

INTUIT INC
Form 10-Q
May 25, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

R Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 30, 2012

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

Commission File Number 0-21180

INTUIT INC.
(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

77-0034661
(IRS employer identification
no.)

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

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

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

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

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

Large accelerated filer R Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 293,668,960 shares of Common Stock, \$0.01 par value, were outstanding at May 18, 2012.

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EX-101.SCH XBRL Taxonomy Extension Schema	
EX-101.CAL XBRL Taxonomy Extension Calculation Linkbase	

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EX-101.LAB XBRL Taxonomy Extension Label Linkbase

EX-101.PRE XBRL Taxonomy Extension Presentation Linkbase

EX-101.DEF XBRL Taxonomy Extension Definition Linkbase

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ITEM 1
FINANCIAL STATEMENTSINTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	April 30, 2012	April 30, 2011	April 30, 2012	April 30, 2011
Net revenue:				
Product	\$598	\$602	\$1,239	\$1,248
Service and other	1,347	1,246	2,319	2,010
Total net revenue	1,945	1,848	3,558	3,258
Costs and expenses:				
Cost of revenue:				
Cost of product revenue	32	32	116	110
Cost of service and other revenue	166	132	456	384
Amortization of acquired technology	4	4	12	13
Selling and marketing	365	351	945	901
Research and development	167	164	502	478
General and administrative	102	93	289	271
Amortization of other acquired intangible assets	2	11	33	33
Total costs and expenses	838	787	2,353	2,190
Operating income	1,107	1,061	1,205	1,068
Interest expense	(12)	(15)	(43)	(45)
Interest and other income, net	9	6	23	20
Income before income taxes	1,104	1,052	1,185	1,043
Income tax provision	370	364	397	352
Net income	\$734	\$688	\$788	\$691
Basic net income per share	\$2.49	\$2.27	\$2.65	\$2.23
Shares used in basic per share calculations	295	303	297	309
Diluted net income per share	\$2.42	\$2.20	\$2.58	\$2.16
Shares used in diluted per share calculations	303	313	306	319
Dividends declared per common share	\$0.15	\$—	\$0.45	\$—
See accompanying notes.				

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INTUIT INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

(In millions)	April 30, 2012	July 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$859	\$722
Investments	663	699
Accounts receivable, net	294	171
Income taxes receivable	5	72
Deferred income taxes	119	94
Prepaid expenses and other current assets	65	82
Current assets before funds held for customers	2,005	1,840
Funds held for customers	325	414
Total current assets	2,330	2,254
Long-term investments	90	63
Property and equipment, net	555	561
Goodwill	1,883	1,886
Acquired intangible assets, net	138	180
Long-term deferred income taxes	18	55
Other assets	102	111
Total assets	\$5,116	\$5,110
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$—	\$500
Accounts payable	209	129
Accrued compensation and related liabilities	210	215
Deferred revenue	368	406
Income taxes payable	257	—
Other current liabilities	218	141
Current liabilities before customer fund deposits	1,262	1,391
Customer fund deposits	325	414
Total current liabilities	1,587	1,805
Long-term debt	499	499
Other long-term obligations	195	190
Total liabilities	2,281	2,494
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid-in capital	3,007	2,886
Treasury stock, at cost	(4,878)	(4,316)
Accumulated other comprehensive income	29	15
Retained earnings	4,677	4,031
Total stockholders' equity	2,835	2,616
Total liabilities and stockholders' equity	\$5,116	\$5,110

See accompanying notes.

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INTUIT INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(In millions, except shares in thousands)	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2011	300,597	\$2,886	\$(4,316)	\$ 15	\$4,031	\$2,616
Components of comprehensive net income:						
Net income	—	—	—	—	788	788
Other comprehensive income, net of tax	—	—	—	14	—	14
Comprehensive net income						802
Issuance of treasury stock under employee stock plans	8,705	(63)	231	—	(8)	160
Stock repurchases under stock repurchase programs	(14,973)	—	(793)	—	—	(793)
Cash dividends declared (\$0.45 per share)	—	—	—	—	(134)	(134)
Tax benefit from share-based compensation plans	—	64	—	—	—	64
Share-based compensation expense	—	120	—	—	—	120
Balance at April 30, 2012	294,329	\$3,007	\$(4,878)	\$ 29	\$4,677	\$2,835
(In millions, except shares in thousands)	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2010	313,861	2,728	(3,315)	11	3,397	2,821
Components of comprehensive net income:						
Net income	—	—	—	—	691	691
Other comprehensive income, net of tax	—	—	—	4	—	4
Comprehensive net income						695
Issuance of treasury stock under employee stock plans	13,069	(73)	308	—	—	235
Stock repurchases under stock repurchase programs	(23,349)	—	(1,110)	—	—	(1,110)
Tax benefit from share-based compensation plans	—	68	—	—	—	68
Share-based compensation expense	—	112	—	—	—	112
Balance at April 30, 2011	303,581	2,835	(4,117)	15	4,088	2,821

See accompanying notes.

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INTUIT INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

(In millions)	Three Months Ended		Nine Months Ended	
	April 30, 2012	April 30, 2011	April 30, 2012	April 30, 2011
Cash flows from operating activities:				
Net income	\$734	\$688	\$788	\$691
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	42	42	130	120
Amortization of acquired intangible assets	10	19	55	58
Share-based compensation expense	37	39	120	112
Deferred income taxes	18	9	1	25
Tax benefit from share-based compensation plans	19	20	64	68
Excess tax benefit from share-based compensation plans	(19)	(18)	(62)	(59)
Other	1	3	3	14
Total adjustments	108	114	311	338
Changes in operating assets and liabilities:				
Accounts receivable	297	215	(124)	(130)
Prepaid expenses, income taxes receivable and other assets	102	132	84	17
Accounts payable	(4)	(4)	80	42
Accrued compensation and related liabilities	42	53	(5)	(6)
Deferred revenue	(218)	(226)	(36)	(41)
Income taxes payable	256	208	257	195
Other liabilities	(39)	(42)	73	79
Total changes in operating assets and liabilities	436	336	329	156
Net cash provided by operating activities	1,278	1,138	1,428	1,185
Cash flows from investing activities:				
Purchases of available-for-sale debt securities	(149)	(80)	(492)	(803)
Sales of available-for-sale debt securities	116	55	382	1,470
Maturities of available-for-sale debt securities	49	33	138	254
Net change in money market funds and other cash equivalents held to satisfy customer fund obligations	5	(46)	89	(20)
Net change in customer fund deposits	(5)	46	(89)	46
Purchases of property and equipment	(33)	(31)	(125)	(166)
Acquisitions of intangible assets	—	—	—	(3)
Other	—	(1)	15	2
Net cash (used in) provided by investing activities	(17)	(24)	(82)	780
Cash flows from financing activities:				
Repayment of debt	(500)	—	(500)	—
Net proceeds from issuance of treasury stock under employee stock plans	54	48	160	235
Purchases of treasury stock	(207)	(250)	(793)	(1,110)
Cash dividends paid to stockholders	(45)	—	(134)	—
Excess tax benefit from share-based compensation plans	19	18	62	59
Net cash used in financing activities	(679)	(184)	(1,205)	(816)
Effect of exchange rates on cash and cash equivalents	—	6	(4)	6

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Net increase in cash and cash equivalents	582	936	137	1,155
Cash and cash equivalents at beginning of period	277	433	722	214
Cash and cash equivalents at end of period	\$859	\$1,369	\$859	\$1,369

See accompanying notes.

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INTUIT INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

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

Basis of Presentation

These condensed consolidated financial statements include the financial statements of Intuit and its wholly owned subsidiaries. We have eliminated all significant intercompany balances and transactions in consolidation. We have included all adjustments, consisting only of normal recurring items, which we considered necessary for a fair presentation of our financial results for the interim periods presented. These unaudited condensed consolidated financial statements and accompanying notes should be read together with the audited consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2011. Results for the three and nine months ended April 30, 2012 do not necessarily indicate the results we expect for the fiscal year ending July 31, 2012 or any other future period.

Seasonality

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

Significant Accounting Policies

We describe our significant accounting policies in Note 1 to the financial statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2011. There have been no changes to our significant accounting policies during the first nine months of fiscal 2012.

Computation of Net Income (Loss) Per Share

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

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

capital when the awards become deductible are assumed to be used to repurchase shares.

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

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

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	April 30, 2012	April 30, 2011	April 30, 2012	April 30, 2011
Numerator:				
Net income	\$734	\$688	\$788	\$691
Denominator:				
Shares used in basic per share amounts:				
Weighted average common shares outstanding	295	303	297	309
Shares used in diluted per share amounts:				
Weighted average common shares outstanding	295	303	297	309
Dilutive common equivalent shares from stock options and restricted stock awards	8	10	9	10
Dilutive weighted average common shares outstanding	303	313	306	319
Basic and diluted net income per share:				
Basic net income per share	\$2.49	\$2.27	\$2.65	\$2.23
Diluted net income per share	\$2.42	\$2.20	\$2.58	\$2.16

Weighted average stock options and restricted stock units excluded from calculation due to anti-dilutive effect	—	1	3	—
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Concentration of Credit Risk and Significant Customers

No customer accounted for 10% or more of total net revenue in the three or nine months ended April 30, 2012 or April 30, 2011. No customer accounted for 10% or more of total accounts receivable at April 30, 2012 or July 31, 2011.

Recent Accounting Pronouncements

ASU 2011-05 and ASU 2011-12, "Comprehensive Income (Topic 220)"

On June 16, 2011 the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income" (ASU 2011-05) and on December 23, 2011 the FASB issued ASU No. 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." These updates amend ASC Topic 220, "Comprehensive Income" to provide that total comprehensive income will be reported in one continuous statement or two separate but consecutive statements of financial performance. Presentation of total comprehensive income in the statement of stockholders' equity or the footnotes will no longer be allowed. The calculation of net income and basic and diluted net income per share will not be affected. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011, which means that it will be effective for our fiscal year beginning August 1, 2012. Retrospective adoption is required and early adoption is permitted. We do not believe that adoption of ASU 2011-05 will have a significant impact on our consolidated financial statements.

ASU 2011-08, "Intangibles – Goodwill and Other (Topic 350)"

On September 15, 2011, the FASB issued ASU No. 2011-08, "Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment" (ASU 2011-08)." This update amends ASC Topic 350, "Intangibles – Goodwill and Other" to give companies the option to perform a qualitative assessment that may allow them to skip the annual two-step test and reduce costs. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011, which means that it will be effective for our fiscal year beginning August 1, 2012. Early adoption is permitted. We are in the process of evaluating this update and therefore have not yet determined the impact that adoption of ASU 2011-08 will have on

our consolidated financial statements.

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2. Fair Value Measurements

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

The authoritative guidance establishes a fair value hierarchy that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities. In general, the authoritative guidance requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of its fair value. The three levels of input defined by the authoritative guidance are as follows:

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

Level 2 uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data for substantially the full term of the assets or liabilities.

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

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

(In millions)	April 30, 2012			Total Fair Value	July 31, 2011			Total Fair Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Assets:								
Cash equivalents, primarily money market funds	\$798	\$—	\$—	\$798	\$854	\$—	\$—	\$854
Available-for-sale securities:								
Municipal bonds	—	388	—	388	—	434	—	434
Municipal auction rate securities	—	—	54	54	—	—	59	59
Corporate notes	—	319	—	319	—	288	—	288
U.S. agency securities	—	131	—	131	—	152	—	152
Marketable equity securities	35	—	—	35	—	—	—	—
Total available-for-sale securities	35	838	54	927	—	874	59	933
Total assets measured at fair value on a recurring basis	\$833	\$838	\$54	\$1,725	\$854	\$874		