

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

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**FORM 10-Q**

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
**For the quarterly period ended October 31, 2005** or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

**Commission File Number 0-21180**

**INTUIT INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State of incorporation)*

**77-0034661**  
*(IRS employer identification no.)*

**2700 Coast Avenue, Mountain View, CA 94043**  
*(Address of principal executive offices)*

**(650) 944-6000**  
*(Registrant's telephone number, including area code)*

Indicate by 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  No

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

176,945,929 shares of Common Stock, \$0.01 par value, as of November 30, 2005

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**PART I**  
**ITEM 1**  
**FINANCIAL STATEMENTS**

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**INTUIT INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended</b>	
	<b>October 31, 2005</b>	<b>October 31, 2004</b>
<i>(In thousands, except per share amounts; unaudited)</i>		
Net revenue:		
Product	\$ 182,454	\$ 154,003
Service	104,620	84,157
Other	16,997	14,616
Total net revenue	<u>304,071</u>	<u>252,776</u>
Costs and expenses:		
Cost of revenue:		
Cost of product revenue	32,431	29,844
Cost of service revenue	53,396	39,752
Cost of other revenue	5,852	5,797
Amortization of purchased intangible assets	2,949	2,541
Selling and marketing	147,430	128,546
Research and development	97,280	74,365
General and administrative	63,595	49,641
Acquisition-related charges	3,759	4,441
Total costs and expenses	<u>406,692</u>	<u>334,927</u>
Operating loss from continuing operations	(102,621)	(82,151)
Interest and other income	6,304	3,855
Gains on marketable equity securities and other investments, net	4,267	158
Loss from continuing operations before income taxes	(92,050)	(78,138)
Income tax benefit	(34,439)	(32,641)
Net loss from continuing operations	(57,611)	(45,497)
Net income (loss) from discontinued operations	11,807	(639)
Net loss	<u>\$ (45,804)</u>	<u>\$ (46,136)</u>
Basic and diluted net loss per share from continuing operations	\$ (0.33)	\$ (0.24)
Basic and diluted net income (loss) per share from discontinued operations	0.07	-
Basic and diluted net loss per share	<u>\$ (0.26)</u>	<u>\$ (0.24)</u>
Shares used in basic and diluted per share amounts	<u>177,406</u>	<u>188,346</u>

Net loss for the three months ended October 31, 2005 included share-based compensation expense for stock options and purchases under our Employee Stock Purchase Plan that we recorded as a result of our adoption of SFAS 123(R) on August 1, 2005. For continuing operations, this expense totaled \$19.1 million before income taxes and \$11.9 million net of income taxes. We recorded no share-based compensation expense for stock options or purchases under our Employee Stock Purchase Plan for the three months ended October 31, 2004 because we did not adopt the optional recognition provisions of SFAS 123. As previously disclosed in the notes to our financial statements, net loss including pro forma share-based compensation expense for the three months ended October 31, 2004 was \$60.0 million. See Note 1 to the financial statements for additional information.

See accompanying notes.

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**INTUIT INC.**  
CONDENSED CONSOLIDATED BALANCE SHEETS

<i>(In thousands; unaudited)</i>	<u>October 31, 2005</u>	<u>July 31, 2005</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 74,974	\$ 83,842
Investments	622,330	910,416
Accounts receivable, net	73,226	86,125
Income taxes receivable	71,520	38,665
Deferred income taxes	61,460	54,854
Prepaid expenses and other current assets	72,078	60,610
Current assets of discontinued operations	20,716	21,989
Current assets before funds held for payroll customers	996,304	1,256,501
Funds held for payroll customers	345,432	357,838
Total current assets	<u>1,341,736</u>	<u>1,614,339</u>
Property and equipment, net	210,974	208,548
Goodwill, net	509,884	509,499
Purchased intangible assets, net	71,611	69,678
Long-term deferred income taxes	109,347	118,475
Loans to executive officers and other employees	9,245	9,245
Other assets	32,889	30,078
Long-term assets of discontinued operations	156,680	156,589
Total assets	<u>\$ 2,442,366</u>	<u>\$ 2,716,451</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 96,928	\$ 65,812
Accrued compensation and related liabilities	80,536	144,823
Deferred revenue	274,315	279,382
Income taxes payable	13,707	30,423
Other current liabilities	94,072	103,131
Current liabilities of discontinued operations	19,839	21,995
Current liabilities before payroll customer fund deposits	579,397	645,566
Payroll customer fund deposits	345,432	357,838
Total current liabilities	<u>924,829</u>	<u>1,003,404</u>
Long-term obligations	16,693	17,308
Long-term obligations of discontinued operations	221	240
Total long-term obligations	<u>16,914</u>	<u>17,548</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	-	-
Common stock and additional paid-in capital	1,984,777	1,977,954
Treasury stock, at cost	(1,723,972)	(1,557,833)
Deferred compensation	-	(16,283)
Accumulated other comprehensive loss	1,291	174
Retained earnings	1,238,527	1,291,487
Total stockholders' equity	<u>1,500,623</u>	<u>1,695,499</u>
Total liabilities and stockholders' equity	<u>\$ 2,442,366</u>	<u>\$ 2,716,451</u>

See accompanying notes.

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**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						
<i>(Dollars in thousands; unaudited)</i>								
<b>Balance at July 31, 2005</b>	<b>179,270,062</b>	<b>\$1,793</b>	<b>\$1,976,161</b>	<b>\$(1,557,833)</b>	<b>\$ (16,283)</b>	<b>\$ 174</b>	<b>\$1,291,487</b>	<b>\$ 1,695,499</b>
Reclassification of deferred compensation balance upon adoption of SFAS 123(R)			(16,283)		16,283			-
Components of comprehensive loss:								
Net loss							(45,804)	(45,804)
Other comprehensive income, net of tax						1,117		1,117
Comprehensive net loss								(44,687)
Issuance of common stock upon exercise of options and other	514,209	5		22,355			(6,069)	16,291
Issuance of common stock pursuant to Employee Stock Purchase Plan	136,588	1		6,263			(1,087)	5,177
Stock repurchases under stock repurchase programs	(4,315,000)	(43)		(194,757)				(194,800)
Tax benefit from employee stock option transactions			2,522					2,522
Share-based compensation - restricted stock			1,325					1,325
Share-based compensation - all other (1)			19,296					19,296
<b>Balance at October 31, 2005</b>	<b>175,605,859</b>	<b>\$1,756</b>	<b>\$1,983,021</b>	<b>\$(1,723,972)</b>	<b>\$ -</b>	<b>\$ 1,291</b>	<b>\$1,238,527</b>	<b>\$ 1,500,623</b>

	Common Stock		Additional Paid In Capital	Treasury Stock	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount						
<i>(Dollars in thousands; unaudited)</i>								
<b>Balance at July 31, 2004</b>	<b>190,090,604</b>	<b>\$1,901</b>	<b>\$1,947,325</b>	<b>\$(1,088,389)</b>	<b>\$ (19,434)</b>	<b>\$ (3,375)</b>	<b>\$984,391</b>	<b>\$ 1,822,419</b>
Components of comprehensive loss:								
Net loss							(46,136)	(46,136)
Other comprehensive income, net of tax						2,092		2,092
Comprehensive net loss								(44,044)
Issuance of common stock upon exercise of options and other	913,264	9		47,005			(21,397)	25,617
Issuance of common stock pursuant to Employee Stock Purchase Plan	155,276	2		7,992			(2,653)	5,341
Stock repurchases under stock repurchase programs	(3,947,000)	(40)		(170,521)				(170,561)
Repurchases of vested restricted stock	(32)			(1)				(1)
Tax benefit from employee stock option transactions			5,153					5,153
Stock bonus awards and related stock issuance	87		22		(22)			-
Reduction of deferred stock compensation due to stock option cancellations			(18)		18			-
Share-based compensation - restricted stock					1,705			1,705
Other	74							-
<b>Balance at October 31, 2004</b>	<b>187,212,273</b>	<b>\$1,872</b>	<b>\$1,952,482</b>	<b>\$(1,203,914)</b>	<b>\$ (17,733)</b>	<b>\$ (1,283)</b>	<b>\$914,205</b>	<b>\$ 1,645,629</b>

(1) Includes \$19,099 for continuing operations and \$197 for Intuit Information Technology Solutions discontinued operations.

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

	Three Months Ended	
	October 31, 2005	October 31, 2004
<i>(In thousands; unaudited)</i>		
Cash flows from operating activities:		
Net loss	\$ (45,804)	\$ (46,136)
Net (income) loss from discontinued operations	(11,807)	639
<b>Net loss from continuing operations</b>	<b>(57,611)</b>	<b>(45,497)</b>
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Depreciation	23,145	21,410
Acquisition-related charges	3,759	4,441
Amortization of purchased intangible assets	2,949	2,541
Amortization of other purchased intangible assets	2,031	1,883
Share-based compensation - restricted stock	1,325	1,625
Share-based compensation - all other	19,099	-
(Gain) loss on disposal of property and equipment	34	(126)
Amortization of premiums and discounts on available-for-sale debt securities	1,094	3,466
Net realized loss on sales of available-for-sale debt securities	380	1,297
Net gains on marketable equity securities and other investments	(4,267)	(158)
Deferred income taxes	2,520	(10,920)
Tax benefit from employee stock options	1,583	5,153
Gain on foreign exchange transactions	(15)	(327)
Subtotal	<u>(3,974)</u>	<u>(15,212)</u>
Changes in operating assets and liabilities:		
Accounts receivable	12,921	21,513
Prepaid expenses, taxes and other current assets	(38,494)	(96,389)
Accounts payable	30,665	13,665
Accrued compensation and related liabilities	(64,399)	(60,254)
Deferred revenue	(5,237)	(2,037)
Income taxes payable	(16,771)	48,700
Other current liabilities	(9,471)	(2,218)
Total changes in operating assets and liabilities	<u>(90,786)</u>	<u>(77,020)</u>
<b>Net cash used in operating activities of continuing operations</b>	<b>(94,760)</b>	<b>(92,232)</b>
Net cash provided by operating activities of discontinued operations	10,981	4,846
<b>Net cash used in operating activities</b>	<b>(83,779)</b>	<b>(87,386)</b>
Cash flows from investing activities:		
Purchases of available-for-sale debt securities	(289,119)	(667,184)
Liquidation and maturity of available-for-sale debt securities	575,844	948,003
Net change in funds held for payroll customers' money market funds and other cash equivalents	12,406	(10,057)
Purchases of property and equipment	(25,057)	(24,397)
Change in other assets	(4,454)	(4,886)
Net change in payroll customer funds deposits	(12,406)	10,057
Acquisitions of intangible assets	(10,148)	-
<b>Net cash provided by investing activities</b>	<b>247,066</b>	<b>251,536</b>
Cash flows from financing activities:		
Change in long-term obligations	(634)	(624)
Net proceeds from issuance of common stock under stock plans	21,468	30,958
Purchase of treasury stock	(194,800)	(170,562)
Excess tax benefit from employee stock options	939	-
<b>Net cash used in financing activities</b>	<b>(173,027)</b>	<b>(140,228)</b>
Effect of exchange rates on cash and cash equivalents	872	877
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(8,868)</b>	<b>24,799</b>
Cash and cash equivalents at beginning of period	83,842	25,992
<b>Cash and cash equivalents at end of period</b>	<b>\$ 74,974</b>	<b>\$ 50,791</b>

See accompanying notes.

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

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**1. Summary of Significant Accounting Policies**

*Basis of Presentation*

The condensed consolidated financial statements include the financial statements of Intuit and its wholly owned subsidiaries. We have eliminated all significant intercompany balances and transactions in consolidation. We have reclassified certain other amounts previously reported in our financial statements to conform to the current presentation.

As discussed later in this Note 1, we adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), "*Share-Based Payment*," on August 1, 2005 using the modified prospective transition method. Accordingly, our operating loss from continuing operations for the three months ended October 31, 2005 includes approximately \$19.1 million in share-based employee compensation expense for stock options and purchases under our Employee Stock Purchase Plan. Results for prior periods have not been restated.

As discussed in Note 4, in May 2005 our Board of Directors formally approved a plan to sell our Intuit Information Technology Solutions (ITS) business and in December 2004 we sold our Intuit Public Sector Solutions (IPSS) business. Accordingly, we have reclassified our financial statements for all periods presented to reflect ITS and IPSS as discontinued operations. Unless noted otherwise, discussions in these notes pertain to our continuing operations.

We have included all normal recurring adjustments and the adjustments for discontinued operations that we considered necessary to give a fair presentation of our operating results for the periods presented. These condensed consolidated financial statements and accompanying notes should be read together with the audited consolidated financial statements for the fiscal year ended July 31, 2005 included in Intuit's Form 10-K, filed with the Securities and Exchange Commission on September 26, 2005. Results for the three months ended October 31, 2005 do not necessarily indicate the results we expect for the fiscal year ending July 31, 2006 or any other future period.

Our QuickBooks, Consumer Tax and Professional Tax businesses are highly seasonal. Some of our other offerings are also seasonal, but to a lesser extent. Revenue from upgrades for many of our small business software products, including QuickBooks, tends 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 continue at relatively consistent levels.

*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. See "*Share-Based Compensation Plans*" later in this Note 1. 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, software subscriptions, product support, professional services, outsourced payroll services, merchant 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 (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

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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 relative fair value of undelivered elements until we ship the products or perform the services. Deferred revenue consisted of the following at the dates indicated:

<i>(In thousands)</i>	<u>October 31, 2005</u>	<u>July 31, 2005</u>
Product and product-related services	\$ 251,803	\$261,135
Customer support	22,512	18,247
Total deferred revenue	<u>\$ 274,315</u>	<u>\$279,382</u>

In accordance with the Financial Accounting Standards Board's (FASB'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 legal title transfers, which is generally 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 retailers. We recognize revenue for these consignment transactions only when the end-user sale has occurred. For products that are sold on a subscription basis and include periodic updates, we recognize revenue ratably over the contractual time period.

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.



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### 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 displayed or pro rata based on the contractual time period of the advertisements.

### 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 of fair value (VSOE). 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 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 revenue and service revenue 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, product 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

We include the costs of providing customer service under paid technical support contracts on the cost of service revenue line on our statement of operations. We include customer service and free technical support costs on the sales and marketing expense line on our statements of operations. Customer service and technical support costs include 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.

### Leases

We review all leases for capital or operating classification at their inception under the guidance of SFAS 13, "Accounting for Leases," as amended. We use our incremental borrowing rate in the assessment of lease classification and define the initial lease term to include the construction build-out period but to exclude lease extension periods. We conduct our operations primarily under operating leases. For leases that contain rent escalations, we record the total rent payable during the lease term, as defined above, on a straight-line basis over the

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initial term of the lease. We record the difference between the rents paid and the straight-line rent in a deferred rent account in other current liabilities or long-term obligations, as appropriate, on our balance sheets.

In accordance with FASB Technical Bulletin (FTB) No. 88-1, “*Issues Relating to Accounting for Leases*,” we record landlord allowances as deferred rent liabilities in other current liabilities or long-term obligations, as appropriate, on our balance sheets. We record landlord cash incentives as operating activity on our statements of cash flows. We record other landlord allowances as non-cash investing and financing activities on our statements of cash flows. Also in accordance with FTB 88-1, we classify the amortization of landlord allowances as a reduction of occupancy expense on our statements of operations.

### *Income Taxes*

When we prepare our 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 and materially affect 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 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.

We record a valuation allowance to reflect uncertainties about whether we will be able to utilize some of our deferred tax assets (consisting primarily of certain state capital loss and net operating 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.

### *Per Share Computations*

We compute basic net income or loss per share using the weighted average number of common shares outstanding during the period. We compute diluted net income 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. We exclude stock options with combined exercise prices and unamortized fair values that are greater than the average market price for our common stock from the calculation of diluted net income per share because their effect is anti-dilutive. In loss periods, basic net loss per share and diluted net loss per share are identical since the effect of common equivalent shares is anti-dilutive and therefore excluded.

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

	Three Months Ended	
	October 31, 2005	October 31, 2004
<i>(In thousands, except per share amounts)</i>		
<b>Numerator:</b>		
Net loss from continuing operations	\$ (57,611)	\$ (45,497)
Net income (loss) from discontinued operations	11,807	(639)
Net loss	<u>\$ (45,804)</u>	<u>\$ (46,136)</u>
<b>Denominator:</b>		
Shares used in basic and diluted per share amounts:		
Weighted average common shares outstanding	<u>177,406</u>	<u>188,346</u>
<b>Basic and diluted net loss per share:</b>		
Basic and diluted net loss per share from continuing operations	\$ (0.33)	\$ (0.24)
Basic and diluted net income (loss) per share from discontinued operations	0.07	-
Basic and diluted net loss per share	<u>\$ (0.26)</u>	<u>\$ (0.24)</u>
<b>Weighted average stock options and restricted stock awards excluded from calculation due to anti-dilutive effect:</b>		
Stock options that would have been included in the computation of dilutive common equivalent shares outstanding if net income had been reported in the period	21,234	23,298
Restricted stock awards that would have been included in the computation of dilutive common equivalent shares outstanding if net income had been reported in the period	508	455
Stock options with combined exercise prices and unamortized fair values that were greater than the average market price for the common stock in the period	11,004	10,048
	<u>32,746</u>	<u>33,801</u>

### *Cash Equivalents and 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. 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 investments. We include unrealized gains and losses on 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 investments held as available-for-sale securities. See Note 2.

### *Funds Held for Payroll Customers and Payroll Customer Fund Deposits*

Funds held for payroll customers represent amounts held on behalf of our payroll customers that are invested in cash, cash equivalents and investments. Payroll customer fund deposits consist primarily of payroll taxes we owe on behalf of our payroll customers.

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### *Goodwill, Purchased Intangible Assets and Other Long-Lived Assets*

We record goodwill when the purchase price of net tangible and intangible assets we acquire exceeds their fair value. We 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, "Goodwill and Other Intangible Assets," 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 under SFAS 142 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 measurement of fair value under SFAS 144 is generally based on the present value of estimated future discounted cash flows. Our analysis is based on available information and on assumptions and projections that we consider to be reasonable and supportable. 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.

### *Share-Based Compensation Plans*

#### Adoption of SFAS 123(R)

Under our 2005 Equity Incentive Plan, we are permitted to grant incentive and non-qualified stock options, restricted stock awards, restricted stock units and stock bonus awards to our and our subsidiaries' employees, non-employee directors and consultants. There were a total of 6,500,000 shares authorized under the 2005 Plan at October 31, 2005. The 2005 Plan limits the number of awards that can be granted at a price less than the full fair market value of Intuit's common stock on the date of grant to a maximum of 2,000,000 shares. In connection with Intuit's annual meeting of stockholders to be held on December 16, 2005, we are submitting for stockholder approval an amendment to the 2005 Plan to authorize 6,500,000 additional shares and to amend the existing 2,000,000-share cap on equity awards that can be granted at below fair market value (for example restricted stock or restricted stock units) to allow that up to 50% of equity awards granted each year can be at less than full fair market value. All options granted under the 2005 Plan through October 31, 2005 have exercise prices equal to the fair market value of our stock on the date of grant. Options granted under the 2005 Plan typically vest over three years based on continued service and have a seven-year term. Outstanding awards that were originally granted under several predecessor plans also remain in effect in accordance with their terms. In addition, we maintain an Employee Stock Purchase Plan. The 2005 Plan, its predecessor plans and our Employee Stock Purchase Plan are described more fully in our fiscal 2005 Form 10-K.

Prior to August 1, 2005, we accounted for these share-based employee compensation plans under the measurement and recognition provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations, as permitted by SFAS 123, "Accounting for Stock-Based Compensation." Accordingly, we recorded no share-based employee compensation expense for options granted under the 2005 Plan or its predecessor plans during the three months ended October 31, 2004 as all options granted under those plans had exercise prices equal to the fair market value of our common stock on the date of grant. We also recorded no compensation expense in that period in connection with our Employee Stock Purchase Plan as the purchase price of the stock was not less than 85% of the lower of the fair market value of our common stock at the beginning of each offering period or at the end of each purchase period. In accordance with SFAS 123 and SFAS 148, "Accounting for Stock-Based Compensation — Transition and Disclosure," later in this Note 1 we disclose our net loss and net loss per share for the three months ended October 31, 2004 as if we had applied the fair value-based method in measuring compensation expense for our share-based compensation plans.

Effective August 1, 2005, we adopted the fair value recognition provisions of SFAS 123(R), "Share-Based Payment," using the modified prospective transition method. Under that transition method, compensation expense that we recognized for the three months ended October 31, 2005 included: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of, August 1, 2005, based on the grant date fair value

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estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based payments granted on or after August 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated.

The following table summarizes the share-based compensation expense for stock options and purchases under our Employee Stock Purchase Plan that we recorded in accordance with SFAS 123(R) for continuing operations:

	<u>Three Months Ended</u>	
	<u>October 31,</u> <u>2005</u>	<u>October 31,</u> <u>2004</u>
<i>(In thousands)</i>		
Share-based compensation expense for stock options and purchases under Employee Stock Purchase Plan recorded in accordance with SFAS 123(R) for continuing operations:		
Cost of product revenue	\$ 288	\$ -
Cost of service revenue	637	-
Selling and marketing	6,307	-
Research and development	5,610	-
General and administrative	6,257	-
Total	<u>\$ 19,099</u>	<u>\$ -</u>

The following table presents the impact of our adoption of SFAS 123(R) on selected statement of operations line items for the three months ended October 31, 2005.

	<u>Three Months Ended October 31, 2005</u>		
	<u>As Reported</u> <u>Under</u> <u>SFAS 123(R)</u>	<u>Under</u> <u>APB 25</u>	<u>Difference</u>
<i>(In thousands, except per share amounts)</i>			
Operating loss from continuing operations	<u>\$ (102,621)</u>	<u>\$ (83,522)</u>	<u>\$ (19,099)</u>
Loss from continuing operations before income taxes	<u>\$ (92,050)</u>	<u>\$ (72,951)</u>	<u>\$ (19,099)</u>
Net loss from continuing operations	<u>\$ (57,611)</u>	<u>\$ (45,655)</u>	<u>\$ (11,956)</u>
Net income from discontinued operations	11,807	11,919	(112)
Net loss	<u>\$ (45,804)</u>	<u>\$ (33,736)</u>	<u>\$ (12,068)</u>
Basic and diluted net loss per share from continuing operations	<u>\$ (0.33)</u>	<u>\$ (0.26)</u>	<u>\$ (0.07)</u>
Basic and diluted net income per share from discontinued operations	<u>0.07</u>	<u>0.07</u>	<u>-</u>
Basic and diluted net loss per share	<u>\$ (0.26)</u>	<u>\$ (0.19)</u>	<u>\$ (0.07)</u>
Shares used in basic and diluted per share amounts	<u>177,406</u>	<u>177,406</u>	<u>177,406</u>

Prior to the adoption of SFAS 123(R), we presented deferred compensation as a separate component of stockholders' equity. In accordance with the provisions of SFAS 123(R), on August 1, 2005 we reclassified the balance in deferred compensation to additional paid-in capital on our balance sheet.

Prior to the adoption of SFAS 123(R), we presented all tax benefits for deductions resulting from the exercise of stock options as operating cash flows on our statement of cash flows. SFAS 123(R) requires the cash flows resulting from the tax benefits for tax deductions in excess of the compensation expense recorded for those options (excess tax benefits) to be classified as financing cash flows. Accordingly, the \$0.9 million excess tax benefit that is

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classified as a financing cash inflow on our statement of cash flows for the three months ended October 31, 2005 would have been classified as an operating cash inflow if we had not adopted SFAS 123(R).

### Determining Fair Value

*Valuation and Amortization Method.* We estimate the fair value of stock options granted using the Black-Scholes option valuation model and a multiple option award approach. For options granted before August 1, 2005, we amortize the fair value on an accelerated basis. For options granted on or after August 1, 2005, we amortize the fair value on a straight-line basis. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods.

*Expected Term.* The expected term of options granted represents the period of time that they are expected to be outstanding. We estimate the expected term of options granted based on the history of grants and exercises in our option database. We have examined our historical pattern of option exercises in an effort to determine if there were any discernable patterns of activity based on certain demographic characteristics. Demographic characteristics tested included age, salary level, job level and geographic location. We have determined that there were no meaningful differences in option exercise activity based on the demographic characteristics tested.

*Expected Volatility.* We estimate the volatility of our common stock at the date of grant based on the implied volatility of two-year publicly traded options on our common stock, consistent with SFAS 123(R) and Securities and Exchange Commission Staff Accounting Bulletin No. 107. Our decision to use implied volatility was based upon the availability of actively traded options on our common stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility.

*Risk-Free Interest Rate.* We base the risk-free interest rate that we use in the Black-Scholes option valuation model on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

*Dividends.* We have never paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. Consequently, we use an expected dividend yield of zero in the Black-Scholes option valuation model.

*Forfeitures.* We use historical data to estimate pre-vesting option forfeitures. As required by SFAS 123(R), we record share-based compensation expense only for those awards that are expected to vest.

We used the following assumptions to estimate the fair value of options granted and shares purchased under our Employee Stock Purchase Plan for the three months ended October 31, 2005 and 2004:

	<u>Stock Options</u>		<u>Employee Stock Purchase Plan</u>	
	<u>Three Months Ended</u>		<u>Three Months Ended</u>	
	<u>October 31,</u> <u>2005</u>	<u>October 31,</u> <u>2004</u>	<u>October 31,</u> <u>2005</u>	<u>October 31,</u> <u>2004</u>
Average expected term (years)	2.44	3.02	0.31	1.00
Expected volatility (range)	23% - 24%	42%	22% - 23%	29%
Weighted average expected volatility	23%	42%	22%	29%
Risk-free interest rate (range)	3.70% - 4.21%	2.09% - 2.88%	3.14% - 3.69%	1.79%
Expected dividend yield	0%	0%	0%	0%

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*Stock Option Activity and Share-Based Compensation Expense*

A summary of stock option activity under all share-based compensation plans during the three months ended October 31, 2005 is as follows:

<u>Options</u> <i>(Aggregate intrinsic value in thousands)</i>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at July 31, 2005	32,308,280	\$ 39.18		
Granted	1,017,100	44.64		
Exercised	(514,209)	31.68		
Cancelled	(342,337)	44.77		
Outstanding at October 31, 2005	<u>32,468,834</u>	<u>\$ 39.41</u>	<u>5.0</u>	<u>\$272,435</u>
Exercisable at October 31, 2005	<u>22,709,557</u>	<u>\$ 37.40</u>	<u>4.5</u>	<u>\$245,249</u>

The weighted average fair value of options granted during the three months ended October 31, 2005 was \$8.37. The aggregate intrinsic value of options outstanding at October 31, 2005 is calculated as the difference between the exercise price of the underlying options and the market price of our common stock for the 22.9 million shares that had exercise prices that were lower than the \$45.93 market price of our common stock at October 31, 2005. The total intrinsic value of options exercised during the three months ended October 31, 2005 was \$7.3 million, determined as of the date of exercise.

At July 31, 2005 we had 359,920 non-vested restricted stock awards and at October 31, 2005 we had 332,589 non-vested restricted stock awards that had a weighted average grant date fair value of \$45.27.

We recorded \$19.1 million in share-based compensation expense for stock options and purchases under our Employee Stock Purchase Plan and \$1.3 million in share-based compensation expense for restricted stock awards in continuing operations for the three months ended October 31, 2005. The total tax benefit related to this share-based compensation was \$7.1 million. As of October 31, 2005, there was \$93.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average period of 2.1 years.

We received \$16.3 million in cash from option exercises under all share-based payment arrangements for the three months ended October 31, 2005. The actual tax benefit that we realized for the tax deductions from option exercise of the share-based payment arrangements totaled \$2.5 million for that period.

Due primarily to our ongoing program of repurchasing shares on the open market, at October 31, 2005 we had 38.7 million treasury shares. We satisfy option exercises from this pool of treasury shares.

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### *Comparable Disclosures*

As discussed earlier in this Note 1, we accounted for share-based compensation under SFAS 123(R)'s fair value method during the three months ended October 31, 2005. The following table illustrates the effect on our net loss and net loss per share for the three months ended October 31, 2004 if we had applied the fair value recognition provisions of SFAS 123 to share-based compensation using the Black-Scholes valuation model.

	<u>Three Months Ended</u>	
	<u>October 31,</u> <u>2005</u>	<u>October 31,</u> <u>2004</u>
<i>(In thousands, except per share amounts)</i>		
<b>Net loss</b>		
Net loss, as reported in prior year		\$ (46,136)
Add: Share-based employee compensation expense included in reported net loss, net of income taxes		48
Deduct: Total share-based employee compensation expense determined under fair value method for all awards, net of income taxes		(13,954)
Net loss, including share-based employee compensation	<u>\$ (45,804)</u>	<u>\$ (60,042)</u>
<b>Net loss per share</b>		
Basic and diluted - as reported in prior year		\$ (0.24)
Basic and diluted - including share-based employee compensation	<u>\$ (0.26)</u>	<u>\$ (0.32)</u>

### *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 investments and funds held for payroll customers. Our portfolio of investments consists of investment-grade securities and our funds held for payroll customers consist of cash, 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 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. For example, at January 31, 2005, the height of the 2004 consumer tax season, amounts due from our eight largest retailers and distributors represented approximately 45% of total 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. No distributor or individual retailer accounted for 10% or more of total net revenue in the three months ended October 31, 2005 or 2004. No customer accounted for 10% or more of total accounts receivable at October 31, 2005 or July 31, 2005. Amounts due from Rock Acquisition Corporation, the purchaser of our Quicken Loans mortgage business, under certain licensing and distribution agreements comprised 11% of total accounts receivable at July 31, 2005.

We rely on three third-party vendors to perform the manufacturing and distribution functions for our primary retail desktop software products. We also have a key single-source vendor that prints and fulfills orders for all of our



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checks and most other products for our financial supplies 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*

#### SFAS 154, "Accounting Changes and Error Corrections"

On June 1, 2005 the FASB issued SFAS 154, "Accounting Changes and Error Corrections," which replaces APB 20, "Accounting Changes," and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes made in fiscal years beginning after June 1, 2005. We do not expect our adoption of this new standard to have a material impact on our financial position, results of operations or cash flows.

## **2. Investments and Funds Held for Payroll Customers**

As discussed in Note 1, "Concentration of Credit Risk and Significant Customers and Suppliers," our portfolio of investments consists of investment-grade securities and our funds held for payroll customers consist of cash, 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 investments by limiting our holdings with any individual issuer.

As also discussed in Note 1, "Cash Equivalents and Investments," investments consist of available-for-sale debt securities that we carry at fair value. The following table summarizes our investments and funds held for payroll customers at the dates indicated.

<i>(In thousands)</i>	<b>October 31, 2005</b>		<b>July 31, 2005</b>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Type of issue:</b>				
Cash and cash equivalents in funds held for payroll customers	\$ 252,953	\$ 252,953	\$ 263,860	\$ 263,860
Available-for-sale debt securities:				
Corporate notes	-	-	7,000	7,000
Municipal bonds	697,643	696,943	981,341	980,500
U.S. government securities	17,991	17,866	16,991	16,894
Total available-for-sale debt securities	<u>715,634</u>	<u>714,809</u>	<u>1,005,332</u>	<u>1,004,394</u>
Total investments and funds held for payroll customers	<u>\$ 968,587</u>	<u>\$ 967,762</u>	<u>\$ 1,269,192</u>	<u>\$ 1,268,254</u>
<b>Classification of investments on balance sheets:</b>				
Investments	\$ 623,155	\$ 622,330	\$ 911,354	\$ 910,416
Funds held for payroll customers	<u>345,432</u>	<u>345,432</u>	<u>357,838</u>	<u>357,838</u>
Total investments and funds held for payroll customers	<u>\$ 968,587</u>	<u>\$ 967,762</u>	<u>\$ 1,269,192</u>	<u>\$ 1,268,254</u>

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We accumulate unrealized gains and losses on our available-for-sale debt securities, net of tax, in accumulated other comprehensive income (loss) in the equity section of our balance sheet. Gross unrealized gains and losses on our available-for-sale debt securities were as follows at the dates indicated:

<i>(In thousands)</i>	<u>October 31, 2005</u>	<u>July 31, 2005</u>
Gross unrealized gains	\$ 20	\$ 31
Gross unrealized losses	(845)	(969)
Net unrealized losses	<u>\$ (825)</u>	<u>\$ (938)</u>

The following table summarizes the fair value and gross unrealized losses related to 92 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 October 31, 2005:

<i>(In thousands)</i>	<u>In a Loss Position for Less Than 12 Months</u>		<u>In a Loss Position for 12 Months or More</u>		<u>Total in a Loss Position</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
Corporate notes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Municipal bonds	187,597	(589)	28,700	(131)	216,297	(720)
U.S. government securities	10,903	(93)	6,963	(32)	17,866	(125)
	<u>\$ 198,500</u>	<u>\$ (682)</u>	<u>\$ 35,663</u>	<u>\$ (163)</u>	<u>\$ 234,163</u>	<u>\$ (845)</u>

We periodically review our investment portfolios to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. We believe that the investments that we held at October 31, 2005 were 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.

We include realized gains and losses on our available-for-sale debt securities in interest and other income on our statement of operations. Gross realized gains and losses on our available-for-sale debt securities were as follows for the periods indicated:

<i>(In thousands)</i>	<u>Three Months Ended</u>	
	<u>October 31, 2005</u>	<u>October 31, 2004</u>
Gross realized gains	\$ 11	\$ 160
Gross realized losses	(391)	(1,457)
Net realized losses	<u>\$ (380)</u>	<u>\$ (1,297)</u>

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The following table summarizes our available-for-sale debt securities held in investments and funds held for payroll customers, classified by the stated maturity date of the security.

	October 31, 2005	
	Cost	Fair Value
(In thousands)		
Due within one year	\$143,156	\$142,812
Due within two years	65,095	64,769
Due within three years	-	-
Due after three years	507,383	507,228
<b>Total available-for-sale debt securities</b>	<b>\$715,634</b>	<b>\$714,809</b>

Approximately 85% of our available-for-sale debt securities have an interest reset date, put date or mandatory call date within one year.

### 3. 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 that the components of other comprehensive income (loss), such as changes in the fair value of available-for-sale securities and foreign currency translation adjustments, be added to our net income (loss) to arrive at comprehensive net 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 for the periods indicated:

	Unrealized Gain (Loss) on		Foreign Currency Translation	Total
	Investments	Marketable Securities		
(In thousands)				
<b>Balance July 31, 2005</b>	\$ (582)	\$ 1,451	\$ (695)	\$ 174
Unrealized loss, net of income tax benefits of \$102 and \$40	(165)	(65)	-	(230)
Reclassification adjustment for realized loss included in net income, net of income tax provision of \$144	236	-	-	236
Translation adjustment	-	-	1,111	1,111
Other comprehensive income	71	(65)	1,111	1,117
<b>Balance October 31, 2005</b>	<b>\$ (511)</b>	<b>\$ 1,386</b>	<b>\$ 416</b>	<b>\$ 1,291</b>
<b>Balance July 31, 2004</b>	<b>\$ (1,502)</b>	<b>\$ 375</b>	<b>\$ (2,248)</b>	<b>\$ (3,375)</b>
Unrealized (loss) gain, net of income tax provisions of \$35 and \$89	(76)	178	-	102
Reclassification adjustment for realized loss included in net income, net of income tax provision of \$493	804	-	-	804
Translation adjustment	-	-	1,186	1,186
Other comprehensive income (loss)	728	178	1,186	2,092
<b>Balance October 31, 2004</b>	<b>\$ (774)</b>	<b>\$ 553</b>	<b>\$ (1,062)</b>	<b>\$ (1,283)</b>

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Comprehensive net income (loss) was as follows for the periods indicated:

<i>(In thousands)</i>	<b>Three Months Ended</b>	
	<b>October 31, 2005</b>	<b>October 31, 2004</b>
Net loss	\$ (45,804)	\$ (46,136)
Other comprehensive income	1,117	2,092
Comprehensive net loss, net of income taxes	<u>\$ (44,687)</u>	<u>\$ (44,044)</u>
Income tax provision netted against other comprehensive income	<u>\$ 2</u>	<u>\$ 617</u>

#### **4. Discontinued Operations**

##### *Intuit Information Technology Solutions*

In May 2005 our Board of Directors formally approved a plan to sell our Intuit Information Technology Solutions (ITS) business, which was part of our Intuit-Branded Small Business segment. In October 2005 we signed a definitive agreement to sell ITS, subject to closing conditions, for approximately \$200 million in cash. We expect the sale to be completed in the second quarter of fiscal 2006. The decision was a result of management's desire to focus resources on Intuit's core products and services. In accordance with the provisions of SFAS 144, "Accounting for the Impairment or Disposal of Long-lived Assets," we determined that ITS became a long-lived asset held for sale in the fourth quarter of fiscal 2005. SFAS 144 provides that a long-lived asset classified as held for sale should be measured at the lower of its carrying amount or fair value less cost to sell. Since the carrying value of ITS at October 31, 2005 was less than the estimated fair value less cost to sell, no adjustment to the carrying value of this long-lived asset was necessary during the first quarter of fiscal 2006. In accordance with SFAS 144, we discontinued the amortization of ITS intangible assets and the depreciation of ITS property and equipment in the fourth quarter of fiscal 2005.

Also in accordance with the provisions of SFAS 144, we determined that ITS became a discontinued operation in the fourth quarter of fiscal 2005. Consequently, we have segregated the net assets, operating results and cash flows of ITS from continuing operations on our balance sheets, statements of operations and statements of cash flows for all periods presented. For the three months ended October 31, 2005, we recorded net income from ITS operations of \$3.3 million and recognized \$8.5 million in tax benefits from the anticipated disposal of ITS. We expect ITS to continue to generate cash flows from its business operations until it is sold.

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The carrying amounts of the major classes of assets and liabilities of ITS at October 31, 2005 were as shown in the following table. Carrying amounts approximated fair values.

<i>(In thousands)</i>	<u>October 31, 2005</u>
Cash	\$ 9,676
Accounts receivable	10,600
Other current assets	440
Current assets of discontinued operations	<u>20,716</u>
Goodwill	150,282
Purchased intangible assets and other	6,398
Long-term assets of discontinued operations	<u>156,680</u>
Total assets of discontinued operations	<u>177,396</u>
Accounts payable	1,972
Accrued compensation	1,143
Deferred revenue	15,745
Other current liabilities	979
Current liabilities of discontinued operations	19,839
Long-term obligations of discontinued operations	221
Total liabilities of discontinued operations	<u>20,060</u>
Net assets of discontinued operations	<u>\$ 157,336</u>

### *Intuit Public Sector Solutions*

In December 2004 we sold our Intuit Public Sector Solutions (IPSS) business for approximately \$11 million. IPSS was part of our Intuit-Branded Small Business segment. In accordance with SFAS 144, we accounted for the sale as discontinued operations. We have therefore segregated the net assets, operating results and cash flows of IPSS from continuing operations on our balance sheets, statements of operations and statements of cash flows for all periods prior to the sale. We recorded a \$3.4 million net loss on disposal of IPSS for the three months ended October 31, 2004 that represented an income tax provision for the estimated tax payable in connection with the expected tax gain on the sale of IPSS.

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### *Components of Net Income (Loss) from Discontinued Operations*

The components of net income (loss) from discontinued operations on our statements of operations as well as net revenue from discontinued operations and income or loss from discontinued operations before income taxes were as follows for the periods indicated:

	Three Months Ended	
	October 31, 2005	October 31, 2004
<i>(In thousands)</i>		
<b>Net income (loss) from discontinued operations</b>		
Net loss from Intuit Public Sector Solutions operations	\$ -	\$ (298)
Net loss on disposal of Intuit Public Sector Solutions discontinued operations	-	(3,368)
Net income from Intuit Information Technology Solutions operations	3,291	3,027
Tax benefits from anticipated disposal of Intuit Information Technology Solutions discontinued operations	8,516	-
Total net income (loss) from discontinued operations	<u>\$ 11,807</u>	<u>\$ (639)</u>
<b>Net revenue from discontinued operations</b>		
Intuit Public Sector Solutions	\$ -	\$ 2,781
Intuit Information Technology Solutions	14,360	13,214
Total net revenue from discontinued operations	<u>\$ 14,360</u>	<u>\$ 15,995</u>
<b>Income from discontinued operations before income taxes</b>		
Intuit Public Sector Solutions	\$ -	\$ (482)
Intuit Information Technology Solutions	5,807	4,882
Total income from discontinued operations before income taxes	<u>\$ 5,807</u>	<u>\$ 4,400</u>

## **5. 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 our chief executive officer and our chief financial officer.

QuickBooks-Related product revenue is derived primarily from QuickBooks desktop software products; QuickBooks Payroll, a family of products sold on a subscription basis offering payroll tax tables, forms, electronic tax payment and filing, and in some cases QuickBooks software upgrades, 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 three selected industries: residential, commercial and corporate property management; wholesale durable goods distribution; and construction. 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.

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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, consumer electronic filing and refund transfer services.

Professional Tax product revenue is derived primarily from Lacerte and ProSeries professional tax preparation software products. Professional Tax service revenue is derived primarily from electronic filing, bank product transmission 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. 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 payroll services and software maintenance contracts sold with QuickBooks.

Our QuickBooks-Related, Consumer Tax and Professional Tax segments operate primarily in the United States. All of our 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.

We include costs such as corporate general and administrative expenses and share-based compensation expenses that are not allocated to specific segments in a category we call Corporate. The Corporate category also includes amortization of purchased intangible assets, acquisition-related charges, impairment of goodwill and purchased intangible assets, interest and other income, and realized net gains or losses on marketable equity securities and other investments.

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 total assets by reportable segment.

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The following tables show our financial results by reportable segment for the three months ended October 31, 2005 and 2004.

<i>(In thousands)</i>	QuickBooks Related	Intuit- Branded Small Business	Consumer Tax	Professional Tax	Other Businesses	Corporate	Consolidated
<b>Three months ended October 31, 2005</b>							
Product revenue	\$133,545	\$ 7,575	\$ 2,790	\$ 8,111	\$30,433	\$ -	\$ 182,454
Service revenue	41,860	50,632	5,075	785	6,268	-	104,620
Other revenue	2,673	24	22	1	14,277	-	16,997
Total net revenue	178,078	58,231	7,887	8,897	50,978	-	304,071
Segment operating income (loss)	50,547	(554)	(24,270)	(21,960)	18,678	-	22,441
Common expenses						(118,354)	(118,354)
Subtotal	50,547	(554)	(24,270)	(21,960)	18,678	(118,354)	(95,913)
Amortization of purchased intangible assets	-	-	-	-	-	(2,949)	(2,949)
Acquisition-related charges	-	-	-	-	-	(3,759)	(3,759)
Interest and other income	-	-	-	-	-	6,304	6,304
Realized net gain on marketable equity securities	-	-	-	-	-	4,267	4,267
Income (loss) from continuing operations before income taxes	\$ 50,547	\$ (554)	\$(24,270)	\$(21,960)	\$18,678	\$(114,491)	\$ (92,050)

<i>(In thousands)</i>	QuickBooks Related	Intuit- Branded Small Business	Consumer Tax	Professional Tax	Other Businesses	Corporate	Consolidated
<b>Three months ended October 31, 2004</b>							
Product revenue	\$112,070	\$ 8,885	\$ 1,185	\$ 7,146	\$24,717	\$ -	\$154,003
Service revenue	31,032	44,538	3,640	281	4,666	-	84,157
Other revenue	2,539	38	197	10	11,832	-	14,616
Total net revenue	145,641	53,461	5,022	7,437	41,215	-	252,776
Segment operating income (loss)	49,391	2,081	(20,380)	(21,086)	9,792	-	19,798
Common expenses						(94,967)	(94,967)
Subtotal	49,391	2,081	(20,380)	(21,086)	9,792	(94,967)	(75,169)
Amortization of purchased intangible assets	-	-	-	-	-	(2,541)	(2,541)
Acquisition-related charges	-	-	-	-	-	(4,441)	(4,441)
Interest and other income	-	-	-	-	-	3,855	3,855
Realized net gain on marketable equity securities	-	-	-	-	-	158	158
Income (loss) from continuing operations before income taxes	\$ 49,391	\$ 2,081	\$(20,380)	\$(21,086)	\$ 9,792	\$(97,936)	\$ (78,138)



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### 6. Other Current Liabilities

Other current liabilities were as follows at the dates indicated:

<i>(In thousands)</i>	<u>October 31, 2005</u>	<u>July 31, 2005</u>
Reserve for product returns	\$ 24,384	\$ 30,454
Reserve for rebates	14,646	18,482
Executive deferred compensation plan	24,897	19,857
Other	30,145	34,338
Total other current liabilities	<u>\$ 94,072</u>	<u>\$103,131</u>

### 7. Long-Term Obligations

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

<i>(In thousands)</i>	<u>October 31, 2005</u>	<u>July 31, 2005</u>
Capital lease obligations: monthly installments through 2008; interest rates of 2.66% to 4.50%	\$ 3,019	\$ 3,718
Deferred rent	17,327	17,311
Other	2,179	2,233
Total long-term obligations	22,525	23,262
Less current portion (included in other current liabilities)	(5,832)	(5,954)
Long-term obligations due after one year	<u>\$ 16,693</u>	<u>\$17,308</u>

### 8. Income Taxes

We compute our provision for or benefit from income taxes by applying the estimated annual effective tax rate to income or loss from recurring operations and other taxable items. The following table reconciles our effective income tax rate to the statutory federal income tax rate for the periods indicated.

	<u>Three Months Ended</u>	
	<u>October 31, 2005</u>	<u>October 31, 2004</u>
Statutory federal income tax rate	35.0%	35.0%
State income tax, net of federal benefit	3.5%	2.1%
Federal research and experimental credits	(0.6%)	(1.5%)
Tax exempt interest	(2.0%)	(0.7%)
Manufacturer tax deduction	(0.6%)	-
Adjustment of tax provision	-	1.0%
Federal and state credits	-	4.6%
Other, net	2.1%	1.3%
Effective income tax rate	<u>37.4%</u>	<u>41.8%</u>

Beginning in fiscal 2006 we qualify for the annual domestic manufacturer tax deduction under the American Jobs Creation Act of 2004. The federal research and experimentation credit will not apply to expenses incurred after December 31, 2005. Although the credit may be extended, in accordance with SFAS 109 when estimating our effective tax rate for fiscal 2006 we have not assumed tax benefits for any federal research and experimentation credit after this expiration date.

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**9. Stockholders' Equity**

*Stock Repurchase Programs*

Intuit's Board of Directors has authorized a series of common stock repurchase programs. Shares of common stock repurchased under these programs become treasury shares. During the three months ended October 31, 2005 and 2004 we repurchased 4.3 million and 3.9 million shares of our common stock for \$194.8 million and \$170.6 million under these programs. At October 31, 2005, authorized funds of \$96.0 million remained under our fifth repurchase program. In November 2005 we announced a sixth stock repurchase program under which we are authorized to repurchase up to \$500.0 million of our common stock from time to time over a three-year period ending on November 14, 2008.

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.

*Distribution and Dilutive Effect of Options*

The following table shows certain information about option grants to Named Executives and all option grants for the periods indicated. Named Executives are defined as our chief executive officer and each of the four other most highly compensated executive officers during the fiscal periods presented.

	<b>Three Months Ended October 31, 2005</b>	<b>Twelve Months Ended</b>	
		<b>July 31, 2005</b>	<b>July 31, 2004</b>
Net option grants during the period as a percentage of outstanding shares	0.5%	2.8%	2.9%
Grants to Named Executives during the period as a percentage of total options granted	0.0%	6.2%	7.1%
Grants to Named Executives during the period as a percentage of outstanding shares	0.0%	0.2%	0.3%
Options held by Named Executives as a percentage of total options outstanding	12.9%	13.0%	12.7%

We define net option grants as options granted less options canceled or expired and returned to the pool of options available for grant. Options granted to our Named Executives as a percentage of total options granted may vary significantly from quarter to quarter, due in part to the timing of annual performance-based grants to Named Executives.

**10. Litigation**

*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 damages of up to \$11.1 million, punitive damages of up to \$33.0 million, and other damages. Intuit unsuccessfully sought to compel the matter to arbitration. On February 7, 2005 Intuit filed a motion to dismiss all but one of the plaintiff's claims in New

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York state court. On September 6, 2005 the court dismissed Siebert's fraud and punitive damages claims. Intuit believes this lawsuit is without merit and will vigorously defend the litigation.

### *Other Litigation Matters*

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.

## **11. Related Party Transactions**

### *Loans to Executive Officers and Other Employees*

Prior to July 30, 2002, loans to executive officers were generally made 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 that date and we do not intend to make or modify any loans to executive officers in the future. At October 31, 2005, no loans were in default and all interest payments were current in accordance with the terms of the loan agreements.

At October 31, 2005 and July 31, 2005, loans to executive officers in the principal amount of \$6.0 million were outstanding and loans to other employees in the principal amount of \$3.2 million were outstanding.

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**ITEM 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS**

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

- Executive Overview that discusses at a high level our operating results and some of the trends that affect our business.
- Critical Accounting Policies that we believe are important to understanding the assumptions and judgments underlying our financial statements.
- Results of Operations that begins with a Financial Overview followed by a more detailed discussion of our revenue and expenses.
- Liquidity and Capital Resources which discusses key aspects of our statements of cash flows, changes in our balance sheets and our financial commitments.
- A section entitled Risks That Could Affect Future Results, which details important factors that may significantly impact our future financial performance.

You should 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 2 for important information to consider when evaluating such statements.

You should read this MD&A in conjunction with the financial statements and related notes in Item 1 and our Report on Form 10-K for the fiscal year ended July 31, 2005. As discussed below, we sold our Intuit Public Sector Solutions business in December 2004 and in May 2005 our Board of Directors approved a formal plan to sell our Intuit Information Technology Solutions (ITS) business. We accounted for these businesses as discontinued operations and have accordingly reclassified our financial statements for all periods presented to reflect them as discontinued operations. Unless noted otherwise, the following discussion pertains only to our continuing operations.

**Executive Overview**

The following overview discusses at a high level our operating results and some of the trends that affect our business. We believe that an understanding of these trends is important in order to understand our financial results for the first quarter of fiscal 2006 as well as our future prospects. This summary is not intended to be exhaustive, nor is it intended to be a substitute for the detailed discussion and analysis provided elsewhere in this Form 10-Q and in our Report on Form 10-K for the fiscal year ended July 31, 2005.

*About Intuit*

Intuit is a leading provider of business and financial management solutions for small business, consumer and professional tax, and accountants. We organize our business into the following five segments:

- QuickBooks-Related. This segment includes our QuickBooks accounting and business management software for small businesses as well as products and services that can be added on to QuickBooks. These include financial supplies, QuickBooks payroll, merchant services and technical support.
- Intuit-Branded Small Business. This segment includes products and services other than QuickBooks that are designed primarily for small and medium-sized businesses and includes outsourced payroll and solutions designed to meet the needs of businesses in selected industries.
- Consumer Tax. This segment includes our TurboTax consumer tax return preparation products and services.
- Professional Tax. This segment includes our Lacerte and ProSeries professional tax products and services.
- Other Businesses. This segment consists primarily of our Quicken personal finance products and services and our business in Canada.

*Overview of Financial Results*

Total net revenue for the first quarter of fiscal 2006 was \$304.1 million, up 20% compared with the first quarter of fiscal 2005. The fiscal 2006 revenue increase was primarily due to growth in our QuickBooks-Related segment. We recorded a net loss from continuing operations of \$57.6 million in the first quarter of fiscal 2006 compared with a

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net loss from continuing operations of \$45.5 million in the first quarter of fiscal 2005. See “*Seasonality*” below. Our first quarter fiscal 2006 net loss included \$19.1 million in pre-tax share-based compensation expense for stock options and purchases under our Employee Stock Purchase Plan that we recorded as a result of our adoption of SFAS 123(R) on August 1, 2005. See “*Critical Accounting Policies*” and “*Financial Overview*” later in this MD&A. Excluding the share-based compensation expense for stock options and purchases under our Employee Stock Purchase Plan that we recorded in the first quarter of fiscal 2006, our operating loss from continuing operations was slightly higher in that quarter compared with the same quarter of fiscal 2005. Higher spending for infrastructure, implementation of new information systems, new product development and customer support offset higher revenue in the first quarter of fiscal 2006. Our effective tax rate in the first quarter of fiscal 2006 was 37% compared with an effective tax rate of 42% in the first quarter of fiscal 2005. Basic and diluted net loss per share was \$0.26 in the first quarter of fiscal 2006, an increase of 8% compared with the first quarter of fiscal 2005. Our diluted net loss per share increased more rapidly than our net loss in the fiscal 2006 period primarily due to the net reduction of average shares outstanding. Average shares outstanding declined as a result of repurchases of common stock under our stock repurchase programs, partially offset by the issuance of shares under option and employee stock purchase plans.

In October 2005 we signed a definitive agreement to sell our ITS business, subject to closing conditions, for approximately \$200 million in cash. We expect the sale to be completed in the second quarter of fiscal 2006.

We ended the first quarter of fiscal 2006 with cash and investments totaling \$697.3 million. In the first quarter of fiscal 2006 we used \$94.8 million in cash for continuing operations, compared with \$92.2 million in the same period of fiscal 2005. We used cash for operations in both quarters primarily for seasonal operating losses and for the payment of accrued annual bonuses. We also used \$194.8 million and \$170.6 million in cash for repurchases of common stock under our stock repurchase programs in the first quarters of fiscal 2006 and 2005. At October 31, 2005, authorized funds of \$96.0 million remained available under our fifth repurchase program. In November 2005 we announced a sixth stock repurchase program under which we are authorized to repurchase up to \$500.0 million of our common stock from time to time over a three-year period ending on November 14, 2008. We expect to continue to repurchase shares under these programs during the remainder of fiscal 2006.

### *Seasonality*

Our QuickBooks, Consumer Tax and Professional Tax businesses are highly seasonal. Some of our other offerings are also seasonal, but to a lesser extent. Revenue from upgrades for many of our small business software products, including QuickBooks, tends 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 continue at relatively consistent levels.

### *Strategy and Trends*

*Strategy.* Our strategy is to be in good businesses and attractive new markets with large unmet or underserved needs which we can solve well. Our core competency is customer-driven innovation that provides simple solutions to complex problems. We apply this approach to existing solutions by focusing on continuous improvement to deliver customer delight. Our approach to new opportunities is to develop products and services which are designed to attract customers who do not use software products (non-consumption) and offer solutions that have better value compared with higher priced alternatives (disruption). This strategy allows us to build large user bases with durable advantages. In fiscal 2005 we introduced four products that exemplify this approach: QuickBooks Simple Start, which provides accounting functionality suitable for very small businesses; SnapTax, designed for taxpayers with very simple personal income tax returns; ProSeries Express Edition, designed for tax practices that focus on helping taxpayers obtain their refunds quickly; and ProSeries Basic Edition, designed for the needs of smaller and seasonal tax practices.

*Opportunities in Our Core Markets.* While we have strong positions in our core markets for QuickBooks and TurboTax software, we believe that there are more opportunities in the markets for small businesses and individual consumers. Many small businesses and individuals are using other methods, such as manual tools and processes or general-purpose software. We continue to explore ways to meet the needs of consumers that we have never reached before. For example, in fiscal 2005 we introduced QuickBooks Simple Start with accounting functionality for very small businesses and SnapTax for taxpayers with very simple personal income tax returns.

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*Importance of Developing and Introducing New Products and Services.* To remain competitive and grow in the future, we must continue to invest in initiatives aimed at uncovering and meeting new customer needs while enhancing our existing offerings to make them even better.

*Importance of Technology Infrastructure.* Our Internet-based products and services include QuickBooks Online Edition, QuickBooks Assisted Payroll Service, Complete web-based Payroll, TurboTax for the Web and consumer and professional electronic tax filing services. As our businesses continue to move toward delivering more web-based products and services, our technology infrastructure will become even more critical in the future.

*Competition.* We have formidable competitors, and we expect competition to remain intense during fiscal 2006 and beyond. For example, Microsoft Corporation recently launched accounting software and associated services that directly target small business customers. Microsoft has indicated that part of its growth strategy is to focus on the small business market.

In our Consumer Tax business, 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. We are a member of the Free File Alliance, a consortium of private sector companies that have been providing web-based federal tax preparation and filing services at no charge through voluntary public service initiatives. In October 2005 the federal government and the Free File Alliance signed a new four-year agreement that continues to prohibit the Internal Revenue Service from entering the tax preparation business. In addition, this agreement specifies that the free services will be available to 70% of U.S. taxpayers, which the Internal Revenue Service currently defines as taxpayers with less than approximately \$50,000 in adjusted gross income. The agreement also limits any individual participating company to offerings that target no more than 50% of all taxpayers.

### **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 reviewed the development and selection of these critical accounting policies and their disclosure in this Quarterly Report on Form 10-Q with the Audit Committee of our Board of Directors.

#### *Net Revenue – Revenue Recognition*

We derive revenue from the sale of packaged software products, license fees, product support, professional services, outsourced payroll services, merchant 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. For additional information, see “*Net Revenue*” in Note 1 to the financial statements. 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 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

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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 2005 returns reserves by 1% of non-consignment sales to retailers for QuickBooks, TurboTax and Quicken, our fiscal 2005 total net revenue would have been \$3.6 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 carried 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 affect 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. At October 31, 2005 we had \$509.9 million in goodwill and \$71.6 million in net purchased intangible assets on our balance sheet.

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### *Accounting for Share-Based Compensation*

Prior to August 1, 2005, we accounted for our share-based employee compensation plans under the measurement and recognition provisions of Accounting Principles Board (APB) Opinion No. 25, “*Accounting for Stock Issued to Employees*,” and related Interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, “*Accounting for Stock-Based Compensation*.” We recorded no share-based employee compensation expense for options granted under our 2005 Equity Incentive Plan or its predecessor plans prior to August 1, 2005 as all options granted under those plans had exercise prices equal to the fair market value of our common stock on the date of grant. We also recorded no compensation expense in connection with our Employee Stock Purchase Plan as the purchase price of the stock was not less than 85% of the lower of the fair market value of our common stock at the beginning of each offering period or at the end of each purchase period. In accordance with SFAS 123 and SFAS 148, “*Accounting for Stock-Based Compensation – Transition and Disclosure*,” we disclosed our net income or loss and net income or loss per share as if we had applied the fair value-based method in measuring compensation expense for our share-based incentive programs.

Effective August 1, 2005, we adopted the fair value recognition provisions of SFAS 123(R), “*Share-Based Payment*,” using the modified prospective transition method. Under that transition method, compensation expense that we recognize beginning on that date includes: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of, August 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based payments granted on or after August 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. At October 31, 2005, there was \$93.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. We expect to recognize that cost over a weighted average period of 2.1 years.

We estimate the fair value of options granted using the Black-Scholes option valuation model and the assumptions shown in Note 1 to the financial statements. We estimate the expected term of options granted based on the history of grants and exercises in our option database. We estimate the volatility of our common stock at the date of grant based on the implied volatility of publicly traded two-year options on our common stock, consistent with SFAS 123(R) and Securities and Exchange Commission Staff Accounting Bulletin No. 107. Our decision to use implied volatility was based upon the availability of actively traded options on our common stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility. We base the risk-free interest rate that we use in the Black-Scholes option valuation model on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms. We have never paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. Consequently, we use an expected dividend yield of zero in the Black-Scholes option valuation model. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. For options granted before August 1, 2005, we amortize the fair value on an accelerated basis. For options granted on or after August 1, 2005, we amortize the fair value on a straight-line basis. All options are amortized over the requisite service periods of the awards, which are generally the vesting periods. We may elect to use different assumptions under the Black-Scholes option valuation model in the future, which could materially affect our net income or loss and net income or loss per share.

### *Legal Contingencies*

We are subject to certain legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. We review the status of each significant matter quarterly and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we record a liability and an expense for the estimated loss. Significant judgment is required in both the determination of probability and the determination of whether an exposure is reasonably estimable. Our accruals are based on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Potential legal liabilities and the revision of estimates of potential legal liabilities could have a material impact on our results of operations and financial position.



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### *Income Taxes – Estimates of Effective Tax Rates, Deferred Taxes and Valuation Allowance*

When we prepare our 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 and materially affect 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 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 October 31, 2005 was \$170.8 million, net of the valuation allowance of \$5.5 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 state capital loss and net operating 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**

### *Financial Overview*

<i>(Dollars in millions, except per share amounts)</i>	<u>Q1</u>	<u>Q1</u>	<u>Q1 \$</u>	<u>Q1 %</u>	<u>Impact of</u>	
	<u>FY06</u>	<u>FY05</u>	<u>Change</u>	<u>Change</u>	<u>Q1 FY06</u>	<u>Q1 %</u>
					<u>Option/ESPP</u>	<u>Change</u>
					<u>Expense</u>	
					<u>Amount</u>	<u>Q1 %</u>
Total net revenue	\$ 304.1	\$252.8	\$ 51.3	20%	\$ -	-
Operating loss from continuing operations	(102.6)	(82.2)	(20.4)	25%	(19.1)	23%
Net loss from continuing operations	(57.6)	(45.5)	(12.1)	27%	(11.9)	26%
Basic and diluted net loss per share from continuing operations	\$ (0.33)	\$ (0.24)	\$(0.09)	38%	\$(0.07)	29%
Net cash used in operating activities of continuing operations	\$ (94.8)	\$ (92.2)	\$ (2.6)	3%	\$ (0.9)	1%

Total net revenue increased in the first quarter of fiscal 2006 compared with the first quarter of fiscal 2005 primarily due to growth in QuickBooks software, QuickBooks Payroll and merchant services revenue in our QuickBooks-Related segment.

Effective August 1, 2005, we adopted the fair value recognition provisions of SFAS 123(R), "Share-Based Payment," using the modified prospective transition method. Under that transition method, compensation expense that we recognized for the three months ended October 31, 2005 included: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of, August 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based

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payments granted on or after August 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In the first quarter of fiscal 2006 we recorded share-based compensation expense for stock options and purchases under our Employee Stock Purchase Plan totaling \$19.1 million or \$0.07 per diluted share as a result of our adoption of SFAS 123(R). Results for prior periods have not been restated.

At October 31, 2005, there was \$93.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. We expect to recognize that cost over a weighted average period of 2.1 years.

Excluding the share-based compensation expense for stock options and purchases under our Employee Stock Purchase Plan that we recorded in accordance with SFAS 123(R), higher spending for infrastructure, implementation of new information systems, new product development and customer support offset higher revenue in the first quarter of fiscal 2006. Our diluted net loss per share increased more rapidly than our net loss in the fiscal 2006 period primarily due to the net reduction of average shares outstanding. Average shares outstanding declined as a result of repurchases of common stock under our stock repurchase programs, partially offset by the issuance of shares under option and employee stock purchase plans.

At October 31, 2005, our cash, cash equivalents and investments totaled \$697.3 million, a decrease of \$297.0 million from July 31, 2005. We used cash in the first quarter of fiscal 2006 primarily for seasonal operating losses, the payment of accrued annual bonuses and repurchases of common stock under our stock repurchase program. We generated cash in the first quarter of fiscal 2006 primarily by issuing common stock under employee stock plans. In the first quarter of fiscal 2006 we bought 4.3 million shares of our common stock under our fifth repurchase program at an average price of \$45.14 for a total price of \$194.8 million. At October 31, 2005, authorized funds of \$96.0 million remained available under this repurchase program. In November 2005 we announced a sixth stock repurchase program under which we are authorized to repurchase up to \$500.0 million of our common stock from time to time over a three-year period ending on November 14, 2008. We expect to continue to repurchase shares under these programs during the remainder of fiscal 2006.

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### *Total Net Revenue*

The table below and the discussion of net revenue by business segment that follows it are organized in accordance with our five reportable business segments. See Note 5 to the financial statements for descriptions of product, service and other revenue for each segment.

<i>(Dollars in millions)</i>	<u>Q1 FY06</u>	<u>% Total Net Revenue</u>	<u>Q1 FY05</u>	<u>% Total Net Revenue</u>	<u>Q1 % Change</u>
<b>QuickBooks- Related</b>					
Product	\$133.6		\$112.1		
Service	41.8		31.0		
Other	2.7		2.5		
Subtotal	<u>178.1</u>	59%	<u>145.6</u>	58%	22%
<b>Intuit-Branded Small Business</b>					
Product	7.6		8.9		
Service	50.6		44.6		
Other	-		-		
Subtotal	<u>58.2</u>	19%	<u>53.5</u>	21%	9%
<b>Consumer Tax</b>					
Product	2.8		1.2		
Service	5.1		3.6		
Other	-		0.2		
Subtotal	<u>7.9</u>	2%	<u>5.0</u>	2%	57%
<b>Professional Tax</b>					
Product	8.1		7.2		
Service	0.8		0.3		
Other	-		-		
Subtotal	<u>8.9</u>	3%	<u>7.5</u>	3%	20%
<b>Other Businesses</b>					
Product	30.4		24.7		
Service	6.3		4.7		
Other	14.3		11.8		
Subtotal	<u>51.0</u>	17%	<u>41.2</u>	16%	24%
<b>Total net revenue</b>	<u><b>\$304.1</b></u>	<u><b>100%</b></u>	<u><b>\$252.8</b></u>	<u><b>100%</b></u>	20%

### *Total Net Revenue by Business Segment*

#### *QuickBooks-Related*

QuickBooks-Related total net revenue increased in the first quarter of fiscal 2006 compared with the same quarter of fiscal 2005 primarily due to higher QuickBooks software, QuickBooks Payroll and merchant services revenue. The increase in QuickBooks software revenue was primarily a result of unit growth in our QuickBooks Pro and Premier products as well as in QuickBooks Enterprise Solutions and QuickBooks Online Edition. QuickBooks Payroll revenue was higher in the first quarter of fiscal 2006 compared with the first quarter of fiscal 2005 primarily because

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of growth in the customer base, price increases and a favorable product mix. The increase in merchant services revenue was primarily due to growth in the customer base and higher transaction volume per customer.

### *Intuit-Branded Small Business*

Intuit-Branded Small Business total net revenue increased in the first quarter of fiscal 2006 compared with the same quarter of fiscal 2005 primarily due to growth in our outsourced payroll business. Higher outsourced payroll revenue was driven by growth in the number of QuickBooks Assisted Payroll and Complete Payroll customers processing payrolls, price increases and increased interest income on funds held for payroll customers, partially offset by attrition in the Premier Payroll Service customer base.

### *Consumer Tax*

Due to the seasonal nature of our Consumer Tax business, the first fiscal quarter typically generates nominal revenue from consumer tax products and services compared with the second and third fiscal quarters. We do not believe that results for the first quarter of fiscal 2006 are indicative of revenue trends for the full year. We will not have substantially complete results for the 2005 tax season until late in fiscal 2006.

We are a member of the Free File Alliance, a consortium of private sector companies that have been providing web-based federal tax preparation and filing services at no charge through voluntary public service initiatives. In October 2005 the federal government and the Free File Alliance signed a new four-year agreement that continues to prohibit the Internal Revenue Service from entering the tax preparation business. In addition, this agreement specifies that the free services will be available to 70% of U.S. taxpayers, which the Internal Revenue Service currently defines as taxpayers with less than approximately \$50,000 in adjusted gross income. The agreement also limits any individual participating company to offerings that target no more than 50% of all taxpayers.

### *Professional Tax*

Due to the seasonal nature of our Professional Tax business, the first fiscal quarter typically generates nominal revenue from professional tax products and services compared with the second and third fiscal quarters. We do not believe that results for the first quarter of fiscal 2006 are indicative of revenue trends for the full year. We will not have substantially complete results for the 2005 tax season until late in fiscal 2006.

### *Other Businesses*

Other Businesses total net revenue increased in the first quarter of fiscal 2006 compared with the first quarter of fiscal 2005. Quicken revenue was flat in the fiscal 2006 quarter. Canadian revenue increased in the fiscal 2006 quarter primarily due to higher subscription revenue for payroll services that was driven by improvements in service levels.

### *Cost of Revenue*

(Dollars in millions)

	<u>Q1 FY06</u>	<u>% of Related Revenue</u>	<u>Q1 FY05</u>	<u>% of Related Revenue</u>
Cost of product revenue	\$ 32.4	18%	\$ 29.8	19%
Cost of service revenue	53.4	51%	39.8	47%
Cost of other revenue	5.9	34%	5.8	40%
Amortization of purchased intangible assets	2.9	n/a	2.5	n/a
<b>Total cost of revenue</b>	<b>\$ 94.6</b>	<b>31%</b>	<b>\$ 77.9</b>	<b>31%</b>

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 online transactions revenue; and

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(4) amortization of purchased intangible assets, which represents the cost of amortizing over their useful lives developed technologies that we obtained through acquisitions.

Total cost of revenue for the first quarter of fiscal 2006 included \$0.9 million in share-based compensation expense for stock options and purchases under our Employee Stock Purchase Plan. Cost of service revenue as a percentage of service revenue increased in the first quarter of fiscal 2006 compared with the first quarter of fiscal 2005 primarily due to a bank transfer fee of \$2.2 million in our merchant services business.

**Operating Expenses**

<i>(Dollars in millions)</i>	Q1 FY06	% of Total Net Revenue	Q1 FY05	% of Total Net Revenue	Impact of Q1 FY06 Option/ESPP Expense	
					Amount	% of Total Net Revenue
Selling and marketing	\$ 147.4	49%	\$ 128.5	51%	\$ 6.3	2%
Research and development	97.3	32%	74.4	29%	5.6	2%
General and administrative	63.6	21%	49.6	20%	6.3	2%
Acquisition-related charges	3.8	1%	4.4	2%	-	-
<b>Total operating expenses</b>	<b>\$ 312.1</b>	<b>103%</b>	<b>\$ 256.9</b>	<b>102%</b>	<b>\$ 18.2</b>	<b>6%</b>

Total operating expenses increased in the first quarter of fiscal 2006 compared with the same quarter of fiscal 2005 due in part to the share-based compensation expense for stock options and purchases under our Employee Stock Purchase Plan that we recorded in the fiscal 2006 period in connection with our adoption of SFAS 123(R) on August 1, 2005. Total operating expenses also increased in the first quarter of fiscal 2006 compared with the first quarter of fiscal 2005 due to spending for infrastructure, implementation of new information systems, new product development and customer support. We plan to continue to upgrade our new information systems to improve performance and support our future growth. Expenditures associated with these upgrades could be significant.

Selling and marketing expenses include the cost of providing customer service and technical support to customers who have not purchased support plans. Selling and marketing expenses as a percentage of total net revenue decreased in the first quarter of fiscal 2006 compared with the first quarter of fiscal 2005 because there were fewer marketing programs in progress during the fiscal 2006 period. We continue to invest in research and development and expect that our fiscal 2006 research and development expenses as a percentage of total net revenue will increase compared with fiscal 2005.

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### **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 and share-based compensation expenses, that are not allocated to specific segments. These unallocated costs totaled \$118.4 million in the first quarter of fiscal 2006 and \$95.0 million in the first quarter of fiscal 2005. In addition, segment expenses do not include amortization of purchased intangible assets, acquisition-related charges and impairment of goodwill and purchased intangible assets. Segment expenses also do not include interest and other income and realized net gains or losses on marketable equity securities and other investments. See Note 5 to the financial statements for reconciliations of total segment operating income or loss to income or loss from continuing operations for each fiscal period presented.

<i>(Dollars in millions)</i>	<u>Q1 FY06</u>	<u>% of Related Revenue</u>	<u>Q1 FY05</u>	<u>% of Related Revenue</u>	<u>Q1 % Change</u>
QuickBooks-Related	\$ 50.5	28%	\$ 49.4	34%	2%
Intuit-Branded Small Business	(0.5)	-1%	2.1	4%	NM
Consumer Tax	(24.3)	NM	(20.4)	NM	NM
Professional Tax	(22.0)	NM	(21.1)	NM	NM
Other Businesses	18.7	37%	9.8	24%	91%
<b>Total segment operating income</b>	<b><u>\$ 22.4</u></b>	<b>7%</b>	<b><u>\$ 19.8</u></b>	<b>8%</b>	<b>13%</b>

NM is not meaningful.

#### *QuickBooks-Related*

QuickBooks-Related segment operating income as a percentage of related revenue decreased in the first quarter of fiscal 2006 compared with the same quarter of fiscal 2005. Higher revenue was nearly offset by increased spending for QuickBooks product development, technical support and marketing in the fiscal 2006 period.

#### *Intuit-Branded Small Business*

Our Intuit-Branded Small Business segment recorded a small loss in the first quarter of fiscal 2006 after recording a modest profit in the same quarter of the prior year. Fiscal 2006 revenue growth in this segment was more than offset by higher implementation expense in our Intuit Distribution Management Solutions business and higher sales expense in our Intuit Real Estate Solutions business.

#### *Consumer Tax*

Due to the seasonal nature of our Consumer Tax business, we normally experience a segment operating loss in our first fiscal quarter as revenue from consumer tax products and services is nominal while operating expenses continue at relatively consistent levels. We do not believe that segment operating results for the first quarter of fiscal 2006 are indicative of trends for the full fiscal year.

#### *Professional Tax*

Due to the seasonal nature of our Professional Tax business, we normally experience a segment operating loss in our first fiscal quarter as revenue from professional tax products and services is nominal while operating expenses continue at relatively consistent levels. We do not believe that segment operating results for the first quarter of fiscal 2006 are indicative of trends for the full fiscal year.

#### *Other Businesses*

Other Businesses segment operating income as a percentage of related revenue increased in the first quarter of fiscal 2006 compared with the same quarter of fiscal 2005. Quicken revenue was flat while Quicken cost of revenue was

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down primarily due to the outsourcing of our Quicken.com website. Higher revenue combined with relatively stable spending produced better fiscal 2006 operating margins in Canada.

### ***Non-Operating Income and Expenses***

#### *Interest and Other Income*

<i>(In millions)</i>	<b>Three Months Ended</b>	
	<b>October 31, 2005</b>	<b>October 31, 2004</b>
Interest income	\$ 5.6	\$ 2.8
Quicken Loans royalties and fees	0.6	0.6
Net foreign exchange gain	-	0.3
Other	0.1	0.2
	<u>\$ 6.3</u>	<u>\$ 3.9</u>

Slightly lower average invested balances were more than offset by higher interest rates, resulting in an increase in interest income in the first quarter of fiscal 2006 compared with the first quarter of fiscal 2005.

#### *Income Taxes*

Due to the seasonal nature of our business, we recorded income tax benefits on pre-tax losses in the first quarters of fiscal 2006 and 2005. Our effective tax rate for the first quarter of fiscal 2006 was 37% and differed from the federal statutory rate primarily due to state income taxes, which were partially offset by federal and state research and experimentation credits and tax exempt interest income. Our effective tax rate for the first quarter of fiscal 2005 was 42% and differed from the federal statutory rate due in part to the benefit received from tax attributes identified in the quarter and a change in tax law during the quarter related to the retroactive extension of federal research and experimental credits and to the impact of recognizing these benefits in a quarter in which we had a net loss. We also benefited from federal research and experimental credits, tax exempt interest income and various state tax credits. These benefits were partially offset by state taxes. See Note 8 to the financial statements.

At October 31, 2005 we had net deferred tax assets of \$170.8 million, which included a valuation allowance of \$5.5 million for certain state capital loss and net operating loss carryforwards. The allowance reflects management's assessment that we may not receive the benefit of 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.

#### *Discontinued Operations*

##### *Intuit Information Technology Solutions*

In May 2005 our Board of Directors formally approved a plan to sell our Intuit Information Technology Solutions (ITS) business. In October 2005 we signed a definitive agreement to sell ITS, subject to closing conditions, for approximately \$200 million in cash. We expect the sale to be completed in the second quarter of fiscal 2006. In accordance with the provisions of SFAS 144, we determined that ITS became a long-lived asset held for sale and a discontinued operation in the fourth quarter of fiscal 2005. Consequently, we have segregated the operating results of ITS from continuing operations on our statement of operations for all periods presented. Since the carrying value of ITS at October 31, 2005 was less than the estimated fair value less cost to sell, no adjustment to the carrying value of this long-lived asset was necessary during the first quarter of fiscal 2006. See Note 4 to the financial statements.

##### *Intuit Public Sector Solutions*

In December 2004 we sold our Intuit Public Sector Solutions (IPSS) business for approximately \$11 million and accounted for the sale as a discontinued operation. In accordance with SFAS 144, we have segregated the operating

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results of IPSS from continuing operations on our statement of operations for all periods prior to the sale. See Note 4 to the financial statements.

### **Liquidity and Capital Resources**

#### *Statement of Cash Flows*

At October 31, 2005 our cash, cash equivalents and investments totaled \$697.3 million, a decrease of \$297.0 million from July 31, 2005. We used cash for our continuing operations during the first quarter of fiscal 2006, primarily for seasonal operating losses and the payment of accrued annual bonuses. We generated cash from investing activities during the first quarter of fiscal 2006, primarily by selling investments. We used cash for financing activities during the first quarter of fiscal 2006, primarily for the repurchase of common stock under our stock repurchase program. See “*Stock Repurchase Programs*” below and Note 9 to the financial statements. This was partially offset by proceeds that we received from the issuance of common stock under employee stock plans.

#### *Pending Sale of Intuit Information Technology Solutions*

In May 2005 our Board of Directors formally approved a plan to sell our Intuit Information Technology Solutions (ITS) business. In October 2005 we signed a definitive agreement to sell ITS, subject to closing conditions, for approximately \$200 million in cash. We expect the sale to be completed in the second quarter of fiscal 2006.

#### *Stock Repurchase Programs*

Our Board of Directors has authorized a series of common stock repurchase programs. Shares of common stock repurchased under these programs become treasury shares. During the first quarter of fiscal 2006 we repurchased 4.3 million shares of our common stock for \$194.8 million under our fifth repurchase program. At October 31, 2005, authorized funds of \$96.0 million remained under this repurchase program. In November 2005 we announced a sixth stock repurchase program under which we are authorized to repurchase up to \$500.0 million of our common stock from time to time over a three-year period ending on November 14, 2008. We expect to continue to repurchase shares under these stock repurchase programs during the remainder of fiscal 2006.

#### *Loans to Executive Officers and Other Employees*

Outstanding loans to executive officers and other employees totaled \$9.2 million at October 31, 2005 and July 31, 2005. Loans to executive officers are relocation loans that are secured by real property and have original maturity dates of 10 years. At October 31, 2005, no loans were in default 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 11 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, cash equivalents and investments to fund such activities in the future.

We believe that our cash, cash equivalents and investments will be sufficient to meet anticipated seasonal working capital and capital expenditure requirements for at least the next 12 months.



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### Reserves for Returns and Rebates

Activity in our reserves for product returns and for rebates during the first quarter of fiscal 2006 and comparative balances at October 31, 2004 were as follows:

<i>(In thousands)</i>	<u>Balance July 31, 2005</u>	<u>Additions Charged Against Revenue</u>	<u>Returns/ Redemptions</u>	<u>Balance October 31, 2005</u>	<u>Balance October 31, 2004</u>
Reserve for product returns	\$30,454	\$4,838	\$(10,908)	\$24,384	\$34,426
Reserve for rebates	\$18,482	\$9,770	\$(13,606)	\$14,646	\$11,028

Due to the seasonality of our business, we compare our returns and rebate reserve balances at October 31, 2005 to the reserve balances at October 31, 2004. The fiscal 2006 decrease in our reserve for product returns was due primarily to improved inventory management and to higher QuickBooks sales during the quarter. The fiscal 2006 increase in our reserve for rebates was primarily due to the timing of payouts for current year programs.

### Off-Balance Sheet Arrangements

At October 31, 2005, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

### Recent Accounting Pronouncements

#### SFAS 154, "Accounting Changes and Error Corrections"

On June 1, 2005 the FASB issued SFAS 154, "Accounting Changes and Error Corrections," which replaces APB 20, "Accounting Changes," and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005.

Earlier application is permitted for accounting changes made in fiscal years beginning after June 1, 2005. We do not expect our adoption of this new standard to have a material impact on our financial position, results of operations or cash flows.

## RISKS THAT COULD AFFECT FUTURE RESULTS

*In evaluating Intuit and our business, you should consider the following factors in addition to the other information in this Quarterly Report on Form 10-Q and in our Report on Form 10-K for the fiscal year ended July 31, 2005. Forward-looking statements in this report are subject to risks and uncertainties that could cause our actual results to differ materially from the results expressed or implied in the forward-looking statements. Any of the following risks could seriously harm our business, financial condition, and results of operations.*

***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 2006 and beyond. The number, resources and sophistication of the companies with whom we compete have 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 taken over any prolonged period 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 discussed below.

**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, QuickBooks 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 has indicated that part of its growth strategy is to focus on small business offerings. In September 2005 Microsoft launched a number of product and service offerings aimed directly at small business customers. These include Microsoft Office Small Business Accounting, which is available as a stand-alone offering or integrated with the Microsoft Office product suite. In partnership with ADP, Microsoft also launched a payroll solution for small businesses. Microsoft is collaborating with merchant acquiring institutions to offer credit and debit card processing for Microsoft Office Small Business Accounting and with Deluxe to offer business checks, forms, envelopes and related printed products. Accordingly, we expect that competition from Microsoft in the small business area will intensify over time with the introduction of these and other offerings that directly compete with our QuickBooks and other offerings. Although we have successfully competed with Microsoft in the past, given its market position and resources, Microsoft's small business product and service offerings 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 initiate a program to offer taxpayers free online tax preparation and filing services. However, in October 2002 the Internal Revenue Service agreed not to provide its own competing tax software product or service so long as participants in a consortium 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 under an arrangement called the Free File Alliance. In October 2005 the federal government and the Free File Alliance signed a new four-year agreement that continues to prohibit the Internal Revenue Service from entering the tax preparation business. In addition, this agreement specifies that the free services will be available to 70% of U.S. taxpayers, which the IRS currently defines as taxpayers with less than approximately \$50,000 in adjusted gross income. The agreement also limits any individual participating company to offerings that target no more than 50% of all taxpayers. Although, for the time being, the Free File Alliance has kept the federal government from being a direct competitor to our tax offerings, it has fostered additional web-based competition and has the potential to cause us to lose revenue opportunities for a large percentage of the tax base. Over time, a growing number of competitors have used the Free File Alliance as a free marketing tool by giving away services at the federal level and attempting to make money by selling state filing and other services. Accordingly, for the 2004 tax season we modified our Free File Alliance offering to permit all taxpayers to prepare and file federal returns at no charge. Our free web-based offering was fully functional but it did not allow the download of prior year information into the current year tax return. Although we were successful

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in the 2004 tax season in selling Free File Alliance users enhanced offerings and state tax preparation services, we may not be successful in this endeavor in the future. In addition, persons who formerly have paid for our products may elect to use our unpaid federal offering instead. The federal government has the right to terminate the agreement with the Free File Alliance upon 24 months written notice. If the federal government were to terminate the agreement and elect to provide its own software and electronic filing services to taxpayers at no charge it could negatively impact our revenue and profits.

- *State Governments.* State taxing authorities have also actively pursued various strategies to provide free online tax return preparation and electronic filing services for state taxpayers. To date, 19 states have entered into agreements with the private sector based on the federal Free File Alliance agreement and have agreed not to provide state-sponsored services. However, 22 other states, including California, directly offer their own online tax preparation and filing services to taxpayers. In addition, for the 2004 tax year, California tested a limited pilot program under which a state-operated electronic system automatically prepared and filed approximately 10,000 state income tax returns with no individual transaction charge to those taxpayers. Although recent legislation has placed limits on the scope of this program for the 2005 tax year, it could be expanded in the future. It is also possible that other governmental entities that currently do not offer such services could elect to pursue similar competitive offerings in the future. These publicly sponsored programs could cause us to lose customers to free offerings and enable 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 increasingly from web-based competitive offerings where we are subject to significant and increasing price pressure. 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, such as Kleinrock Publishing's ATX product line. This business also faces competition from competitively-priced tax and accounting solutions that include integration with non-tax functionality. Our principal competitors in the outsourced payroll services business benefit from greater economies of scale due to their substantial size, which may result in pricing pressure for our offerings. In addition, in September 2005 Microsoft launched a payroll solution for small businesses. 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.

### ***Future revenue growth for our core products depends upon our introduction of new and enhanced products and services.***

Our customer-driven invention and associated product development efforts are critical to our success. The introduction of new offerings and 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 current year products 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 to retain our existing customers, expand our customer base and increase revenues per customer.

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### ***Our new product and service offerings may not achieve market success or may cannibalize sales of our existing products, causing our revenue 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 ultimately succeed in their markets. We have encountered difficulty in launching new products and services in the past. For example, in 2004 we discontinued our QuickBooks Premier Healthcare offering due to lack of customer demand. 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. For instance, our new QuickBooks Simple Start offering, our new Snap Tax offering and our new ProSeries Basic and ProSeries Express offerings may attract users that would otherwise have purchased our higher priced, more full featured offerings.

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

All of our tax products and many of our non-tax products have rigid development timetables that increase the risk of errors in our products and the risk of launch delays. 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 who have already purchased the product and recall or repackaging 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.

### ***The growth of our business depends on our ability to adapt to rapid technological change.***

The software industry in which we operate is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions and enhancements. Our Right for Me marketing approach increases the importance for us of developing additional versions of our products to meet specific customer needs. Our ability to succeed in this rapidly changing environment requires that we continuously invest resources to enhance our software architecture and developer tools. We must make this investment in order to continue to enhance our current products and develop new products to meet changing customer needs and to attract and retain talented software developers. We are currently in the process of modernizing the software platforms for a number of our product lines, including our QuickBooks, TurboTax, Quicken and IDMS products. Completing these upgrades and adapting to other technological developments may require considerable time and expense. If we experience prolonged delays or unforeseen difficulties in upgrading our software architecture, our ability to develop new products and enhancements to our current products would suffer.

### ***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 customers and our revenue and earnings could decrease.***

Our web-based tax preparation services, electronic filing services and “pay-as-you-go” services are an important and growing part of our tax businesses and must effectively handle extremely heavy customer demand during the peak

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tax season from January to April. 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 a 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.

***If actual product returns exceed returns reserves, or if actual customer rebate redemptions exceed rebate reserves, our financial results would be harmed.***

We ship more desktop software products to our distributors and retailers than we expect them to sell, in order to reduce the risk that distributors or retailers 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 fiscal third and fourth quarters. Like many software companies that sell their products through distributors and retailers, we have historically accepted significant product returns. We establish reserves against revenue for product returns in our financial statements, based on estimated 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. For example, if we had increased our fiscal 2005 returns reserves by 1% of non-consignment sales to retailers for QuickBooks, TurboTax and Quicken, our fiscal 2005 total net revenue would have been approximately \$3.6 million lower. 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 through a charge to revenue for estimated future payments of rebates. Historically, a percentage of customers do not submit requests for their rebates. Rebate redemption rates are going up because we, along with certain retailers, are making it easier for customers to claim rebates. While we have taken this trend into account in determining our rebate reserves, if a greater number of eligible customers seek rebates than for which we have provided reserves our margins will be adversely affected.

***Changes in pricing and rebate practices may not be positively received by retail channel partners or consumers.***

We have recently modified pricing and eliminated rebates on certain products that have historically been offered with rebates, and we may elect to expand this practice to other products in the future. These changes to date have generally involved a reduction in list price of less than the face value of the rebate, and elimination of the rebate offer. While we have discussed these changes with our retail channel partners, our partners and consumers may have grown accustomed to rebate-based offers and may view this change as a net price increase. There can be no assurance that these changes will be received positively by our retail channel partners or consumers. If these changes are received negatively by either, our revenues could be adversely impacted.

***We may not be able to successfully implement our new TurboTax refund bonus program.***

In November 2006 we announced a new offering in connection with our TurboTax product that allows customers to convert all or a portion of their federal tax refunds into gift cards with a greater dollar value than the tax refunds. Because of this program, we expect that Intuit will become a leading distributor of gift cards, which could create several new risks for our business, any of which could harm our financial condition and results of operations. For example, systems used by Intuit or our third-party vendors may be unable to process the volume of refund bonuses or fulfill the gift card issuances under this program. This program may subject us to other risks related to cash management and card security, including the risk of loss or theft of gift cards, and to additional laws and regulations related to the distribution of gift cards. Because this new business model is untested, we may not be able to execute successfully, which could harm our financial condition and results of operations.

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***We are continuing to enhance our new information systems, which we use to manage our business and finance operations, and problems with the design or implementation of these enhancements could interfere with our business and operations.***

In September 2004 we implemented new information systems that manage our business and finance operations. During the course of the conversion we upgraded significant financial systems, order-taking systems, middleware systems (systems that allow for interoperability of different databases) and network security systems. While we were able to complete the processing requirements of our peak business season in fiscal 2005, we experienced some system-related slowdowns. Consequently, we believe that we need to continue to enhance and upgrade the systems to improve performance and support our future growth. In the event that we are unable to expand the capabilities of our systems, our ability to grow our business will be limited. The expenditures associated with the expansion and upgrade of our systems could be significant. Problems with the design or implementation of these system enhancements 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.

***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. For example, in the second and third quarters of our last two fiscal years we had total net revenue of between \$620.6 million and \$834.9 million while in our first and fourth fiscal quarters we had total net revenue of between \$227.1 million and \$301.8 million. 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, the inclusion of upgrades with certain offerings (which can impact the pattern of revenue recognition), 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 may 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 revenue 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. In addition, our Intuit-Branded Small Business segment businesses offer products and services with significantly higher prices than our traditional core business software products. Revenue from these offerings tends to be less predictable than revenue from our traditional desktop products due to longer sales and implementation cycles, 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 acquisitions have resulted in significant expenses, including amortization of purchased intangible assets (which is reflected in cost of revenue), as well as charges for in-process research and development, impairment of goodwill, amortization and impairment of purchased intangible assets and charges for deferred compensation (which are reflected in operating expenses). Total acquisition-related costs in the categories identified above were \$26.8 million in fiscal 2005, \$33.6 million in fiscal 2004 and \$45.1 million in fiscal 2003. Although under current accounting rules goodwill is no longer amortized, we may incur impairment charges related to the goodwill already recorded and to goodwill arising out of future acquisitions. We test the impairment of goodwill annually in our fourth fiscal quarter or more frequently if indicators of impairment arise. The timing of the formal annual test may result in charges to our statement of operations in our fourth fiscal quarter that could not have been reasonably foreseen in prior periods. For example, at the end of fiscal 2004 we incurred a goodwill impairment charge of \$18.7

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million related to our Intuit Public Sector Solutions business. As of October 31, 2005, we had goodwill of \$509.9 million and unamortized purchased intangible assets of \$71.6 million on our balance sheet, both of 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 revenue and earnings 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 revenue opportunities, such as paid service, product renewals 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 customers 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 2005 the number of our consumer tax service representatives ranged from 15 during off-season months to about 715 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 our margins will decline.***

We outsource a substantial portion of our customer service and technical support activities to domestic and international third-party service providers, including 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 depend upon a small number of larger retailers to generate a significant portion of our sales volume for our desktop software products.***

We sell most of our desktop software products through our retail distribution channel and a relatively small number of larger retailers generate a significant portion 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

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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. At January 31, 2005, the height of the 2004 consumer tax season, amounts due from our eight largest retailers and distributors represented approximately 45% of total accounts receivable.

### ***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 mitigate this risk by managing our second tier vendors and maintaining contingency plans. 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 could be significantly harmed.

### ***Failure to maintain the availability and security of the systems, networks, databases and software required to operate and deliver our Internet-based products and services could adversely affect our operating results.***

Our Internet-based product and service offerings, including QuickBooks Online Edition, QuickBooks Assisted Payroll Service, Complete web-based Payroll, Turbo Tax for the Web, consumer and professional electronic tax filing services, Quicken.com and QuickBase, rely on a variety of systems, networks and databases, many of which are maintained by us at our data centers. In order to prevent interruptions to the availability of our Internet-based products and services, we generally follow industry-standard practices for creating a fault-tolerant environment. However, we do not have complete redundancy for all of our systems. We do not maintain real-time back-up of our data, and in the event of significant system disruption, particularly during peak tax filing season, we could experience loss of data or tax return processing capabilities, which could cause us to lose customers and could materially harm our operating results. We maintain back-up processing capabilities that are designed to protect us against site-related disasters for many of our mission-critical applications. Notwithstanding our efforts to protect against “down time” for our Internet-based products and services, we do occasionally experience unplanned outages or technical difficulties. In order to provide our Internet-based products and services, we must protect the security of our systems, networks, databases and software.

Like all companies that deliver products and services via the Internet, we are subject to attack by computer hackers who develop and deploy software that is designed to penetrate the security of our systems and networks. If hackers were able to penetrate our security systems, they could misappropriate or damage our proprietary information or cause disruptions in the delivery of our products and services. We believe that we have taken steps to protect against such attacks. However, there can be no assurance that our security measures will not be penetrated by experienced hackers. In the event that the systems, networks, databases and software required to deliver our Internet-based products and services become unavailable or suffer technical difficulties or a breach in security, we may be required to expend significant resources to alleviate these problems, and our operating results could suffer.



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In addition, any such interruption or breach of security could damage our reputation and lead to the loss of customers.

### ***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, including credit card numbers. We use commercially available encryption technology to transmit customer information when orders are placed over the Internet. However, there can be no assurance that a third party will not be able to circumvent these security measures. Possession and use of personal customer 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 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, damage to our reputation 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.

### ***We are exposed to risks associated with credit card fraud and credit card processing and payment.***

Many of our customers use credit cards to pay for our services. We have suffered losses, and may continue to suffer losses, as a result of orders placed with fraudulent credit card data. Under current credit card practices, we may be liable for fraudulent credit card transactions if we do not obtain a cardholder’s signature, a frequent practice in Internet sales. We employ technology solutions to help us detect fraudulent credit card transactions. However, the failure to detect or control credit card fraud could have an adverse effect on our 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 revenue and earnings.***

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 costly 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

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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.

Although we are unable to quantify the extent of piracy of our software products, software piracy may depress our net revenues. We engage in efforts to educate consumers on the benefits of licensing genuine products and to educate lawmakers on the advantages of a business climate where intellectual property rights are protected, and we cooperate with the Software & Information Industry Association in their efforts to combat piracy. However, these efforts may not affect the piracy of our products.

### ***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.

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

From time to time, we have received claims that we have infringed the intellectual property rights of others. As the number of products in the software industry increases and the functionality of these products further overlap, and as we acquire technology through acquisitions or licenses, we believe that we may become increasingly subject to infringement claims, including patent, copyright, and trademark infringement claims. 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. We have, from time to time, received allegations of patent infringement claims in the past and may receive more claims in the future based on allegations that our products infringe upon patents held by third parties. 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. We 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 allegation is uncertain and, regardless of outcome, any such claim, with or without merit, could be time consuming to defend, result in costly litigation, divert management's time and attention from our business, require us to stop selling, to delay shipping or to redesign our products, or require us to pay monetary damages for royalty or licensing arrangements, or to satisfy indemnification obligations that we have

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with some of our customers. Our failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims could adversely affect our business.

In addition, we license and use software from third parties in our business. These third party software licenses may not continue to be available to us on acceptable terms. Also, these third parties may from time to time receive claims that they have infringed the intellectual property rights of others, including patent and copyright infringement claims, which may affect our ability to continue licensing their software. Our inability to use any of this third party software could result in shipment delays or other disruptions in our business, which could materially and adversely affect our operating 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. 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 earnings 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 requirements and 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 earnings to decline.***

We currently record 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.

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### ***We face a number of risks in our merchant card processing business that could result in a reduction in our revenue and earnings.***

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 bank card 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, some of which 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.

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

### ***Increased state tax filing mandates, such as the required use of specific technologies, 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 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.

### ***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, we do not have insurance coverage. For these reasons, we are retaining a greater portion of insurable risks than we have in the past at relatively greater cost.

### ***We are frequently a party to litigation that is costly to defend and consumes the time of our management.***

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 an action for claims related to Quicken Brokerage powered by Siebert, a strategic alliance between the two companies. Although we believe that this case has no merit and we are defending the matter vigorously, defending such matters consumes the time of our management and is expensive for Intuit. Even though we often seek insurance coverage for litigation defense costs, there is no assurance that our

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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 consumes the time of our management and may ultimately reduce our income.

### ***Unanticipated changes in our tax rates could affect our future financial 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 our 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.

Pursuant to Section 404 of the Sarbanes-Oxley Act, we and our independent registered public accounting firm must certify the adequacy of our internal controls over financial reporting annually. 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. While we maintain disaster recovery facilities for key data centers that support the information systems, networks and databases that are necessary to operate our business, we are still in the process of establishing disaster recovery facilities for some of our data centers. Our operating results and financial condition could be materially adversely affected in the event of a major earthquake or other natural or man-made disaster.

### Caution Regarding Forward-Looking Statements

This Report contains forward-looking statements. All statements in this Report, other than statements that are purely historical, are forward-looking statements. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “forecasts,” “estimates,” “seeks,” and similar expressions also identify forward-looking statements. In this Report, forward-looking statements include, without limitation, the following: our belief that we can grow and generate increased revenue and profit; the assumptions underlying our Critical Accounting Policies, including our estimates regarding product rebate and return reserves and stock volatility and other assumptions used to estimate the fair value of stock options; our expected future amortization of purchased intangible assets; the expected closing of the sale of our ITS business and the conduct of that business prior to closing; our expectation that we will continue to repurchase shares under our stock repurchase programs during the remainder of fiscal 2006; our expectation that competition will remain intense during fiscal 2006 and beyond; our expectations regarding the activities of competitors, particularly that competition from Microsoft in the small business area will intensify and our belief that we will be able to compete effectively; our anticipation that governmental competition will present a continued competitive threat to our business; our expectation that we will further upgrade our new information systems to improve performance and support our future growth; our expectation that we will continue to spend for new product development and promotion; our belief that the investments that we hold are not other-than-temporarily impaired; our belief that we will be able to obtain any necessary licenses or other rights to any disputed intellectual property rights on commercially reasonable terms; our belief that our exposure to currency exchange fluctuation risk is not significant; our belief that our income tax valuation allowance is sufficient; our expectation that we may use cash for future acquisitions of technology and businesses; our belief that our cash, cash equivalents and investments will be sufficient to meet our working capital and capital expenditure requirements for the next 12 months; our expectations regarding research and development efforts and expenses and the introduction of new or upgraded products and related services and features; our expectations regarding the growth opportunities for our business; our assessments and estimates that determine our effective tax rate; our assessments and beliefs regarding the future outcome of pending legal proceedings and the liability, if any, that Intuit may incur as a result of those proceedings; the expected effects of the adoption of new accounting standards; and our expectations regarding the future uses of cash and retained earnings.

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. Because these forward-looking statements involve risks and uncertainties that are difficult to predict, there are important factors that could cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. These factors include those discussed in this Item 2 under the caption “*Risks That Could Affect Future Results.*” We encourage you to read that section carefully along with the other information provided in this Report, in our Report on Form 10-K for the fiscal year ended July 31, 2005 and in our other filings with the SEC before deciding to invest in our stock or to maintain or change your investment. These forward-looking statements are based on information as of the filing date of this Report, and we undertake no obligation to revise or update any forward-looking statement for any reason.

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**ITEM 3**  
**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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**Investment and Funds Held for Payroll Customers Portfolio**

We do not hold derivative financial instruments in our portfolio of investments and funds held for payroll customers. Our 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 investments and funds held for payroll customers with any individual issuer.

**Interest Rate Risk**

Our cash equivalents and our portfolio of 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, investments and funds held for payroll customers and the value of those investments. Should interest rates increase by 10% or about 30 basis points from the levels of October 31, 2005, the value of our investments and funds held for payroll customers would decline by approximately \$0.7 million. Should interest rates increase by 100 basis points from the levels of October 31, 2005, the value of our investments and funds held for payroll customers would decline by approximately \$2.4 million.

**Impact of Foreign Currency Rate Changes**

The functional currency of our international operating 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 period. 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.

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 on our financial results has generally been immaterial. We believe that our exposure to currency exchange fluctuation risk is not significant primarily because our international subsidiaries invoice customers and satisfy their financial obligations almost exclusively in their local currencies. Although the impact of currency fluctuations on our financial results has generally been immaterial in the past and we believe that for the reasons cited above currency fluctuations will not be significant in the future, there can be no guarantee that the impact of currency fluctuations will not be material in the future. As of October 31, 2005 we did not engage in foreign currency hedging activities.

**ITEM 4**  
**CONTROLS AND PROCEDURES**

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*Evaluation of Disclosure Controls and Procedures*

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

*Changes in Internal Control over Financial Reporting*

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



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**PART II**  
**ITEM 1**  
**LEGAL PROCEEDINGS**

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*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 damages of up to \$11.1 million, punitive damages of up to \$33.0 million, and other damages. Intuit unsuccessfully sought to compel the matter to arbitration. On February 7, 2005 Intuit filed a motion to dismiss all but one of the plaintiff's claims in New York state court. On September 6, 2005, the court dismissed Siebert's fraud and punitive damages claims. Intuit believes this lawsuit is without merit and will vigorously defend the litigation.

*Other Litigation Matters*

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.

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**ITEM 2**  
**UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

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**PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Stock repurchase activity during the three months ended October 31, 2005 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans
August 1, 2005 through August 31, 2005	800,000	\$44.89	800,000	\$254,865,382
September 1, 2005 through September 30, 2005	3,515,000	\$45.20	3,515,000	\$ 95,980,616
October 1, 2005 through October 31, 2005	—	\$ —	—	\$ 95,980,616
Total	4,315,000	\$45.14	4,315,000	

**Notes:**

1. All shares repurchased as part of publicly announced plans during the three months ended October 31, 2005 were purchased under a \$500.0 million repurchase program which was announced on May 18, 2005 and expires on May 15, 2008. On November 16, 2005 we announced a sixth stock repurchase program under which we are authorized to repurchase up to \$500.0 million of our common stock from time to time over a three-year period ending on November 14, 2008. We expect to continue to repurchase shares under these stock repurchase programs during the remainder of fiscal 2006.

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**ITEM 6  
EXHIBITS**

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

Exhibit No.	Exhibit Description	Filed with this 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
10.01+	Intuit Executive Relocation Policy	X			
10.02+	Employment Agreement dated September 2, 2005 between Intuit Inc. and Kiran M. Patel		8-K		9/8/05
10.03+	Form of Amendment dated September 6, 2005 to Employment Agreement between Intuit and each of Robert B. Henske and Brad Smith		8-K		9/8/05
10.04	Free On-Line Electronic Tax Filing Agreement Amendment, effective as of October 30, 2005 between the Internal Revenue Service and the Free File Alliance, LLC	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.

**SIGNATURES**

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

**INTUIT INC.**  
**(Registrant)**

Date: December 5, 2005

By: /s/ KIRAN M. PATEL  
Kiran M. Patel  
Senior Vice President and Chief Financial Officer  
(Authorized Officer and Principal Financial Officer)

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
10.01+	Intuit Executive Relocation Policy
10.04	Free On-Line Electronic Tax Filing Agreement Amendment, effective as of October 30, 2005 between the Internal Revenue Service and the Free File Alliance, LLC
31.01	Certification of Chief Executive Officer
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.



**RELOCATION POLICY**

EXECUTIVE

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EXECUTIVE

November 2005

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Congratulations on your upcoming relocation with Intuit.

Although this is an exciting time, Intuit recognizes the disruption a move can cause. Moving in today's environment is much more complex and demanding than ever before.

There are numerous personal issues to be considered. Recognizing this, Intuit has engaged Plus Relocation Services, Inc. to assist you with your relocation needs. Upon receipt of your signed offer letter and the Repayment Agreement, Intuit will contact PLUS of your approved relocation. PLUS will in turn contact you within 24 hours of this notification. A PLUS Personal Move Manager will also outline the information PLUS needs from you to ensure a smooth process for your move.

We urge you to become fully involved in your move and work closely with the professionals Intuit has made available to you. Planning your move with a clear understanding of Intuit's relocation policy by reading these guidelines will also help to avoid unpleasant surprises such as non-reimbursable costs.

The most successful moves are those that are well planned. Therefore, it is important for you to form a partnership with Intuit and PLUS in this process.

***Best wishes for a successful relocation!***

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EXECUTIVE

November 2005

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## **RELOCATION REPAYMENT AGREEMENT**

Intuit's relocation program is designed to help you have a smooth transition to your new location. The program reimburses you for many living, travel and most moving expenses associated with your relocation, as well as assisting with certain estimated tax liabilities.

Eligibility for relocation assistance under the executive relocation policy requires the following:

- You are a director or officer new hire, or a director or officer transferring locations at Intuit's request.
- The distance between your new work location and your current residence is fifty (50) miles further than the distance between your current residence and the old work location.
- All relocation expenses must be incurred and submitted for reimbursement within one (1) year from the effective date of your move/transfer.

Moving an employee requires a substantial investment on Intuit's part. Therefore, if you voluntarily resign from Intuit within one (1) year of your transfer date or during your relocation, no further relocation benefits, including reimbursements, will be paid to you and you will be required to reimburse Intuit for the cost of the relocation per the terms and conditions outlined in your *Relocation Repayment Agreement*. Please sign and return this Agreement to Intuit, as benefits will not be processed without this being completed.

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November 2005

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## **TAX INFORMATION**

### **Tax Classification of Expenses**

Intuit follows strict Federal guidelines for reporting expenses associated with an employee's relocation. All relocation reimbursements provided to you will be categorized into two classes: (1) expenses which are not classified as compensation and not subject to withholding taxes, and (2) expenses which are reportable as compensation and subject to withholding taxes. Examples of expenses in each category are provided below:

#### Category 1 (not necessary to report as income on W-2)

- The cost of shipment and 30 day storage of your household goods.
- Most travel & lodging expenses relating to reporting to new location.

#### Category 2 (expenses which must be reported as income on W-2 and taxes paid)

- Storage over 30 days
- Home Finding Trip ( including travel , lodging and meals )
- Temporary living
- All meals during your final move en route to your new home
- All other relocation reimbursements, including lump sum relocation allowances and some direct reimbursement of expenses for selling and/or purchasing a home

Expenses in Category 1 will not be included in wages.

Expenses in Category 2 must be reported as income and included in taxable wages on your annual W-2 Form. Category 2 expenses are subject to withholding taxes (Federal, Social Security, Medicare, state and local taxes, as appropriate). These withholding tax obligations in Category 2 expenses will be paid by Intuit utilizing the "gross-up" method, except for the relocation allowance, which will have taxes withheld at time of payment. The gross-up method pays additional taxes to the taxing authorities intended to minimize the tax burden associated with these expenses when they are reported as income to you. For example, combined income of spouse and other additional income can have an impact on your personal tax rates and Intuit does not take those personal tax factors into consideration.

If certain moving expenses are incurred which are paid personally by the employee and are not reimbursed by the Company, the employee may be entitled, if all other guidelines are met, to claim these expenses as deductible moving expenses on their personal income tax return. It is the employee's responsibility to understand the applicable tax laws and to substantiate any deduction claimed on their income tax return. For further reference, IRS Publication 521 is a helpful guide to the tax treatment of moving expenses.

**TAX INFORMATION (continued)**

***Record-Keeping and Gross-Up Procedures***

You must retain copies of receipts and statements of expenses incurred in connection with your relocation. It is your responsibility to substantiate relocation expense claims submitted to Intuit.

The gross-up allowance for Federal, State, Local, Social Security and Medicare tax liabilities will be coordinated by PLUS. The additional withholding tax that is paid will be reported by Intuit on your W-2. This gross up allowance will be calculated throughout the year and you will be notified of the results of the gross up calculation at the end of the year.

***Processing of Expenditures***

Relocation expenses and normal business expenses should not be combined on a single expense report. Relocation expenses must be processed through PLUS. Business expense reimbursement is processed separately by Intuit. Any business expenses will be governed by the published guidelines in effect for Intuit business travel.

## **FINDING YOUR NEW HOME**

### ***Home Finding Trip / Rental Assistance***

Intuit offers home finding or rental assistance, at no cost to the employee, through PLUS. PLUS specializes in helping transferees locate the property and neighborhood that best meets the employee's needs. If the employee wishes to use this service, your consultant will be able to explain the program.

Reimbursement of expenses for your home/apartment search will be provided for the employee and spouse/partner for two round-trip visits to the new location for a total of ten (10) nights.

Round trip coach airfare for you and your spouse, but not for your children (arranged through Intuit travel, 1-888-417-5478) or mileage at prevailing IRS reimbursement of personal auto used, will be provided. Intuit will also provide for reasonable expenses for lodging, your meals and incidental expenses to be covered at \$50 a day for employee or \$75 a day if accompanied by spouse / partner. The rental of a full size automobile will be arranged by Intuit Travel. Actual and reasonable childcare expenses for your children while you are on your home finding trip, not to exceed ten (10) days, will be covered.

Other expenses such as telephone, laundry / dry cleaning, entertainment, are not reimbursable expenses.

## **NEW HOME MORTGAGE**

### ***New Home Mortgage***

Applying for a mortgage can be a time consuming and frustrating process. To simplify this process, Intuit has coordinated for certain customer service benefits with Wells Fargo Bank. This is an optional service that is offered you to make the relocation process smoother. You may choose a lender outside of this program.

The benefits of using Wells Fargo Bank, with which Intuit has made special arrangement, are as follows:

- Competitive rates for transferring employees
- Pre-approval prior to your home finding trip
- Prompt mortgage approval and processing turn-around times
- Reduced documentation requirements
- Credit of working spouse income

#### **WELLS FARGO BANK**

Using this mortgage service can offer many advantages including an expedited process, credit approval before house hunting, competitive rates and the availability of a variety of mortgage products and fixed lender fees.

The Wells Fargo Home Mortgage team can be reached at:

**1-800-457-4663**, Monday through Friday, 5am-9pm PST.

## **MOVING YOUR HOUSEHOLD GOODS**

### **HOUSEHOLD GOODS SHIPMENT**

PLUS has contracted with Mesa Systems, a United Van Lines Agent, to provide you with your household goods shipment

You must contact your Personal Move Manager to establish a preliminary schedule as household goods shipments can take up to three weeks to schedule. A representative from the moving company will be contacting you to arrange for a pre-move survey. This person will work with you in all subsequent scheduling of packing, moving and delivery.

The following expenses and services are covered:

- Packing, shipping, partial unpacking and one time debris removal of boxes
- Shipment of up to 2 automobiles, if the move is over 500 miles
- Storage of household goods for 60 days
- Full Replacement Value Insurance
- Service charges for disconnecting and reconnecting appliances

The following expenses and services are **not** covered:

- Shipment of hazardous materials such as explosives, chemicals, flammable materials, firearms, garden chemicals.
- Shipment of firewood, lumber or other building materials.
- Shipment and/or boarding of household pets and livestock.
- Removal or disassembling or installation of carpeting, drapery rods, storage sheds or other permanent fixtures.
- Shipment of snowmobiles, boats, recreational vehicles, satellite dishes and unusually heavy or cumbersome materials.
- Valuables such as jewelry, currency, dissertations or publishable papers, and other collectibles or items of extraordinary value.
- Shipment of plants, food, wine collections or other perishables.
- Overtime charges. Such charges may be incurred; however, they will be at your own expense. This includes time for packing and/or delivery during the evening hours and on the weekends, including all holidays.

This is not a complete list of the exclusions to the Plan. You should discuss any questions with your Personal Move Manager.

## **MOVING YOUR HOUSEHOLD GOODS (Continued)**

Be sure to be home or leave a personal representative present during the packing/loading operation and at time of delivery. Delivery consists of placing boxes in designated rooms, setting up beds and removing any loose packing materials. It does not include putting goods away or rearranging furniture. If you are considering doing some of your own packing, please discuss with your Personal Move Manager any limitations on their liability for packed by owner (PBO) items.

**Please pay special attention to some important papers you will be asked to sign.** The **Bill of Lading** authorizes your release of your household goods to the driver during transit. The **Inventory List** is the most important factor for any future damage claim. This list is considered the legal count of your belongings and also indicates their condition at the time they are released to the driver. It is important before signing that you make sure that the Inventory form lists every item in your shipment and that the entries regarding the condition of each item are correct. You have the right to note any disagreement. When your shipment is delivered, if an item is missing or damaged, your ability to recover from the mover for any loss or damage may depend on the notations made.

It is the employee's responsibility to check off items, as they are unloaded. Only items found on this inventory list will be recognized in any future claims settlement. It is the employee's responsibility to note any damage to your residence or automobile **at time of delivery**. You are allowed 100 days from date of delivery to file a damage claim on your personal household goods. All claims must be included in one report.

### **Storage**

Every effort should be made to plan for a direct move of household goods to your final destination. Unloading goods and placing them in temporary storage, for any period, can double the cost of a move and increase the risk of damage to your items. Storage costs incurred beyond 60 days will be borne by the employee. Storage includes the cost of putting goods into storage and one delivery to your permanent residence. Only one complete delivery will be authorized to your permanent residence.

## **MOVING YOUR HOUSEHOLD GOODS (Continued)**

### **Automobiles**

You may ship up to two automobiles via commercial carrier if the move is over 500 miles. Insurance on such vehicles will be provided; however, vehicles that are shipped are not eligible for mileage reimbursement. If the distance is less than 500 miles, Intuit will ship one automobile and the second automobile will be driven. Mileage will be reimbursed based on the current IRS mileage reimbursement rate.

*If autos are shipped, no personal items may be left in the auto, due to liability reasons.* Antique or classic cars, or cars that are not in working order are the responsibility of the employee. If the employee elects to drive a motor home to the new location, reasonable in-transit expenses will be reimbursed, only if the motor home counts as one of the covered two vehicles. The cost of the shipment of any automobile cannot be more than the NADA blue book value of the car. *Campers and Trailers: Transportation of pull-behind campers and trailers is not a covered expense.*

### **Pets**

Intuit will not pay for the cost of shipping your household pets to the new location. Your Relocation Allowance should be utilized for this expense, including the cost of special crates and any required quarantines and boarding expenses while your goods are in transit. Your Personal Move Manager can put you in touch with firms that specialize in shipping pets, if you require such a service.

### **Insurance**

Insurance at full replacement value is provided for your personal property while in transit. The insurance does not cover accounts, bills, deeds, evidence of debt, currency, letters of credit, passports, airline or other tickets, securities, bullion, precious stones, stamp or coin collections and other collectibles.

You may need to consult with your personal insurance policy representative for an explanation of coverage for items in transit, as well as coverage for your vacant property at the former location and/or new location, if applicable.

## **EN ROUTE GUIDELINES**

### ***Final Travel to New Location***

Coach airfare for employee and family must be made fourteen (14) days in advance through Intuit travel. If driving, the mileage will be reimbursed at the prevailing IRS reimbursement rate. Automobile maintenance costs will be the employee's responsibility. Intuit will provide for reasonable lodging and a meal per diem at \$50/day for employee and \$35/day per additional person relocating with the employee. The employee should maintain all receipts to assist with tax reporting.

### ***Temporary Living***

Upon arrival in the new location, temporary living (if necessary) will be provided for up to 60 days prior to establishing a permanent residence. PLUS will arrange for a fully furnished apartment with laundry and cooking facilities. If the employee has elected to ship both vehicles Intuit will provide a full size rental automobile for sixty (60) days. Arrangements for the rental car are to be made through Intuit travel.

Daily living expenses will be the responsibility of the employee.

If a hotel is utilized, Intuit will cover up to seven (7) nights of lodging and provide a daily meal per diem of \$50 for employee and \$35/day per additional person relocating with the employee for up to seven (7) days.

If an employee is traveling on Intuit business during this period, expenses incurred should be charged in the usual manner and not as a relocation expense.



## **MISCELLANEOUS**

### ***Relocation Allowance***

A lump sum payment of one (1) month annual base salary will be provided. This amount will be processed on your start or transfer date. This amount will be subject to tax withholding. Request this allowance through PLUS. This allowance is provided to cover the myriad of relocation expenses that might be incurred that are not specifically stated as directly reimbursable by Intuit. Expenses that might fall under this category are:

- Shipping of items not covered by the Household Goods Shipment provisions described above
- Removal or installation of articles not paid under the moving guideline
- Charges for transportation or boarding of pets
- Appraisals of antiques or art objects for insurance purposes
- Vehicle registration
- Cleaning or repairs
- Motor vehicle registration fees
- Extermination, fumigation
- Removal, installation of window coverings
- Deposits
- Utility and phone hookups
- Drivers license

It is the employee's responsibility to manage these costs so that the allowance will be sufficient to meet your needs. You may keep any unused portion of these funds.

Although Intuit does not require receipts, it is important that you keep receipts of all your expenses to assist you when filing your tax return at year-end.

### ***Medical Coverage***

Special attention should be paid to your medical benefits during this time. The company's medical plans may be network-oriented. If your family does not join you immediately, they may not qualify for full medical benefits because they are outside the network. It is important that you are informed about the medical benefits you and your family will receive during the transition to your new location. Contact Intuit's HR Shared Services Group to discuss your specific situation. They can be reached at 1-800-819-1620.

## **MISCELLANEOUS (Continued)**

### ***Personal Legal Matters***

If you are relocating out of your current state, consider how your relocation could affect your wills and estate planning. It is advisable to review your estate plan with an estate lawyer familiar with the laws in your new location.

### ***Lease Termination***

Rental obligations arising from the cancellation of a lease will be reimbursed up to a maximum of three month's rent at the old location and any security deposit lost due to early termination. The employee is to provide a copy of the lease and written proof of payment.

### ***Paid Time Off***

After your start date paid time away from work will be limited to five days. Absences must be approved by the employee's manager and are limited to the following uses: final move to new location; closing on either sale of old home or purchase of new home; and packing and loading days for shipment of personal household goods and unpacking at final destination.



## **HOME SALE**

### ***Home Marketing Assistance***

Selling your current home is one of the most important parts of the relocation program. As such, Intuit has arranged for Home Marketing Assistance through PLUS. The Home Marketing Assistance program offers you professional marketing assistance through your Personal Move Manager in planning and executing a strategy for successfully selling your home.

Your Personal Move Manager will discuss the details of the program during your initial call and will arrange to have a qualified real estate associate contact you for an appointment to visit your home. This appointment is for informational purposes only to assist you in developing an effective marketing strategy for your home. You are not obligated to list your home with this particular agent.

Your real estate agent will be asked to prepare a Broker's Market Analysis (BMA) which will be utilized by PLUS in preparing a comprehensive marketing plan. This plan will include suggestions on how to prepare your home for sale, recommended listing price and anticipated sales price range, information on comparable listings and recent sales, a designated buyer profile for your property and creative home sale promotion ideas. You are encouraged to review this information directly with both your Personal Move Manager and your real estate agent.

Your Personal Move Manager will monitor the entire listing effort, including a review of competing homes and an evaluation of recently closed properties, to ensure that a realistic pricing strategy is in place. In addition, your Personal Move Manager will coordinate proactive market strategy call sessions with your selected agent to follow up on buyer and broker feedback, open house events and showing activity.

During your Home Marketing Assistance period, you must present any and all offers to your Personal Move Manager for review and approval to be eligible for the benefits offered under the home sale assistance program.

## **HOME SALE (continued)**

### ***Disclosure***

Disclosure is defined as the duty of the seller to make known or public to a buyer the condition of the property, particularly any defect that could affect its value, habitability or desirability. Failure to do so could constitute, at a minimum, misrepresentation and, more likely, fraud.

It is, therefore, your responsibility as the homeowner to disclose the full condition of your property to PLUS and any potential buyers. Please be advised that some states require by law a separate, specific disclosure form for all property transfers. Additional forms are required by the state of California, and if appropriate, will be provided to you by your Personal Move Manager. Your Personal Move Manager will also advise you accordingly if completion of such a form is required in your departure move location.

Should you generate a sale, all inspections must be disclosed to the buyer. Your agent, however, should encourage the buyer to have their own inspections performed at their own expense.

Should you fail to disclose complete and accurate information which is subsequently discovered, you may be held responsible for all expenses involved in correcting the defects and any possible litigation as a result of non-disclosure.

## **HOME SALE (Continued)**

### **Selling Your Home**

Intuit provides a professionally administered home sale assistance plan through PLUS, which offers the relocating homeowner several excellent benefits, including:

- A resale plan that significantly reduces the tax burden to you and Intuit
- Selection and management of brokers and other service providers
- Reduced costs and fewer expense reimbursement requests
- Objective advice concerning repairs and remodeling prior to offering home for sale
- Assistance in pricing, resale strategy and negotiations
- Customary home sale closing costs will be covered by Intuit.

Intuit offers a Home Sale Incentive program that will pay the employee up to 2% of the home sale price if the home is sold within 60 days of the listing and if the employee utilizes the Home Sale Assistance program described below. This incentive will be paid to employee at the time of the equity reimbursement from PLUS under the Home Sale Assistance program.

### **Eligibility for Home Sale Assistance**

Each home owning employee is responsible for the sale of his or her primary owned residence, subject to the following guidelines and restrictions:

1. **Definition of Eligible Property.** To be eligible for Home Sale Assistance, the residence must be a single unit (house), or two family residence, town home or condominium and must be the present principal dwelling of the transferred employee. Vacant land, mobile homes, boats, cooperatives, single family dwellings on more than 5 acres, vacation homes, summer cottages, and property held for investment are not eligible.
2. **Ownership and Title.** The home must be the primary residence of the employee, owned by the employee and/or the employee's spouse or significant other on the date the employee is requested in writing by Intuit to relocate. The employee must be able to deliver clear title to the property.
3. **Condition and Requirements.** The home must meet the following requirements:
  - The home must be completed, that is, not under construction or undergoing renovation.
  - The home must be a one-or two-family **principal** residence. Vacation homes, second homes, mobile homes, vacant land and cooperatives are excluded from eligibility.
  - The home must not contain or be built near hazardous materials.

## **HOME SALE (Continued)**

4. **Real Estate Agent.** The real estate agent selected to list the home for sale MUST: Be approved by PLUS *prior to* listing the home, and include an Exclusion Clause in the listing contract (content of waiver will be provided and approved by PLUS).
5. **Pricing the Home.** PLUS will provide the employee with valuation and pricing information and with repair and improvement advice prior to placing the primary residence on the market for sale. The employee may list the home for sale at any price acceptable to him or her provided the price does not exceed 107% of the average of the BMA. If this occurs, a second BMA will be requested.
6. **Accepting Sales Offers.** When an offer is received on the home, ***the employee must not sign the offer or accept any earnest monies from the buyer or broker.*** PLUS will review the terms and conditions of the offer to ensure that it is bona fide, that the buyer is qualified, and that the terms and net amount of the offer (calculated according to the provisions of this guideline) are acceptable to the employee. If these conditions are met, PLUS will extend to the employee a written contract to purchase the home at an amount and terms equal to the offer. This is known as a Buyer Value Option Sale. ***This written offer from PLUS is the only contract of sale the employee will sign.***
7. **Buyer Value Option Home Sale.** Intuit has provided a PLUS -administered program as a means of minimizing the tax burden to both Intuit and the employee. Adherence to all steps of the home sale guideline (i.e., selling the home to PLUS, and their subsequent sale to the buyer) is required to provide the optimum tax advantage and protection on costs to sell the home in the old location. An employee's failure to conform fully to the guideline requirements of this section may jeopardize the tax integrity of the program. In the event that an employee's actions compromise the tax advantages of the guideline, the employee will be responsible for the personal income taxes on all reimbursed amounts, and no tax assistance will be provided from company on resale costs. You should consult with your tax planner to understand the tax advantages that may be available through this program.
8. **Loan Payoff.** The existing financing on the home, if any, will remain in place at the discretion of PLUS until the sale to the ultimate buyer closes. At closing of the ultimate sale, the loan will be paid in full.

**9. Financial Responsibilities of Employee. The employee is responsible for:**

- All costs of maintaining the home (mortgage, homeowner's dues, taxes, insurance, utilities, and maintenance) until the contract or vacate date, whichever is later, between PLUS and the employee.
- Required repairs, if any, under the terms of the contract, plus any other costs agreed to in the terms of the contract of sale which are *not* customarily reimbursed or paid by Intuit under this guideline.
- Any seller concessions or seller-paid discount points for the buyer
- Any costs associated with "curing" defects in title.

PLUS will account for these costs in their calculation of the employee's equity. The employee will not be required to make any up front payments. Those payments will be made by PLUS on behalf of the employee, from funds withheld from the employee's final equity settlement. All equity payments to the employee will be made by PLUS.

**Financial Responsibilities of PLUS and Intuit.** The normal and customary costs to sell the home will be paid by Intuit through PLUS at closing to the ultimate buyer. The employee who utilizes the buyer value home sale provisions of this guideline will not pay specific costs of the sale, which includes:

- Standard real estate broker's commission for the area
- Legal, escrow fees, and/or attorney's fees
- Title insurance (if customarily paid by the seller)
- Reasonable closing expenses customarily paid by the seller, to include:
  - o Revenue Stamps
  - o Recording Fees
  - o Mortgage Cancellation fees
  - o Transfer Taxes
  - o Lender required Inspections
  - o Application Fee
  - o Mortgage Prepayment Penalties up to a maximum of \$5,000



## **HOME SALE (Continued)**

### **Unassisted Sale of Existing Primary Residence (Homeowners)**

The employee may elect to sell the home unassisted by PLUS, and decline to use the Buyer Value Option to minimize tax expenses. The unassisted sale of the home by the employee is *not encouraged by Intuit*, but in the event it occurs, the employee will be reimbursed the normal costs to sell the home as specified above, but will *not receive tax protection from Intuit on those reimbursed amounts and will not be eligible to receive the 2% Home Sale Incentive payment described above.*

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EXECUTIVE

November 2005

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## **HOME PURCHASE**

### ***Home Purchase Assistance***

Your Personal Move Manager can refer you to a Realtor who is a member of their Network Program. These real estate professionals are accustomed to working with relocating employees and are qualified to assist you with area counseling and home finding assistance. In addition, use of a preferred Realtor will better enable your Personal Move Manager to assist you in monitoring your Realtor's performance and assist you in getting maximum benefits under these relocation guidelines.

If you wish to work with a specific agent, you must notify your Personal Move Manager prior to your Home Finding trip. Your Personal Move Manager will talk with the agent to confirm that they have the necessary qualifications to assist you.

### ***Purchasing Closing Costs***

There are numerous expenses associated with the closing of a new home. Intuit will arrange for you to be reimbursed for normal and customary buyer's expenses, provided that the new home closing occurs within one (1) year of your initiation date. Those fees and charges most commonly covered are:

#### **Non-recurring Closing Costs:**

- Title insurance (when applicable)
- Transfer taxes (when applicable)
- Reasonable attorney fees
- Real estate appraisal
- Credit report
- Recording fees
- Survey expense (if required)
- Title search, examination and opinion
- State deed tax
- Inspections required by lender, such as pest, structural/mechanical, water/well, septic, and radon, up to a maximum of \$500.
- Notary fees

#### **Loan Origination Fees/Discount Points:**

If your agent participates in the Broker Network program, loan origination fees/discount points will be paid in addition to non-recurring costs, up to a maximum of 1%. Otherwise, points will not be reimbursed.

## **HOME PURCHASE (Continued)**

**The following costs will not be reimbursed:**

- real estate agent's commissions
- Property tax, insurance or interest
- Expenses normally charged to the seller
- Soil Reports (Geological Surveys)
- Home Warranty Insurance Program
- Private Mortgage Insurance
- Improvement Assessments by State, City, County taxing authorities

Reimbursement of these items will be coordinated by PLUS and will be considered taxable income. Loan origination fees and/or discount points are considered tax deductible; therefore, a tax gross-up is not required and will not be provided. However, the remaining non-recurring closing costs will be grossed-up for tax purposes. By utilizing an Intuit approved lender the reimbursable costs can be direct billed, unless you are an executive officer covered by the restrictions of Sarbanes/Oxley Act.

**Free On-Line Electronic Tax Filing Agreement Amendment**

**WHEREAS**, the Alliance and the IRS entered into a three year agreement which was published in the Federal Register (Vol. 67, No. 153, page 51621) on August 8, 2002 and executed on October 30, 2002, that set forth parameters to which industry members of the Alliance would offer online tax preparation and filing services to taxpayers at no cost to taxpayers ("Services");

**WHEREAS**, both the Alliance and the IRS wish to extend this agreement to cover future filing seasons;

**NOW THEREFORE**, the Alliance and the IRS, hereby mutually agree to amend and extend the agreement executed on October 30, 2002, subject to the following changes and additional conditions:

**I. Scope of Offerings**

- A) Each Alliance member must provide a minimum of 10% coverage.
- B) For the term of this agreement, the Alliance will guarantee coverage in aggregate to 70 percent of taxpayers, approximately 93 million taxpayers in Filing Season 2006. While the percentage of taxpayers covered will remain the same through out the life of the agreement, the number of taxpayers covered, and the income of said taxpayers, will be adjusted each filing season,.
- C) The IRS and Alliance agree that to serve the greater good and to ensure the long-term stability of the Alliance, the scope of this program is focused on covering the taxpayers least able to afford e-filing their returns on their own.
- D) No individual Alliance member offer can cover more than 50 percent of total taxpayers, approximately 66.5 million taxpayers in Filing Season 2006, and this taxpayer population must be within the total aggregate coverage scope of 70 percent, approximately 93 million taxpayers in Filing Season 2006. Any Alliance members who provide coverage for taxpayers who have an AGI from \$0 to \$28,000 will have an additional 50 characters on the Free File page to describe their product.
- E) To manage the program in a transparent manner, IRS will utilize the then current Adjusted Gross Income (AGI) number which equates to 70% of the taxpayers to manage the program, and will not accept or post any offer by an Alliance member which exceeds this AGI amount. The Alliance will not have a role in this IRS management process.
- F) More than one Alliance member will offer free preparation and electronic filing of Form 4868 from April 1 to the due date of the return. Alliance members who provide the free preparation and electronic filing of Form 4868 will have an additional 50 characters on the Free File page to describe their product.

## II. Program Content

- A) The IRS and the Alliance recognize that refund anticipation loans (RALs) may be offered by Alliance members. If RALs are offered, they shall include these added features reflecting enhanced standards of consumer protection. Alliance members who offer RALs agree that their offers will be consistent with the following:
1. No offer of free return preparation and filing of an electronic return in the Free File program shall be conditioned on the purchase of a RAL.
  2. RALs may only be offered in a manner consistent with all statutes and regulations, as well as any guidance issued by the Department of Treasury or the IRS, applicable at the time of the offering.
  3. RALs will be offered with clear language indicating that:
    - (a) They are loans, not a faster way of receiving an IRS refund;
    - (b) They must be repaid even if the IRS does not issue a full refund;
    - (c) That because RALs are short-term loans, interest rates may be higher than some other forms of credit and consumers may wish to consider using other forms of credit; and,
    - (d) The time frame in which tax refunds are typically paid is based upon the different filing options available to the taxpayer including the different options that taxpayers have to receive a refund directly from the government (paper check versus direct deposit).
  4. No RALs will be made unless consumers affirmatively consent in advance to receiving a RAL. The refund loan facilitator must disclose the expected time within which the loan will be paid to the taxpayer if such loan is approved. No RALs will be made unless consumers affirmatively consent to sharing any personal data in accordance with 26 U.S.C. §7216 with financial institutions making a refund loan.
  5. RALs may be offered only as one option among options including a no-added-fee refund from the IRS. The IRS refund option shall be presented first.
  6. RALs may be offered but not promoted. A taxpayer may only be asked if they are interested in a RAL once.
  7. Some Free File Alliance firms will not offer RAL products, thus ensuring that consumers have RAL free options.
  8. The refund loan facilitator shall disclose all refund anticipate loan fees with respect to the refund anticipation loan. Such disclosure shall include:
    - (a) A copy of the fee schedule of the refund loan facilitator;
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- (b) The typical fees and interest rates (using annual percentage rates as defined by section 107 of the Truth in Lending Act (15 U.S.C. 1606)) for several typical amounts of such loans;
- (c) Typical fees and interest charges if a loan is not paid or delayed; and
- (d) The amount of a fee (if any) that will be charged if the loan is not approved.

B) Alliance members will provide an electronic Free File indicator.

- 1. IRS will not use the indicator to build a marketing database.
- 2. IRS will not use the indicator to compile company-specific proprietary data.
- 3. IRS will use the database to create aggregate data profiles of all users.
- 4. IRS will ensure its FOIA office is aware of Alliance concerns about disclosure of company specific data, and actively afford notice and opportunity to intervene by the Alliance and impacted company as is required by statute and regulation.
- 5. The IRS will promptly notify the Executive Director in writing if a governmental agency or entity, including, but not limited to the Congress, any Inspector General, or Taxpayer Advocate, or a private party is requesting aggregate data concerning individual member companies; and IRS has concluded it cannot refuse to provide such data.
  - (a) The Executive Director upon receipt of the IRS's written notification may advise members that they can cease providing the indicator.
  - (b) The Alliance cannot unilaterally suspend the indicator absent proof which it supplies the IRS that the aggregate data concerning an individual member company described above has been compiled or released.
  - (c) In the event any domestic law enforcement agency formally subpoenas or provides the IRS with appropriate process, notification to the Executive Director can be delayed for a period not to exceed 90 days.
  - (d) Any member(s) which suspends the indicator in accordance with the terms described above shall be expected to provide the total number of accepted e-filed tax returns originating from their Free File service under procedures mutually agreed to by the IRS and the Executive Director.

C) Alliance members will disclose on the individual members' landing page if State tax return preparation/filing services are available and, if so, whether a fee will be charged for such services. If a fee is charged for such services the cost to the taxpayer must be clearly stated on the member's landing page. The IRS will notify the Executive Director if it discovers a member's landing page is not in compliance with this requirement. If the landing page is not brought into compliance within 24 hours of such notification by IRS, the member's web site will be removed from irs.gov.

- D) IRS will work with the Executive Director and Alliance attorney to ensure that their web sites/Free File pages are in compliance with 26 U.S.C. §7216 with respect to pop-up and pop-under advertising, adware, spyware, etc.
- E) The Alliance members will provide the necessary support to accomplish a customer satisfaction survey.

### **III. Performance Standards**

- A) Alliance members will meet a graduating performance standard. For 2006 the performance standard will be placed at 60 percent acceptance rate for electronic returns and this will be measured on February 28, 2006 for all Alliance members. The minimum acceptable performance standard will be gradually increased in future years based on discussions with the Alliance. Any Alliance member who does not meet the minimum acceptance rate for any period may be removed from irs.gov.
- B) Alliance members will possess and provide appropriate documentation to the IRS and the Executive Director demonstrating they have acquired third party security and privacy certifications.
- C) The Alliance, or its individual members, will annually conduct penetration and vulnerability assessment of individual member companies prior to the start of the filing season. No such assessments will be required until after April 25, 2006.
- D) The annual assessments will be conducted prior to, or concurrent with, the annual PATS testing.
- E) Services relating to this assessment must be obtained from a list of approved vendors jointly created by IRS and the Alliance.
- F) An Alliance member company may not be listed or may be delisted, by agreement of the IRS and Executive Director, if there are demonstrated or perceived security or privacy vulnerabilities. The IRS and the Alliance may require an additional successful penetration and vulnerability assessment by an approved third party vendor of the member's choice as a condition for listing or relisting.
- G) Only the Executive Director, IRS, and affected individual company will be apprised of an Alliance member's deficiencies identified as a result of any assessment by the IRS or Free File Alliance management.

### **IV. Administration**

- A) IRS and the Executive Director and Alliance attorney are developing a memorandum of understanding (MOU) that would provide structure for the roles and responsibilities for both the IRS and the FFA leadership. The issues that are included in the draft MOU include tasks such as:
  - 1. Screening offers and web sites of members as part of the Alliance's suitability/filing season readiness program;
  - 2. Monitoring of member offerings and member web sites;
  - 3. Participation in review of decisions when removing a member from the irs.gov Free File web page and the reinstatement of the member's site after a security or disclosure breach; and,



4. Providing for a dispute resolution process that could be invoked by Alliance members whose offerings are rejected or removed from irs.gov.

**V. Effect of This Agreement and Provision for an Integrated Final Agreement and Approval Processes of Such Document**

- A) The terms of this agreement are final and binding unless and until it is superseded by a signed agreement between the parties. The IRS and the Alliance agree that this document and all prior original and supplemental signed agreements between the IRS and the Alliance remain in full force and effect unless the language of this latest document is inconsistent with such prior written terms, in which case the terms and language of this document shall control the actions of the parties in managing the program. It is the contemplation of both parties that a new integrated final document will be subsequently created by the parties.
- B) Approval of a new integrated final document is subject to the final approval of the Commissioner of the Internal Revenue Service and the Department of Treasury, as well as the Alliance.

**VI. Term of Agreement**

- A) This agreement will extend the term of the original agreement for an additional period of four years, from Oct. 30, 2005 until Oct. 30, 2009. The IRS may terminate this renewal agreement (for the period Oct. 30, 2005 through Oct. 30 2009) without cause, such termination to be effective 24 months after the date of written notice of such termination being sent to the Alliance.

/s/ MARK W. EVERSON

Mark W. Everson  
Commissioner of Internal Revenue

/s/ TIMOTHY HUGO

Timothy Hugo, Executive Director  
Free File Alliance, LLC

**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 quarterly report on Form 10-Q of Intuit Inc.;
2. Based on my knowledge, this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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 of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - 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 control over financial reporting.

Date: December 5, 2005

By: /s/ STEPHEN M. BENNETT  
Stephen M. Bennett  
President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13a-14(a)/15d-14(a)  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Kiran M. Patel, Senior Vice President and Chief Financial Officer of Intuit Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Intuit Inc.;
2. Based on my knowledge, this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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 of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control 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 control over financial reporting.

Date: December 5, 2005

By: /s/ KIRAN M. PATEL

Kiran M. Patel

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

**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 Quarterly Report of Intuit Inc. (the "Company") on Form 10-Q for the quarter ended October 31, 2005 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: December 5, 2005

**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 Quarterly Report of Intuit Inc. (the "Company") on Form 10-Q for the quarter ended October 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kiran M. Patel, 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/ KIRAN M. PATEL

Kiran M. Patel

Senior Vice President and Chief Financial Officer

Date: December 5, 2005