursuant to the Lease.

5. Notices. All notices here under shall be deemed to have been duly received on the earlier, of actual receipt or two (2) calendar days after deposit in the United States registered or certified mail or Express Mail, postage prepaid, return receipt requested, or upon the next business day if delivered by overnight courier or similar overnight delivery system, addressed to the address(es) set forth on the signature pages hereof, or at such other address(es) as shall have been given in writing by Landlord, Tenant or Beneficiary in accordance with this Paragraph 5, which change of address shall be effective as to a party hereto only upon actual receipt thereof.

6. Warranties. Beneficiary shall have no obligation and shall incur no liability to Tenant with respect to any express or implied representations or warranties of any nature whatsoever, whether pursuant to the Lease or otherwise, including, without limitation, any representations or warranties respecting use, compliance with zoning, Landlord's (or any successor landlord's) title, Landlord's (or any successor landlord's) authority, habitability, fitness for purpose or possession, with the exception of Landlord's warranty against latent defects in construction, workmanship and materials contained in Section 8.2 of the Lease.

7. Additional Agreements.

Notwithstanding any provision of the Lease, and without in any way limiting any other provision of this Agreement, during such period of time as the Loan or any portion thereof is outstanding, or in the event that Beneficiary or any Successor Owner of the Property acquires title to the Property, Tenant and Landlord agree that the non-exclusive assignment to Tenant of all warranties and other guaranties under the Lease (as set forth in Paragraph 8.3 thereof or elsewhere) shall be subject and subordinate to all rights of Beneficiary to the same pursuant to the Deed of Trust and the other documents securing or evidencing the Loan.

8. Miscellaneous.

a. This Agreement supersedes any term, covenant, condition or provision of the Lease which is inconsistent herewith.

b. Nothing contained in this Agreement shall be construed to derogate from or in any way impair or affect the agreements, lien, charge and other terms, covenants, conditions and provisions of the Deed of Trust or the terms, covenants, conditions or provisions of any of the other documents evidencing or securing the Loan.

c. The agreements contained in this Agreement shall run with the land and shall be binding upon the parties hereto and their respective heirs, personal representatives, successors and assigns and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns; provided however, that in the event of the assignment or other transfer of the interest of Beneficiary, all obligations and liabilities of Beneficiary under this Agreement shall terminate, and thereupon all such obligations and liabilities shall be the responsibility of the party to whom Beneficiary's interest is assigned or transferred.

d. The parties hereto each agree to execute, acknowledge and deliver, in recordable form if requested, any and all further documents and instruments reasonably requested by Beneficiary or any title insurance company to give further effect to the terms, covenants, conditions and provisions of this Agreement.

e. If any party hereto commences an action, suit or other proceeding (hereinafter, "litigation") against another party hereto to enforce any of the terms, covenants, conditions or provisions of this Agreement or because of the breach by a party of, or any dispute concerning, any of the terms, covenants, conditions or provisions hereof, the losing party/parties shall pay to the prevailing party/parties (as determined by the court, agency or other authority before which such litigation is heard) reasonable attorneys' fees, expenses and costs of investigation as actually incurred including, without limitation, in all appellate proceedings, in any action or participation in, or in connection with, any case or proceeding under Chapter 7, 11, or 13 of the Bankruptcy Code, 11 U.S.C. §101 *et seq.,* and any successor statutes, and in any litigation with respect to the protection, enhancement, or maintenance of the security interest and other rights of Beneficiary under the Deed of Trust and/or the rights of Beneficiary under any assignment of leases and/or the priority of such security interest or rights.

f. This Agreement shall be governed by and construed in accordance with the laws of the State of California, except to the extent that federal law may be applicable.

g. Each of the parties hereto hereby irrevocably submits to the exclusive jurisdiction of any California state or Federal court sitting in the County of San Diego, California in any litigation arising out of or relating to this Agreement, and each of the parties hereto hereby agrees that all claims in respect of such litigation may be heard and determined in such courts. Each of the parties hereto hereby waives the defense of an inconvenient forum to the maintenance of such litigation in such courts. Each of the parties hereto hereby agrees that if any litigation is brought between or among any parties hereto, whether or not any person not a party hereto is joined in such litigation, the parties hereto expressly waive the right, if any, to trial by jury in order to avoid, *inter alia,* the time delays inherent in such process. Each of the parties hereto agrees that a final judgment in any such litigation shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other, manner provided by law.

h. This Agreement may be executed in counterparts, each of which so executed, irrespective of the date of execution and delivery, shall be deemed to be an original, and all such counterparts together shall constitute one and the same instrument as if each party had executed the same signature pages. The signature pages of one or more of the counterpart copies of this Agreement may be removed from such counterpart copies and attached to the same copy of this Agreement which, with attached signature pages of all parties hereto, shall be deemed to be an original, executed Agreement.

IN WITNESS WHEREOF, the parties have executed this Subordination, Non-Disturbance, and Attornment Agreement as of __________.

NOTICE: **THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT CONTAINS PROVISIONS WHICH ALLOW THE PERSON OBLIGATED ON THE LEASE TO OBTAIN A LOAN, ALL OR A PORTION OF WHICH MAY BE EXPENDED FOR PURPOSES OTHER THAN IMPROVEMENT OF THE PROPERTY.**

IT IS RECOMMENDED THAT, PRIOR TO THE EXECUTION OF THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT, THE PARTIES CONSULT WITH THEIR ATTORNEYS WITH RESPECT THERETO.

"TENANT"

INTUIT, INC., a Delaware corporation

By: ______________________________

By: ______________________________

Address:

Signatures continued on next page

“LANDLORD”

UTC GREENWICH PARTNERS, a California limited partnership

By: ______________________________

By: ______________________________

Address:

“BENEFICIARY”

By: ______________________________

Address:

EXHIBIT 21.01

LIST OF REGISTRANT'S SUBSIDIARIES
(At September 15, 2004)

Entity	State/Country of Incorporation
Domestic	
American Fundware Holding Company, Inc.	Delaware
American Fundware, an Intuit Company	Delaware
American Fundware, Inc.	Colorado
apps.com, Inc.	Delaware
Blue Ocean Software, Inc.	Delaware
CBS Corporate Services, Inc.	Texas
CBS Employer Services, Inc.	Texas
CBS Properties, Inc.	Texas
Computing Resources, Inc.	Nevada
Dallas Innovative Merchant Solutions, LLC	Texas
EmployeeMatters Insurance Agency, Inc.	Connecticut
Innovative Merchant Solutions, LLC	California
Intuit Administrative Services, Inc.	Delaware
Intuit Do-It-Yourself Payroll	California
Intuit Financial Freedom Foundation	Delaware
Intuit Real Estate Solutions, Inc.	Ohio
Intuit Ventures Inc.	Delaware
Investment Solution Inc.	Delaware
JT Solutions, LLC	Texas
Lacerte Software Corporation	Delaware
Lion's Partners, LLC	Delaware
Payroll Solution, Inc.	Texas
Quicken Investment Services, Inc.	Delaware
SecureTax.com, Inc.	Delaware
The Intuit Foundation	California
International	
Greenpoint Software, an Intuit company	Canada
Intuit Canada Limited/Ltee	Canada
Intuit Canada	Canada
Intuit Deutschland GmbH	Germany
Intuit Information Technology Solutions Ltd.	United Kingdom
Intuit Limited	United Kingdom
Intuit Real Estate Solutions Limited	United Kingdom
Intuit Real Estate Solutions Proprietary Limited	South Africa
Management Reports International (H.K.) Limited	Hong Kong
Management Reports International Pte Ltd.	Singapore
Management Reports International Pty Limited	Australia

Exhibit 23.01

CONSENT OF ERNST & YOUNG LLP,
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 13, 2004, with respect to the consolidated financial statements and schedule of Intuit Inc. included in its Annual Report (Form 10-K) for the year ended July 31, 2004.

Form S-8 No.	Plan
33-59458	1988 Option Plan; Intuit Inc. 1993 Equity Incentive Plan; Non-Plan Officer Options
33-73222	Intuit Inc. 1993 Equity Incentive Plan; Chipsoft Plan
33-95040	Intuit Inc. 1993 Equity Incentive Plan; Personal News Options
333-16827	Intuit Inc. 1993 Equity Incentive Plan
333-16829	Intuit Inc. 1996 Directors Stock Option Plan; Intuit Inc. 1996 Employee Stock Purchase Plan
333-20361	Option to Purchase Common Stock
333-45277	Intuit Inc. 1996 Directors Stock Plan
333-45285	Intuit Inc. 1996 Employee Stock Purchase Plan
333-45287	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.
333-51692	Intuit Inc. 1996 Employee Stock Purchase Plan
333-51694	Intuit Inc. 1993 Equity Incentive Plan
333-51696	Intuit Inc. Stock Option Agreements
333-51698	Intuit Inc. 1996 Directors Stock Plan
333-51700	Intuit Inc. Restricted Stock Purchase Agreements
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
333-81324	Intuit Inc. 1996 Directors Stock Plan
333-81328	Intuit Inc. 1996 Employee Stock Purchase Plan
333-81446	Intuit Inc. 2002 Equity Incentive Plan
333-84385	Options Granted Under The Boston Light Software Corp. 1999 Amended And Restated Option/Stock Issuance Plan and Assumed By Intuit Inc.
333-89722	Options Granted Under The Flagship Group, Inc. 1999 Stock Option/Stock Issuance Plan and Assumed By Intuit Inc.

Form S-8 No.	Plan
333-91056	Options Granted Under CBS Employer Services, Inc. 2000 Stock Option/Stock Issuance Plan and Assumed By Intuit Inc.
333-92513	Intuit Inc. 1996 Employee Stock Purchase Plan
333-92515	Intuit Inc. 1996 Directors Stock Plan
333-92517	Intuit Inc. 1993 Equity Incentive Plan
333-102213	Intuit Inc. 2002 Equity Incentive Plan; Intuit Inc. 1996 Employee Stock Purchase Plan; Intuit Inc. 1996 Director Stock Option Plan
333-112140	Intuit Inc. 1996 Employee Stock Purchase 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 in the related Prospectuses of our report dated August 13, 2004, with respect to the consolidated financial statements and schedule of Intuit Inc. included in its Annual Report (Form 10-K) for the year ended July 31, 2004.

/s/ ERNST & YOUNG LLP
San Francisco, California
September 22, 2004

Exhibit 31.01

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
EXCHANGE ACT RULE 13 a-14(a)/15D-14(a)
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen M. Bennett, President and Chief Executive Officer of Intuit Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Intuit Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: September 24, 2004

By: /s/ STEPHEN M. BENNETT

Stephen M. Bennett
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.02

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO EXCHANGE ACT RULE 13 a-14(a)/15D-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert B. Henske, Senior Vice President and Chief Financial Officer of Intuit Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Intuit Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: September 24, 2004

By: /s/ ROBERT B. HENSKE

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

Exhibit 32.01

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Intuit Inc. (the “Company”) on Form 10-K for the fiscal year ended July 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Stephen M. Bennett, President and Chief Executive Officer of the Company, certifies pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEPHEN M. BENNETT

Stephen M. Bennett
President and Chief Executive Officer

Date: September 24, 2004

Exhibit 32.02

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Intuit Inc. (the “Company”) on Form 10-K for the fiscal year ended July 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Robert B. Henske, Senior Vice President and Chief Financial Officer of the Company, certifies pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ROBERT B. HENSKE

Robert B. Henske
Senior Vice President and Chief Financial Officer

Date: September 24, 2004